



Darren Jones MP  
 Chair, Business, Energy and Industrial Strategy Committee  
 Committee Office  
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28 June 2021

Dear Mr. Jones,

I write in response to your letter dated 18 June 2021.

As reflected in Simec Lochaber Hydropower 2 Limited's ('SLH2') financial statements for the year ended 31 December 2016, Grant Thornton was engaged by SLH2 to value, solely for financial reporting purposes<sup>1</sup>, its two hydropower plants (Kinlochleven and Lochaber) as at 16 December 2016. Grant Thornton was not engaged to value any aspect of the wider business acquired from Rio Tinto, which comprised various other assets and liabilities, including the Lochaber aluminium smelter<sup>2</sup>.

In relation to your specific questions:

**Which factors led to a valuation of these assets upwards to £565 million on the day of the sale?**

In the preparation of SLH2's 31 December 2016 financial statements and as reflected in them, SLH2's new management chose to measure its hydropower plants at their 'fair value' (ie: their market value), rather than at their depreciated historical cost (ie: the amount at which these assets were originally acquired or constructed, and subsequently depreciated, as reflected in the 31 December 2015 financial statements).

This is an accounting policy choice available to management under the relevant accounting framework (FRS 102<sup>3</sup>). If a company's management adopts this policy, it will typically need to engage an external valuer to carry out the market valuation, hence Grant Thornton's engagement for this purpose.

Grant Thornton's valuation used a discounted cash flow forecast methodology based on the plants' future expected earning capacity and was undertaken in accordance with the terms set out in our engagement letter. Whilst we are unable to provide further details of our work due to our duty of confidentiality to SLH2, valuations of this nature are based on information provided by management and underpinned by assumptions made by management.

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<sup>1</sup> Note 14 to the financial statements states that the revaluation work was carried out by Grant Thornton on 16 December 2016. This was the date on which the fair value of the two hydropower plants was assessed at, rather than the date Grant Thornton was instructed, which was in 2017. Grant Thornton's engagement letter set out the scope of its instructions.

<sup>2</sup> The Lochaber aluminium smelter, which was reported at the time to have no value, was immediately sold by SLH2 to Liberty Aluminium Lochaber Ltd, another company within the GFG Alliance. We were not engaged to perform any valuation procedures in relation to this smelter.

<sup>3</sup> The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

**Was the Scottish government's 25-year Guarantee and Reimbursement Agreement (GRA) to guarantee a proportion of the payments due by the smelter to the hydro plant, a factor in valuing these assets upwards?**

Whilst we are unable to provide further details of our work due to our duty of confidentiality to SLH2, any long-term contracts in force and guarantees would typically be considered in the determination of an appropriate valuation.

Grant Thornton is keen to cooperate and assist the Inquiry's work. Having carefully considered our duty of confidentiality owed to our former client, we regret that we are unable to respond more fully to your questions. However, we are seeking a confidentiality waiver from our former client and will revert to you with further information should that waiver be forthcoming.

If I can be of any further assistance, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Dunckley', with a stylized flourish at the end.

David Dunckley  
CEO  
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