

Àrd-stiùiriche na h-Eaconomaidh  
Director-General Economy  
Liz Ditchburn



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[REDACTED]  
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13 December 2018

Dear [REDACTED]

I refer to my meeting of 28 November with Jim McColl and to the proposal we discussed that [REDACTED]

The Scottish Government has honoured all its obligations under the existing agreements and provided significant funding to Ferguson Marine. Ministers remain willing to support the business while a range of options are appraised.

We have discussed the constraints in which we operate with you and we have set out our commitment to see the vessels completed promptly and shipbuilding continue on the site. Against this background we are prepared to consider amending the terms of the loan documentation, subject to agreement of the commercial terms, including the following:

- [REDACTED]
- [REDACTED]
- the consequential amendments to the loan and intercreditor documentation will not prejudice the existing rights of the Scottish Ministers thereunder (including the right to be repaid ahead of CBC in certain solvent scenarios).

The pari passu rights we envisage are the same insolvency ranking and the same interest arrangements as the second loan, the loan to FME(H)L.

In order to allow this amendment, we will require:

- confirmation that FMEL cannot be refinanced with another funder or other external investment obtained;

- [REDACTED]



- [REDACTED] before the June 2019 back-stop date for CBC's Tranche II equity investment value not less than the quantum agreed in June will fall within our joint pari passu security net; and
- your agreement to alter the valuation mechanism set out in the current documentation so that in the event of the business running out of cash post draw down of this loan, the value of the business is not greater than [REDACTED] until the delivery of 802.

Finally, we are concerned that the programme for completion of vessels 801 and 802 is likely to have slipped since we signed our loan agreement in June. Therefore, we require the introduction of further measures to ensure that Scottish Ministers are given appropriate visibility of the operations of the business.

In addition to the work of the independent operational expert (Luke van Beek) who monitors programme management for us we intend immediately to appoint a board observer as permitted in the loan agreement.

FMEL's directors have expressed their concerns to us at the lack of funding available. Therefore we believe that any amendments to the agreements should be agreed in principle by 18 December 2018 and agreed in detail as soon as possible thereafter (with all parties seeking to keep suitable amendments to a minimum). If agreement in principle can be achieved by 18 December we believe funds should be made available to FMEL from both SG and CBC by 21 December 2018, in order that FMEL's position can be regularised.

The proposals in this letter are of course without prejudice to such other rights as we have, as reserved in our letter of 23 October 2018.

We look forward to hearing from you.

Yours sincerely

[REDACTED]

Liz Ditchburn

DG ECONOMY