Benefits

Benefit	Comment
Direct employment of circa 270 people	While most employees have left the plant and accepted redundancy packages it is expected that Liberty would seek to re-employ (on new terms) many existing employees. The main Unions are aware this is case and have not objected.
Economically significant to the Scottish economy	- £71 m of GVA annually to the Scottish economy - Supports 512 jobs both directly and in the wider economy. (See notes below).
Strategic asset in Scottish manufacturing sector	The plants are last key steel asset in Scotland – retention is both symbolic and important part of manufacturing base. Manufacturing Action Plan (2016) views steel sector as key strategic asset.
Quickest way of re-starting plants	This approach will allow an early restart by Liberty. Other options rely on Greybull (GB) not mothballing plants. While GB said they are looking at options to re-start the plans this is not guaranteed.
No SG funding is required for this option	Liberty have not asked for any SG funding for working capital or to cover environmental liabilities. [redacted]

Notes

Prior to the closure, Scottish Enterprise undertook an assessment of the plants' economic significance to the Scottish economy, based on information supplied by the company, supplemented by data sourced from Scottish Government statistics. The direct GVA impact was calculated using the Scottish Turnover:GVA ratio for the relevant SIC.[1] The gross impacts are summarised in Table 1.

[1] The Scottish Annual Business Statistics 2013 gives the Turnover: GVA ratio for SIC 24 (Manufacture of Basic Metals) as 0.2896 averaged over the 6 years 2008 to 2013. For a turnover of £122 million this equates to a GVA figure of £35.3 million.
Source:-
http://www.gov.scot/Resource/0048/00484162.pdf

TABLE 1 **Baseline Economic Impacts**

Type of Impact	GVA	Employment
Direct	£35.3 m	301
Indirect (supply chain)	£21.2 m	120
Induced (employee spend)	£14.1 m	91
TOTAL	**£70.6 m**	**512**

What the figures show is that, when operational, the plants were estimated to:

- Contribute £71 million of GVA annually to the Scottish economy; and
- Support 512 jobs both directly and in the wider economy.

These figures can be seen as the baseline against which any proposal to restart production can be assessed, albeit it could be argued that the baseline should be nothing, given that currently there is no economic activity at either of the plants.

RISK	MITIGATION
Due Diligence – limited information.	Very limited information available on assets and liabilities. Protection for SG is in passing on all assets and liabilities directly and "instantaneously" to Liberty on deal completion. Given nature of back to back deal focus has therefore been on Liberty's financial standing and business plan. Initial assessment by Ernst and Young is favourable but based on less and poorer quality information than would have wished to see. However, Liberty is part of a £5bn turnover business globally. Liberty has a track record of rescuing steel operations including reactivating Newport Steel Plant.
Deal falls through with Liberty	Both Business Partnership Agreements are binding and unconditional.
State Aid – main legal risk is whether state aid is present.	Our view is that we are not conferring an advantage and simply facilitating a commercial transaction. This is untested. Using Market Economy Investment Principle as basis for our approach. Liaised with UKG on our approach as State Aids is reserved. Should State Aid be present then it would impact all three parties
Environmental Liability – SG becomes liable in future for environmental mediation as former owner.	Deal passes all environmental liabilities to Liberty, with likelihood of site contamination explicit in sale agreements and reflected in price. Parent company guarantee sought if subsidiary liquidated. TATA and SEPA analysis showed no uncommon environmental issues, and nothing requiring management in the short-term. Remediation only required if site changes to other use. Unremediated site could be left/or concrete plinth put over site.
Employee Liability – employees seek TUPE in relation to SG.	Bulk of former employees already taken redundancy packages. Been break of several months from this to new owners - have reduced TUPE risk significantly. Liberty to TUPE remaining employees (12). Liberty are well regarded by Trade Unions. TUPE does not apply to key workers on SDS funded training scheme.
Pension Liability – SG becomes liable for pensions.	No TUPE risk. British Steel Pension would apply. Legal advice suggests not a significant risk.
Operator failing in future – as former owner SG liable.	Parent company guarantee sought from Liberty Group to sit above Newco or subsidiary set up

