

Survitec Group Limited
1-5 Beaufort Road
Birkenhead
Merseyside
CH41 1HQ

Strictly private & confidential
To be read by addressee only

17th August 2011

Dear Sirs

The Cosalt plc Retirement Benefits Plan (the "Scheme"): Satisfaction of the terms and conditions in the Clearance Application submitted to the Pensions Regulator

- 1.1 The enclosed Clearance Application was submitted to the Pensions Regulator in respect of the scheme apportionment arrangement entered into in relation to the anticipated cessation of participation of Cosalt International Limited ("CIL") in the Scheme on the completion of the sale of CIL to Survitec Group Limited (the "**Buyer**"). Pursuant to this arrangement, £100 of the cessation debt will be payable by CIL, and the rest will be apportioned to Cosalt plc (the "**Seller**"). On the basis of the information contained in the Clearance Application, the Pensions Regulator issued the enclosed Determination Notice to confirm that it would not issue a Contribution Notice or a Financial Support direction as a result of this arrangement. The Clearance Application set out a number of terms and conditions, and all except one must be satisfied as at or as soon as practicable after completion.
- 1.2 Pursuant to clause 1.1.22 of Schedule 2 to the Share Purchase Agreement dated 3 May 2011 agreed between the Seller and the Buyer for the sale of various subsidiaries of the Seller including CIL (the "**SPA**"), a completion requirement is receipt of evidence in a form reasonably satisfactory to the Buyer of the implementation of the terms and conditions in the Clearance Application which can be satisfied prior to completion. The only condition which is not time governed and may be partially satisfied prior to completion is the requirement for the Seller to sell investment properties (see Condition 4 in paragraph 1.8). The Seller confirms that the Cosalt Industrial Estate, Convamore Road, Grimsby was sold in two lots for a total consideration of £500,000 on 19 July 2011. The Sellers confirm that the trustees of the Scheme have waived their 18% security entitlement in respect of the £500,000. The Seller also confirms that land at Melton, near Hull, is currently under offer for an expected consideration of £900,000. However, the sale is not expected to complete until mid-September 2011.
- 1.3 Pursuant to clause 1.1.22 of Schedule 2 to the SPA, a further completion requirement is confirmation from the Seller that it has no reason to believe that any terms and conditions in the Clearance Application which cannot be satisfied prior to completion will not be satisfied in full and in accordance with their terms. The Buyer's solicitors have confirmed that this requirement will be satisfied by receipt of a letter from the Seller, setting out these terms and conditions, and confirming that it has no reason to believe they will not be satisfied as at or as soon as practicable after completion. The purpose of this letter is to provide such confirmation.
- 1.4 The terms and conditions in the Clearance Application which must be satisfied as at or as soon as practicable after completion are set out below in Conditions 1 to 4. In satisfaction of clause 1.1.22 of Schedule 2 to the SPA, the Seller confirms that it has no reason to believe that any of Conditions 1 to 4 will not be satisfied as at or as soon as practicable after completion.

- 1.5 **Condition 1:** As at or as soon as practicable after completion, the Seller will arrange for the Scheme's position in the order of priorities in respect of the Seller's secured debt in the event of its future insolvency to be improved, so that the order of priorities will be as follows:
- (a) the first £2.4 million will be recovered in the proportion of £2 million to the key shareholders of the Seller (the "**Investors**") and £400,000 to the Scheme;
 - (b) the next £1 million will be recovered by the Scheme;
 - (c) the remaining realisations will be recovered in the proportion of 82% to the Royal Bank of Scotland and HSBC Bank plc (the "**Banks**") and 18% to the Scheme until the point at which the Banks have been fully repaid; and
 - (d) the Scheme will thereafter rank as a secured creditor for the remainder of the section 75 debt.

The trustees of the Scheme will grant the Seller an 18 month contribution holiday in respect of its deficit reduction contributions to the Scheme. However, the Seller will continue to pay the Scheme's management and administration expenses and the Pension Protection Fund levies. The trustees have agreed to this deficit contribution holiday in consideration of the improvement of the Scheme in the order of priorities as set out above.

- 1.6 **Condition 2:** As at or as soon as practicable after completion, the Investors will provide:
- (a) a secured loan note to the Seller of up to £2 million, with a lower rate of interest; and
 - (b) a guarantee to the Banks of up to £2.4 million.
- 1.7 **Condition 3:** As at or as soon as practicable after completion, the shareholders of the Seller will provide a guarantee to the Seller of up to £3.4 million.
- 1.8 **Condition 4:** The Seller will sell investment properties. The trustees of the Scheme will waive their 18% security entitlement in respect of the first £1.5 million of the property realisation proceeds, and in consideration for this concession, the Seller will reimburse certain fees incurred by the trustees.
- 1.9 We would be grateful if the Buyer could confirm in writing that the confirmation from the Seller contained in paragraph 1.4 of this letter is a satisfactory discharge of the Seller's obligations under clause 1.1.22 of Schedule 2 to the SPA.

Yours sincerely



For and on behalf of Cosalt plc