

Report to HIE Board on Cambrian Caledonian Ltd Project

1. Update

There have been two principal changes in the project since the Board considered it on 31st August.

(1) Share Structure

****Sentence removed due to commercial interest**** Scottish Enterprise (SE), following discussions with CV, decided to increase its investment from £500k to £750k. This results in a net reduction in cash for shares of £500k. (See 1. (2) Below) CV and SE also required that their investment still acquired 20% of the ordinary share capital. This has the effect of increasing their proportion of the share capital by 33% as compared to the original investment. The WIE Ordinary shareholding has therefore been increased from 10% to 13.3% to maintain parity. The share structure has also been affected by the restrictions imposed by the Xcavo pension fund, which required any investment to be made on similar terms to other investors as to the split between Ordinary and Preference Shares. This resulted in additional preference shares being allocated to the management investment. To maintain parity these additional Preference Shares have been established as a separate class with zero coupon, long redemption date and ranking with Ordinary Shares in the event of a winding up. WIE Preference shares are on the same terms as CV/SE and will carry an 8% coupon. Suitable redemption date(s) and terms will be agreed alongside CV/SE before completion

The original and revised share structures are set out in appendix 1 (****Appendix 1 withheld due to commercial interest****)

(2) Revised Projections

**** Information withheld due to commercial interest****

2.

****Paragraph removed due to commercial interest****

4. Share Agreement

WIE, SE and CV will all invest on the basis of the same share terms. These terms will include a baseline restriction on Directors' remuneration, which will also be linked to the WIE Grant Undertaking. A remuneration committee made up of the Camcal chairman, the CV/SE nominated director and the WIE nominated director, will determine all aspects of future Directors' remuneration within a capped limit.

5 Scheduling of Property Spend

The possibility of re-scheduling of property spend to minimise 2004/5 Network spend has been examined by staff and external advisors. There is an opportunity for minor re-scheduling but only at the risk of increased cost arising from splitting contracts. It is considered that re-scheduling

Amended version of original document.

property costs is not a viable option. However it has been agreed with the company that WIE grant will be rolled over into April 2005 and this will reduce Network spend by c£700k during the current financial year.

6. Training/Management Plans

CamCal is committed to training its personnel and will commit to a formal Investors in People Programme to ensure timely implementation. Each employee is assumed to undertake 5 days training per annum and £22.5k has been allocated to provide for the wage and salary costs during these periods of training. The overhead provision for training delivered by visiting specialists is £10K. No account has been taken of the discounts or subsidies that will accrue through the use of registered training schemes such as that offered by CITB.

As the project has evolved the directors have undertaken a review of the executive capacity required to manage the Arnish operation and have recognised the need to ensure that the appropriate quality and numbers of staff are recruited to undertake this role. As well as providing for an additional investment in time from the directors the revised Arnish projections provide for additional management salaries of £140k.

An organisation chart is attached at appendix 5.

7. Average Earnings

Average earnings for employees excluding directors is £18.8k as compared to £19.3k when directors are included in the average.

8. Grid Infrastructure

The effect on projected sales if the proposed upgrade of the grid North of Denny did not take place has been assessed. The effect of no upgrade would be to restrict onshore projects in pre-planning. The total towers in this category are about 1000. However, because of the uncertainty attached to these projects the company has only predicted securing 38 towers. This equates to about 6 weeks work for Arnish. The timing of the projects is such that they would not impact on the projections before 2008.

22 October 2004

Appendix 1	**Withheld due to commercial interest**
Appendix 2	**Withheld due to commercial interest**
Appendix 3	**Withheld due to commercial interest**
Appendix 3a	**Withheld due to commercial interest**
Appendix 4	**Withheld due to commercial interest**
Appendix 4a	**Withheld due to commercial interest**