	to run plants.
Business Purchase Agreements challenged as unlawful – we did not have competence to enter.	Will use common law powers for the transaction in line with SPFM requirements. See Scottish Parliament below.
Business Case – we do not have an approved business case that sets out the rationale for our intervention	Economic benefit case set out in Benefits grid in Annex B.
Scottish Parliament	FM will announce to Parliament at FMQs. Letter being sent to Finance Committee Convener, copied to EET Convener on use of common law powers for transaction.
Contingent Liability – should the transaction with TATA be signed but the transaction with Liberty not progress we would be left with the ownership and responsibility for the steel plants and staff in Scotland	Only an issue if Liberty did not proceed. Clause in agreement to ensure only enter if "back to back" deal. Parliament to be informed via letter to the Finance Committee

John Mason
Director of Economic Development
23 March 2016

First Minister
Deputy First Minister
Lord Advocate
Minister for Business, Energy and Tourism

BACK TO BACK ACQUISITION OF SCOTTISH STEEL PLANTS

Introduction

1. To invite you to agree the basis of the terms of a back to back deal with Tata and Liberty House UK for the Tata steel plants at Dalzell and Clydebridge This advice has been discussed with the Permanent Secretary as Principal Accountable Officer, SGLD and Finance.

2. As PAO, the Permanent Secretary has to able to satisfy three key tests of Accountability under the Public Finance and Accountability (Scotland) Act 2000, specifically:

- Regularity
- Propriety
- Value for Money

The PAO will provide her comments on this proposed transaction in response to this submission.

Timing

3. **Immediate**. Early agreement will enable final due diligence to proceed with a view to achieving the earliest possible completion date.

Background

4. My submission of 21 March set out the options available to Scottish Ministers. At a subsequent teleconference, FM, DFM and Mr Ewing tasked us to try to secure the back to back deal (Option 3) on acceptable terms to all parties and to mitigate the risks to Scottish Ministers as far as possible.

5. The lawyers acting for the 3 parties are still working on the details of the Business Sale Agreements (BSAs) with Tata and Liberty. **The current draft BSA for the sale from Tata to SG is at Annex A (the one from SG to Liberty is essentially the same on all key points). There are still a number of legal points to resolve which has prevented a full announcement today but the fundamentals are progressed sufficiently to seek your approval. We would of course revert to you if any material issues arose that required changes to the Agreements**. On completion, which should be no later than the end of April, but could be mid-April, the transfer from Tata to SG to Liberty would be as instantaneous as possible.

6. **The benefits of doing the deal and the risks attaching to it (and how we have tried to mitigate these) are set out in summary at Annex B**.

Proposal

7. The key points in the back to back deal are:

- Scottish Government agrees to the purchase of the plants from TATA Steel for the nominal sum of £1 on the basis of a back to back sale to Liberty House UK at the same price. The market price of £1 reflects Tata's and Liberty's opinion on the market value as operating steel plants and encompassing all assets and liabilities;
- All assets and liabilities passed from Tata to SG are passed on in the same form to Liberty. So Liberty assume responsibility for all liabilities, including past and future environmental costs, from point of sale to them;
- Both BSAs are unconditional and binding agreements;
- Completion to be on 30 April or earlier if possible. It is only at this point does ownership move from Tata to SG to Liberty;
- Completion between the 3 parties will be completed back to back ie as close to instantly as possible;
- Liberty provide SG with a Parent Guarantee;
- [redacted]

8. As we will rely on the use of common law powers for this transaction, SPFM says that "The Parliament should be informed of reliance on common law powers prior to activity giving rise to expenditure being undertaken. This can be done by suitable notes in the documents accompanying Budget Bills or Revisions, or if this is not possible by the responsible Cabinet Secretary or Minister writing to the Convener of the Finance Committee. The letter should be prepared by the relevant SG business area in consultation with the relevant SG Finance Business Partner (or equivalent)". **A draft letter for Mr Ewing to send to the Convenor of the Finance Committee is attached at Annex C for this purpose. As the dissolution of Parliament has now occurred the letter will be for the incoming Convenor in the new Parliament but we would advise the letter should issue once the transaction is approved by Ministers**.

