

Erik Østergaard
Chair
Caledonian Maritime Assets Limited
Municipal Buildings
Fore Street
Port Glasgow
PA14 5EQ

Your ref:

Our ref: A12383455

Date:
9 October 2015

Dear Erik

Contracts for the construction of two 100m dual fuel passenger ferries

1. Following a Caledonian Maritime Assets Limited (CMAL) Board Meeting dated 25 September 2015 I understand that a number of concerns and reservations have been expressed by the Board members in connection with the proposed award of contracts to Ferguson Marine Engineering Limited (FMEL) for the construction and delivery of two 100m dual fuel passenger ferries (the Vessels) with a proposed contract price of £48,500,000 per vessel (the Contracts).
2. I have seen [REDACTED] paper entitled "Contract award to FMEL and the associated risks" emailed to Transport Scotland, and the CMAL Board, on 7 October 2015. The Scottish Ministers have also seen and understood that paper and have noted and accepted the various technical and commercial risks identified and assessed by CMAL and have indicated that they are content for CMAL to proceed with the award of the Contracts.
3. I note that the commercial risks set out in [REDACTED] paper arise largely because the guarantees that are to be available under the Contracts are materially different in the protections offered and in their value as compared to those sought by CMAL and offered by FMEL in the tender process in anticipation of the Contracts. I further note that these terms were arrived at after prolonged discussion and negotiations between CMAL and FMEL and their respective advisors and that these were substantively improved following the discussion I had with the CMAL Board on 25 September.
4. I note that CMAL has sought and carefully considered specialist legal advice in relation to the risks that have been identified. I further note the assessment of the likelihood of these risks arising set out in [REDACTED] paper.
5. CMAL have sought confirmation from the Scottish Ministers on how the risks arising as a consequence of the award of the Contracts to FMEL will be managed.

6. In their capacity as CMAL's sole shareholder, pursuant to and in accordance with the "Management Statement / Financial Memorandum for Caledonian Maritime Assets Limited – May 2015", the Scottish Ministers hereby approve the award of the Contracts to FMEL. The Scottish Ministers, both in their capacity as CMAL's sole shareholder and more generally, also confirm that CMAL is authorised to enter into the Contracts and any associated documentation.
7. The Scottish Ministers have committed to providing loan funding to the value of £106m. This is set out in the Voted Loan letter from [REDACTED] to Tom Docherty dated 9 October 2015 (attached) which clarifies that "loan repayments will commence on the first scheduled repayment date after the date of entry into service of the vessels". Therefore, if any of the identified risks materialises prior to delivery of the vessels, CMAL will not be required to repay any loan drawn down unless or until the position is resolved to allow the vessels to be completed.
8. I note that the provisions of the Voted Loan letter do not, in themselves, mitigate the risks around in-built performance deficiencies. This particular risk can be most effectively mitigated through the robust project management arrangements that CMAL will put in place.
9. If any of the identified risks arise and, despite the best endeavours of CMAL to mitigate and manage their consequences, additional costs are incurred by CMAL then the Scottish Ministers will look favourably on requests by CMAL for additional resources. I note in this context that the Scottish Ministers intend for CMAL to receive sufficient funding for the company to continue to operate in accordance with its statutory obligations and contractual requirements and to deliver the tasks entrusted to it by the Scottish Ministers through the Management Statement / Financial Memorandum. Funds will be provided as they are required in order for CMAL to meet its debts as they fall due and maintain the company as a going concern.
10. I confirm that the Scottish Ministers have considered and approved the contents of this letter.
11. I would welcome confirmation from you, on behalf of the CMAL Board, that you are content with the assurances from the Scottish Ministers provided above.

Regards

[REDACTED]

John Nicholls

Ferries Unit
Aviation, Maritime, Freight & Canals

Victoria Quay, Edinburgh EH6 6QQ



TRANSPORT
SCOTLAND
CÒMHDHAIL ALBA

Tom Docherty
Chief Executive
Caledonian Maritime Assets Ltd
Municipal Buildings
Fore Street
Port Glasgow
Inverclyde
PA14 5EQ

Your ref:

Our ref: A12383387

Date: 9 October 2015

Dear Tom

VOTED LOAN - PROCUREMENT OF TWO 100M VESSELS

I refer to [REDACTED] email of 8 September 2015 requesting loan funding for the construction of two 100m vessels, his email of 30 September 2015 setting out the agreed funding profile and [REDACTED] paper entitled "Contract award to FMEL and the associated risks" emailed to Transport Scotland, and the CMAL Board, on 30 September 2015.

The Scottish Ministers have seen this paper and have noted the risks identified by CMAL. **I confirm that following due consideration, the Scottish Ministers have approved the award of this contract by Caledonian Maritime Assets Limited (CMAL) to Ferguson Marine Engineering Ltd (FMEL).**

The Scottish Ministers are empowered by the Transport (Scotland) Act 2001 to award advances by way of voted loans to CMAL for the purpose of improving sea transport. I can confirm that the Scottish Ministers are willing to offer the company a voted loan towards the construction of two 100m vessels. Payment of the loan will be phased over the construction period of four years. The loan draw-down profile for the vessels have been agreed as detailed in Norman Thomson's email of 30 September 2015. See Appendix A.

