

HIGHLANDS AND ISLANDS ENTERPRISE

MINUTE OF BOARD MEETING HELD AT FRASER HOUSE, INVERNESS, AND BY TELECONFERENCE, TUESDAY 15 MARCH 2016, 1700 HRS

PRESENT:

Lorne Crerar (Chairman)
Alex Paterson (Chief Executive)
Paddy Crerar
Alistair Dodds
Donald MacDonald
Iseabail Mactaggart
Donald MacRae
Craig Spence
Steve Thomson
William Swann

IN ATTENDANCE:

Forbes Duthie	Director of Finance and Corporate Services
Charlotte Wright	Director of Business and Sector Development
Douglas Cowan	Director of Strengthening Communities
Sandra Dunbar	Head of Business Improvement and Internal Audit
Margaret McSporrان	Business and Sector Development
Chris Roberts	Head of Communications

1 Wind Towers (Scotland) Ltd: Establishment of offshore operation

The Director of Business and Sector Development presented an appraisal paper requesting that the Board agree to HIE staff progressing to conclude negotiations aimed at securing a change in ownership of Wind Towers (Scotland) Ltd (WTS), a wind tower manufacturer based at Machrihanish, Argyll. The company is currently owned jointly by Scottish and Southern Energy (Ventures) Ltd (80.1% shareholding) and HIE (19.9%), and has strategic sectoral importance as the only wind tower manufacturer in Scotland, and is a major employer and economic driver for Kintyre. SSE had not wished to maintain a long-term interest in the factory, and HIE, with SDI and UKTI, had been seeking a new operator or owner since January 2014. Over time, this had generated positive interest from CS Wind Corporation (CSWC), a global market leader headquartered in South Korea which was interested in acquiring the company and expanding its operations into offshore markets. A memorandum of understanding, committing HIE, SSE and CSWC to continuing to work together had been signed on 26 January 2016 during an introductory meeting with Scottish Energy Minister Fergus Ewing and CSWC President Kim.

Subsequent negotiations had progressed extremely well and HIE was now seeking the Board's agreement to offer a package of investment which would enable a satisfactory transfer of ownership to CSWC to be concluded. HIE's package had been carefully assessed in accordance with the market economy investor principle (MEIP), and included proposed infrastructure investment of £2.8m, and a £1.9m recovery from the planned sale of HIE-owned plant and equipment. It was anticipated that the company would subsequently submit an application for training which would be appraised separately. Securing this inward investment was expected to deliver a host of significant benefits including: leveraging private investment totalling around £17 million (up to £14.5m CSWC and up to £3m SSE); retaining a major

employer in Kintyre; underpinning an important sector for the Scottish economy; securing more than 130 high value full-time equivalent (FTE) jobs; creating a further 70 FTEs, and enabling the Argyll factory to expand into tower production for the offshore wind energy market. It was also noted that CSWC wished to extend the company's present sub-lease at Machrihanish by a further 21 years, to 2051.

In discussing the paper, Board members scrutinised the financial details in particular, noting that an already complex proposal had been made even more challenging by the need to anticipate a range of scenarios over different timescales as part of ensuring MEIP compliance. Clarifications were given in response to specific questions relating to rental income, residual value of plant and machinery, and net present value calculations relating to property construction. It was confirmed that HIE's proposed capital expenditure on a new building would be £2.8m, and that a different figure which also appeared in the paper referred to CS Wind's planned costs instead. The Chief Executive also clarified that HIE would not be a shareholder of WTS under the new ownership arrangements.

The Board approved the recommendation.

2 Arnish: Request for partial renunciation of lease - update

[Item removed as disclosure at this time could have a detrimental effect on commercial interests.]

Chris Roberts
15 March 2016