Communication

9. The First Minister at FMQs today said:

"I would like to offer Parliament a further update on our work to secure a future for Scotland's steel industry.

"Negotiations with Liberty House, Tata Steel and the Scottish Government are continuing as we speak to secure the basis for an agreement that would see Liberty House buy and operate the Dalzell and Clydebridge steel plants.

"The final due diligence on that agreement is taking place at present. The agreement would be facilitated by the Scottish Government and will involve us buying the plants and then immediately selling them on to Liberty for the same consideration.

"Fergus Ewing is attending the Scottish Steel Taskforce this afternoon and will provide further details at that point. In the meantime I want to thank the workforce, the unions and the companies for their patience and perseverance. We promised that we would leave no stone unturned in our efforts to secure their future and that is what we continue to do."

10. As the BSAs have not been agreed today by the 3 parties, any further communications on this deal at BPA and completion stage (if in April) will be guided by the pre-election guidance.

Recommendation

11. **Ministers are invited to:**

- **approve the principle of a back to back deal for the Scottish Tata steel plants;**
- **approve the terms of the deal in principle on the basis of the terms set out in paragraph 7 and the representative BSA at Annex A, and in acknowledgement of the benefits and risks set out in Annex B, noting that ongoing legal discussions may need us to revert to Ministers on the terms of the deal;**
- **if approved, Mr Ewing writes to the Convenor of the Finance Committee in the terms of the draft letter at Annex C.**

JOHN MASON
DIRECTOR OF ECONOMIC DEVELOPMENT
[redacted]

23 March 2016

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Minister for Parliamentary Business		X			

Permanent Secretary
DG Enterprise, Environment & Innovation
DG Finance
Roddy Macdonald
Shane Rankin
Gordon Wales
Sharon Fairweather
[redacted]
Murray Sinclair
Caroline Beattie
[redacted]
James Hynd
[redacted]
George Burgess
Morag Angus
[redacted]
Malcolm Fleming
Liz Lloyd

ANNEX A: Business Sale Agreement with Tata Steel

ANNEX B: Summary of benefits and risks attaching to the deal

Benefits

Benefits table -
steel - March...

Risks

RISK GRID 22
March 2016 (3).d...

ANNEX C: Draft letter to the incoming Convenor of the Finance Committee

[redacted]

John Mason
Director of Economic Development
21 March 2016

First Minister
Deputy First Minister
Lord Advocate
Minister for Business, Energy and Tourism

BACK TO BACK ACQUISITION OF SCOTTISH STEEL PLANTS

Introduction

1. To update you on developments with the Scottish Steel Plants and to set out the options open to the Scottish Government, including to proceed to sign a Minute of Understanding (MOU) to undertake a "back to back" purchase arrangement of Dalzell and Clydebridge Mills involving TATA and Liberty House UK**. Your decision is sought on how you would wish to proceed.** This advice has been discussed with the Permanent Secretary as Principal Accountable Officer, SGLD and Finance.

Timing

2. Immediate. Scottish Government needs to make some form of public statement on the position of the Scottish steel plants ahead of dissolution and the Steel Taskforce meeting on 23 March, particularly given press speculation on a possible deal over the weekend.

Background

3. As you are aware, Greybull Capital are intending to purchase the wider TATA Long Products Division, including facilities in Scunthorpe and France. Greybull initially indicated they would keep the Scottish plants mothballed but more recently have indicated they could operate the plants if there was a viable business plan or potentially pass to a third party.