2015/16	£33.8m
2016/17	£34.150m
2017/18	£6.3m (This includes £1.5m for CMAL Project Management costs)
2018/19	£31.750m (This includes £7.5m for CMA Project Management costs)
Total -	£106m

The loan profile includes allowance for CMAL's project management costs up to a maximum of £9m. Included in these project management costs are CMAL direct costs, CalMac project



and crew familiarisation costs, and variations to contracts. These costs are detailed in [REDACTED] email of 30 September 2015 payable over the years of 2017/18 and 2018/19.

The main milestones of construction are indicated in the draw-down profile detailed in Appendix A with delivery of the two vessels due in April and June 2018 respectively. Any revisions to these timelines must be notified immediately supplying reasons why they are not achievable. In this event, revised timelines and associated payment and drawdown profiles should be submitted promptly.

Interest at Public Works Loan Board rates (25 year rate) will be charged on the outstanding loan and I shall inform you of the applicable interest rate as each loan tranche is drawn down. Following the final loan drawdown the instalments will be consolidated into a single term loan for the vessel. **Loan repayments will commence on the first scheduled repayment date after the date of entry into service of the vessels.** Interest accrued up until the first scheduled repayment date shall be added to the capital amount due.

The term loan plus accrued interest will be repayable over 25 years. The loan plus accrued interest will be repaid on an annuity basis in 50 instalments payable twice yearly together with applied interest on 31 March and 30 September. We shall send you a schedule detailing both principal and interest payments when the term loans are finalised.

We will phase the payments of these loans according to the agreed draw-down profile and the company must provide invoices submitted by the shipyard and endorsed by CMAL in support of any request for a loan draw down. Any increase in construction costs must be notified to Transport Scotland before any commitment is given by the company to incur additional costs.

CMAL shall keep the Scottish Ministers fully informed of the progress of the Project in the form of quarterly update reports to Transport Scotland. Details shall include actual progress to date of the project against the schedule, actual expenditure to date compared with profiled expenditure, and the reasons for any changes or delays. The format of these reports shall be agreed between CMAL and Transport Scotland within a month of this letter. The first report should be submitted 3 months after the dated of this letter. Budget monitoring of the quarterly construction and project management costs should be reported separately. Project management costs should be reported on a monthly basis.

CMAL shall maintain a "Vessel Procurement and Construction Risk Register" to set out and rate the risks and the mitigation strategy. A suggested format can be found in Appendix B. (this format is not prescriptive). The Register will be shared Transport Scotland on a quarterly basis along with the above reports.

The frequency of reports may be updated at any time by mutual agreement. CMAL must inform Transport Scotland of any proposals to sell, transfer or otherwise dispose of any rights as it may have in the vessel to any other person and shall not proceed with such proposal without prior consent from Transport Scotland.

I confirm that the Scottish Ministers have considered and approved the contents of this letter.

I would welcome confirmation from you, on behalf of the CMAL Board, that you are content to accept the offer of loan under the conditions set out above.

Yours sincerely,



Head of Ferries Unit

APPENDIX A

25 year loan - Annuity repayments		PWL8 Interest Rate 31 August 2015		3.19%			
First loan repayment date 30/09/2018				No days			
Stage	Date	Milestone	Amount	Cumulative	Interest accrual to 30/09/2018	Total interest charge	VL Drawdown Financial Year Total
1	30/09/2015	On order	4,800,000	4,800,000	1096	459,779.51	
2	30/10/2015	Procurement deposits long lead time (1)	24,200,000	29,000,000	1066	2,254,604.60	
3	30/11/2015	Cutting of steel	2,800,000	31,800,000	1035	253,277.26	
4	31/12/2015	Procurement deposits long lead time (2)	2,000,000	33,800,000	1004	175,493.70	2015/16 33,800,000
5	04/04/2016	10% Fabrication	4,800,000	38,600,000	909	381,331.73	
6	31/05/2016	25% Fabrication	7,300,000	45,900,000	852	543,576.00	
7	30/07/2016	35% Fabrication	7,300,000	53,200,000	792	505,296.00	
8	30/09/2016	50% Fabrication	4,800,000	58,000,000	730	306,240.00	
9	31/10/2016	Major equipment & lock out items install	2,750,000	60,750,000	699	167,999.38	
10	30/11/2016	75% Fabrication	2,400,000	63,150,000	669	140,325.04	
11	30/12/2016	100% Fabrication	2,400,000	65,550,000	639	134,032.44	
12	28/02/2017	berth join up	2,400,000	67,950,000	579	121,447.23	2016/17 34,150,000
13	03/04/2017	Hull inspection prior to paint	2,400,000	70,350,000	545	114,315.62	4,800,000
14	31/07/2017	Launch 801	1,200,000	71,550,000	426	44,677.48	1,500,000
16	29/09/2017	Launch second vessel 802	1,200,000	72,750,000	366	38,384.88	2017/18 6,300,000
15	28/04/2018	delivery 801	12,125,000	84,875,000	155	164,252.23	24,250,000
17	30/06/2018	delivery second vessel 802	12,125,000	97,000,000	92	97,491.64	7,500,000
			97,000,000			5,902,524.73	2018/19 31,750,000
		CMAL costs vessel 1	5,000,000				
		CMAL costs vessel 2	4,000,000				
			9,000,000				
18	31/03/2018	drawdown 1	1,500,000	98,500,000	183	23,990.55	
19	30/06/2018	drawdown 2	7,500,000	106,000,000	92	60,304.11	
			9,000,000				
Total Project Costs			106,000,000			5,902,524.73	106,000,000
Gross interest accrual			5,902,525				
Total repayable from 30 September 2018			111,902,525				