4. The Scottish plants, however, do have a willing buyer in Liberty House UK. There is, however, no guarantee Greybull wants to do a deal with Liberty and have indicated that they are working with a steel trader to determine whether they could operate the plants themselves. Timing is important as there is a concern customers, markets and key staff are slipping away as the plants are both mothballed now.

5. Both TATA and Liberty have therefore suggested that the Scottish Government acts as an intermediary in a back to back deal to facilitate a quick sale. TATA otherwise would leave the Scottish plants in the wider deal as they are fully focused on the larger deal. TATA will not do a direct deal with Liberty at this stage as they have not done separate due diligence on Liberty nor their business plan and are unwilling to do so ahead of the wider Greybull deal. TATA are, however, willing to deal with Scottish Government as a trusted buyer that would meet their requirement to be a responsible seller. This is an unusual and novel situation but it

appears to be the best, and possibly, only way of securing a positive outcome for the plants.

Proposal

6. The initial proposal which SG put to both TATA and Liberty was:

- Scottish Government purchase Dalzell and Clydebridge Plants from TATA for a nominal price of £1 reflecting Tata's opinion on the market value as operating steel plants and encompassing all assets and liabilities. Given there has been no full valuation of assets nor liabilities this effectively needs to be considered as the "market price";

- Scottish Government only agrees to the purchase of the plants from TATA on the basis that a "back to back" sale to Liberty House UK has been agreed also for the nominal price of £1;

- Liberty House UK assume responsibility for all liabilities, including past and future environmental costs, from point of sale to them. We will also seek to secure a Parent Company guarantee as further protection for the SG on this issue;

- [REDACTED]

- Liberty House UK agree to operate the plants for the manufacture and processing of steel products for at least [REDACTED]. This assists with the State Aid position in ensuring that Liberty could not simply sell the sites for alternative uses at a profit.

- Following MOUs with both TATA and Liberty there would then need to be a period of further due diligence and contractual negotiation with the aim to complete the sales by 30 April 2016. This work would be able to continue during the election period.

7. Work on draft MoUs has been progressing over the past 72 hours. The current one with Liberty is at **Annex A** for information. However, Tata's lawyers came back late last night to say that they want an unconditional and binding agreement under which no indemnities or warranties are offered and that we accept all liabilities. The main points from Tata's communication are set out in the bullets below:

- *Nature of commitment*. The MoU would have to be an unconditional and binding agreement between Longs Steel UK Limited (as seller and a beneficiary of the indemnity), Tata Steel UK Limited (as a beneficiary of the indemnity) and Scottish Ministers (as purchaser) under which the Scottish Ministers would irrevocably undertake to complete the purchase of defined assets (in Scotland only) from Longs Steel UK Limited for £1 on condition of the assumption of all past and future liabilities relating to the Scottish business. The MoU would need to be very clear that Scottish Ministers held Longs Steel UK Limited and Tata Steel UK Limited (and any Tata Steel group companies) harmless from those liabilities on a continuing basis. As you'll appreciate, this level of commitment from the Scottish Ministers is required if Tata Steel is to change its position at this stage in its current negotiations with Greybull, as doing so would have the effect of taking assets out of the sale perimeter;

- *Scope of liabilities subject to indemnity*. These would include the environmental liabilities but would not be limited to them, although I should say my understanding is that the environmental liabilities would be the most significant relevant responsibilities;
- *"As-is, where-is" basis of sale*. Longs Steel UK Limited would sell the assets without giving any warranties or indemnities. This would need to be reflected in the MOU.
- [REDACTED]

8. [REDACTED]

Analysis and options

9. We consider there are three options and each carries opportunities and risks.

Option 1 – do nothing

10. In this case the Scottish Plants become part of the wider Greybull deal. Greybull may re-open if viable or may keep mothballed.

Opportunity – Greybull are now more positive about re-opening the Scottish plants but our assessment is that is very far from guaranteed and the plants might not be re-opened in the short-term.

Risk – Greybull may never re-open the plants and could simply sell off the assets to concentrate on more profitable parts of the Long Products Division. If Greybull did seek to re-open the plants we understand they would ask SG for a working capital loan – previously this was for [REDACTED] which was rejected but we consider a further ask for circa [REDACTED] could emerge. While providing such a loan could be possible at commercial rates, this is still a considerable ask of the SG and would be difficult to defend if no matching investment from Greybull. There might also be extra cost to the SG if we were asked to keep key staff in the training scheme we are currently funding through SDS. We also understand that the trader Greybull is discussing the Scottish plants with plans to source slab steel from a [REDACTED]

Option 2 – seek to negotiate a deal involving Liberty once Greybull deal complete

11. Once the Greybull deal is complete we would seek to try and broker an onwards sale of the Scottish plants to Liberty, as we know Liberty are keen to re-start the plants as soon as possible.

Opportunity – Greybull have said they would consider a third party taking over the plants and do not want to see them mothballed.

Risk – Greybull think there is an opportunity for themselves to operate the plants (as above) so refuse to sell to Liberty. [REDACTED]

Option 3 – do "back to back" deal

12. This is when Scottish Government purchase the plants from TATA for £1 and then immediately pass to Liberty for the same price.

Opportunity – This would facilitate a Scottish deal involving TATA and Liberty prior to the wider Greybull deal. It would bring a willing buyer in the form of Liberty who is prepared to re-start steel-making quickly (they are estimating August/September). Unlike Greybull, Liberty do not require any funding from SG and will take on all liabilities.

Risk – This is a novel approach and therefore carries significant state aid and financial risk (see below). There are also clear political risks in that Liberty could pull out before completion but Ministers might believe for political/moral purposes that SG should complete the transaction with Tata.. There is of course the risk, irrespective of our aspirational condition in the MoU that steelmaking should proceed [REDACTED], that the Liberty plan to bring the mills to profitability does not work and the plants close in the future. [REDACTED]

<u>Due Diligence</u>

13. As there has been no access to reliable information on assets and liabilities and given this is a back to back deal the key due diligence required is on Liberty's business plan and this has been undertaken by Ernst and Young, who have been contracted by Scottish Enterprise.

14. The information from Liberty received to date [REDACTED]. **EY and SE are currently completing their assessment of what they have and I have been promised by SE that will be with us by 2pm at the latest. I will forward this as soon as received**.

<u>State Aid Issues</u>

15. State aid is a European Commission (EC) term which refers to forms of public assistance, given to undertakings on a discretionary basis, which has the potential to distort competition and affect trade between Member States of the European Union. Measures which can be captured by the State aid rules include the sale of land and/or buildings at below market rate to a third party beneficiary.

16. Where the State (in this case SG/Ministers) intervenes in any commercial transaction on terms acceptable to private market operators, then the likely presence

of State aid in such an intervention would be minimal. EC guidance suggests, however, that in order to demonstrate this is the case, a fully independent valuation should be carried out. This advice was followed in the purchase of Prestwick Airport by Scottish Ministers in 2013.

17. In this instance, we have to be certain that the purchase of the TATA site/s for £1 is not higher that the market rate and does not overcompensate TATA. Similarly, we have to ensure that any subsequent sale by SG to a third party is not at below market value. If, for example, the site was sold at £1 and subsequently was valued at £1m, SG may well have awarded £999,999 of illegal State aid to that third party. [REDACTED]

[REDACTED]

Environmental Liabilities

19. Our policy intention must be to minimise any longer-term environmental liability for the Scottish Ministers from being involved in the transaction. Again this rests on the £1 price paid for the sites reflecting the likelihood of contamination on the sites. If it does, that would appear to meet the “payments made for remediation” test in the contaminated land statutory guidance and ensure that the buyer takes on any responsibility from the seller. As the proposed transaction is back to back, then it is in any event unlikely that the contaminated land regime would ever consider the Scottish Ministers to have “knowingly permitted” the contamination on the sites based on their momentary ownership.

20. There is a small theoretical risk if a) Liberty is liquidated and b) the liabilities exceed the value of an uncontaminated site. In these circumstances the liquidator may be unable to find a purchaser, even for £1.

21. In any event, the need for remediation depends on the future use of the site. Unless there was some risk of harm being posed by the site – which none of the analysis undertaken by SG and SEPA suggests – it can effectively sit there unrestored for years.

Finance Issues

22. There is no Scottish Government money involved in the initial deal but there are financial risks that Finance needs Ministers to consider:

- There is no statutory power but Ministers can rely on common law powers on the basis that this is an unforeseen and urgent situation and subject to the restrictions contained in SPFM relating to reporting the matter to Parliament;
- [REDACTED]
- [REDACTED]
- [REDACTED] If the latter, there is a need to understand the basis of valuation (and whether that is supported by evidence from the District Valuer) and so

determine if there are specific LBTT issues. Purchases of land and property by Scottish Ministers are generally not subject to LBTT – such transactions would be covered by the Crown Exemption, which provides blanket exemption for, among others, Scottish Ministers, UK Ministers and the Scottish Parliament;

- [REDACTED] However, there is a clear rationale for SG intervening as evidenced through the establishment of the Steel Task Force and the work done in it; the desire to secure steelmaking in Scotland and retain as many of the skilled jobs as possible; and the impact on the local economy;
- Given the timescales in which we are now required to progress the deal, there has been no opportunity to discuss it with Audit Scotland and therefore concerns that they may raise have not been taken in to consideration. Post completion, they will no doubt scrutinise this transaction in some detail to ascertain whether due processes have been followed and whether the Government have both the legal powers and a robust case for undertaking this approach. [REDACTED]

Legal issues

23. In terms of Budget Act cover, Schedule 1 to the Budget Act details the budget ambit for the Finance Constitution and Economy portfolio which includes expenditure on “sundry enterprise related activities”. It is arguable that this transaction falls within this definition. However, there is no statutory power that would enable the purchase. In these circumstances, Scottish Ministers must rely on their common law powers subject to the provisions contained in SPFM which outlines that Ministers may exercise their common law powers in conjunction with the spending authority in a Budget Act where the expenditure is less than £1 million a year; or the expenditure is one off in nature; or the use of common law powers is temporary pending the seeking of common law powers. [REDACTED]

Communication

24. The Scottish Steel Task Force meets this Wednesday 23 March and we had planned a public statement updating on the work of the Task Force and future of the Scottish plants before the pre-election period. Depending on the option chosen by Ministers, this could include an announcement at FMQs and a photo/interview opportunity at one of the Tata plants prior to the Task Force meeting at 1500. A communications plan will come forward once Ministers have determined which option to pursue.

Conclusion

25. There are 3 options available to Ministers in our view. 2 of these rely on Greybull finding a way to reopen the Scottish plants. There is no guarantee this will happen and the sites could be sold for alternative uses. The SG involvement would likely be in the form of a commercial rate loan [REDACTED]. The third option is most

likely to see steelmaking resume at the sites but there are very significant political, financial, state aid and legal issues in proceeding under the terms on offer from Tata. [REDACTED]

[REDACTED]

Recommendation

27. That you indicate which of the 3 options Ministers wish to pursue.

JOHN MASON
DIRECTOR OF ECONOMIC DEVELOPMENT
[REDACTED]

21 March 2016

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness

Permanent Secretary DG Enterprise, Environment & Innovation DG Finance Shane Rankin Gordon Wales Sharon Fairweather [REDACTED] Murray Sinclair Caroline Beattie [REDACTED] James Hynd [REDACTED] [REDACTED] [REDACTED] George Burgess Morag Angus [REDACTED] [REDACTED] Malcolm Fleming Liz Lloyd

ANNEX A:

MINUTE of UNDERSTANDING [Liberty draft at noon 21 March for info]

Subject to satisfactory completion of a formal sale and purchase agreement in terms normal for a transaction of this nature (of which the Scottish Ministers shall be the sole arbiter), and wholly conditional upon the Scottish Ministers having purchased the Assets (as hereinafter defined) from Longs (as hereinafter defined), the Scottish Ministers will, on a commercial basis in line with the market economy investor principle, and Liberty House UK shall proceed on the following basis:

1. The Scottish Ministers would purchase from Longs Steel UK Limited ("Longs") the steel plate mill and finishing business operated by Longs or another Tata Group entity from Dalzell and Clydebridge Steel Mills ("the Scottish Properties") ("the Scottish Business") prior to their closure, the purchase to include the whole assets of the Scottish Business (including the Scottish Properties), for a price of £1, reflecting their present market value as [non-]operating steel plants and having regard to the liabilities which are present or contingent in inter alia the Scottish Properties.

2. Scottish Ministers will sell the Scottish Business (including the Scottish Properties) to Liberty House UK ("Liberty") and Liberty agree to purchase from the Scottish Ministers, the Scottish Business (including the Scottish Properties), for a price of £1, and otherwise on terms wholly acceptable to the Scottish Ministers, which agreement will be conditional only on the Scottish Ministers completing the purchase from Longs of the Scottish Business (including the Scottish Properties), as set out in paragraph 1 above on terms no less favourable to the Scottish Ministers than the terms set out in this Minute of Understanding and the formal agreement to follow hereon.

3. The period during which the Scottish Ministers would own the Scottish Properties and the Scottish Business would be as brief as could be achieved contractually, and ideally no longer than a matter of seconds. The Scottish Business will not be operated, managed or controlled at any time by the Scottish Ministers.

4. As part of the transaction, the Scottish Ministers will assume liability in respect of environmental and other legal and regulatory risks on or at the Scottish Properties, from the moment of purchase from Longs up until the point of sale to Liberty, at which point all environmental and other liabilities which had passed to or been assumed by the Scottish Ministers, whether by operation of law or by contract would pass to and be assumed without limitation by Liberty.

5. As part of its purchase of the Scottish Properties and the Scottish Business, Liberty will undertake to operate the Scottish Business in whole not in part at the Scottish Properties for the manufacture and processing of steel products for at least five years from the date of completion of purchase of Scottish Business **provided such operations can continue be undertaken on an**

economically viable basis taking into account market conditions [unless otherwise agreed with the Scottish Ministers].

6. Liberty will assume responsibility for environmental and all other liabilities arising from or otherwise associated with the Scottish Business and / or the Scottish Properties or any part of the same from the date of purchase by Liberty of the Scottish Business, and that without prejudice to when any of those liabilities arose. Liberty will provide a suitable Guarantee from [its ultimate parent company] ("the Guarantor") in favour of the Scottish Ministers, SEPA and [the local authority for the Scottish Properties] in respect of such liabilities, such that the Scottish Ministers, , SEPA and [the local authority] are kept wholly free of any liability for environmental issues.

7. It is understood that there are [ ] persons still working at the Scottish Properties in relation to the Scottish Business; insofar as said persons transferred to the Scottish Ministers by operation of TUPE on the Scottish Ministers' purchase of the Scottish Business, said persons will transfer by operation of TUPE to Liberty at the moment of sale to Liberty of the Scottish Business.

8. Included in the sale to Liberty would be (but only insofar as included in the purchase by the Scottish Ministers from Longs):

   a. all intellectual property rights (including trademarks and patents) and know-how of the Scottish Business necessary for the operation of the Scottish Business but excluding the right to use the name "Tata"; Liberty shall be granted a perpetual royalty free transferable licence to exploit all historical commercial and technical data relating to the operation of the plate mills at the Scottish Properties and the Scottish Business, and the parties shall agree a process for transferring such data to Liberty .
   b. the Scottish Properties;
   c. all plant and fixed and loose machinery, vehicles and other assets associated with the operation of the Scottish Business located, as at [20 March 2016], at the Scottish Properties;
   d. all stock, spares, work-in-progress and finished product of the Scottish Business situated at the Scottish Properties and elsewhere as at [20 March 2016], insofar as it relates to the Scottish Business;
   e. all claims and causes of action of Longs in relation to or of the Scottish Business arising prior to Completion that relate to the Assets ;
   f. the benefit subject to the burden of specified unexpired contracts entered into in relation to the Scottish Business by Longs; and
   g. the benefit of all licences and permits (including PPC Permits) held by Longs (or another Tata Group entity) immediately prior to the sale to Scottish Ministers relating to the Scottish Business or the Scottish Properties in so far as subsisting and transferred to the Scottish Ministers or directly to Liberty. Until such time as these are transferred to Liberty, or Liberty obtains relevant licences and permits in its own name, these will be held by the Licence or Permit holder on behalf of Liberty as a bare trustee. Liberty will take all steps necessary to assist in

the transfer of such licences and permits or otherwise to secure such in its own name;
together "the Assets".

9. The Scottish Ministers will assign to Liberty a licence (to be granted by Longs) lasting for up to 5 years which will allow Liberty to have access to the Scunthorpe Plate Mill Site, to occupy it on an exclusive basis and to put in place measures to safeguard any **plant and machinery and other** assets **(excluding land and buildings)** situated at such site **(which shall be transferred to Liberty for £1)** and, if desired, remove some or all of such assets, **including** for the purposes of utilising them at the Scottish Properties.

10. There shall be entered into an Interim Services Agreement between Longs **or its successors in title** and Liberty to provide for the provision of certain services required by the Scottish Business **that have historically been provided by the Tata Group**. The Scottish Ministers shall have no involvement in agreeing the terms of same.

11. The Scottish Ministers shall seek to procure that Longs complete at its own expense a list of agreed engineering activities that are currently being undertaking or which Longs has agreed to undertake **at the Scottish Properties** (including re-installation of certain cranes), such list of activities and the timescale for their completion to be agreed between Longs and Liberty and assign to Liberty the Scottish Ministers' whole interest therein.

12. All items of receipt and expenditure, pre-payments and accruals will be apportioned as at the Completion Date.

13. [Provision dealing with requirement for Tata to transfer sufficient ETS allowances to facilitate ongoing operations of the Scottish Business at historic levels.]

14. For the avoidance of doubt, Liberty accepts that no warranties or indemnities of any description and extent shall be provided by the Scottish Ministers in favour of any person (for the avoidance of doubt, including Liberty).

15. Each party shall pay its own costs incurred in connection with the negotiation, preparation, execution and entering into of this Minute of Understanding, any Asset Purchase Agreement to follow hereon and any documents referred to in them and either party may end negotiations in relation to the proposed purchase of the Scottish Business (including the Scottish Properties) at any time without having to give any reasons for doing so or incurring any liability to any other party.

16. This Minute of Understanding is confidential to the parties and their advisers, save that the Scottish Ministers may disclose same as required by law including FOISA or EIR.

17. This Minute of Understanding and the negotiations between the Scottish Ministers, the Guarantor and Liberty in connection with the proposed purchase

of the Scottish Business or the Scottish Properties ("the Negotiations"), and any disputes and claims arising out of or in connection with them or their formation (including non-contractual claims and disputes), shall be governed by and construed in accordance with the law of Scotland.

18. Each party irrevocably agrees that Scottish Courts shall have exclusive jurisdiction to settle any dispute or claim arising out of or in connection with this Minute of Understanding or their subject matter or formation and the Negotiations (including non-contractual disputes or claims).

19. No one other than a party to this Minute of Understanding, their successors and permitted assignees, shall have any right to enforce any of its terms.

[SIGNED etc]