

[REDACTED]
[REDACTED]

To : Directors of Ferguson Marine Engineering Limited (“FMEL”) and Ferguson Marine Engineering (Holdings) Limited (“FMELH”)

Cc: [REDACTED]

By email: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

04 July 2019

Dear Sirs,

We are writing to you as a secured lender to FMEL and FMELH (together the “Group”) through our loans £15m, dated 6 September 2017 as subsequently amended, and £30m, dated 25 June 2018, respectively.

As you are aware, we have been working with Clyde Blowers Capital (“CBC”) to support the future of the business and the purpose of this letter is to update you on the latest position of those discussions. Given your statutory responsibilities as Directors we consider it appropriate to share with you our latest view on the current situation.

We encourage you to read this letter whilst considering the wider ambitions that Scottish Ministers continue to pursue for the shipyard - namely, the successful completion of the 801/2 vessels, the protection of employment, and a viable future for shipbuilding at the yard.

Background

As you are aware, over the past month(s) CBC and the Scottish Ministers have been in discussions around funding solutions for the remainder of the 801/2 contracts and longer term diversification of the yard.

A number of key events have occurred:

- i) During this time an independent review on the claim from FMEL against CMAL has been undertaken by a senior QC, at the request of Scottish Ministers, [REDACTED]
[REDACTED]
- ii) CBC has confirmed it will not be meeting its obligation to put [REDACTED] cash into the Group.

- iii) The costs and timetable for the delivery of 801/2 have extended by material amounts and there appears to be no certainty on the overall final cost or delivery dates of both vessels.
- iv) We are informed by CBC that work has slowed down.

In anticipation of the above situation, we considered a number of options whereby Scottish Ministers could support the business and employment at the yard. Our significant detailed analysis however, did not find any lawful routes by which the Scottish Ministers could place further cash into the Group in circumstances where there is no significant cash contribution from CBC or another private sector business. We have also confirmed to CBC that there were a number of serious risks to Scottish Ministers, including that entering into the proposal would be unlawful.

Therefore this letter is aimed at outlining for you, as the Directors of the Group, the next steps which we, as your largest secured creditor, believe to be in the best interests of all parties.

Current position

As part of the £30m loan documentation that was entered into by FMELH you will be aware that Scottish Ministers have certain rights in the current situation. Since CBC have confirmed that they will not invest ██████ for further shares in FMELH by the date being 11 Business Days after 25 June 2019, Scottish Ministers will have the right to buy CBC's shares in FMELH at Fair Value, or to buy the Group for £1 to prevent an insolvency based on the terms of the loan documentation entered into between the Group and Scottish Ministers.

Given there are currently no alternative funding solutions, we believe an insolvency event is becoming increasingly likely and intend to explore exercising our right to buy CBC's shares in FMELH and take the Group into public ownership ("the transaction") as an alternative solution.

Based on our current assessment of the position, we currently consider that public ownership could present the best commercial solution and should enable:

- Less disruption and costs for trade creditors with the potential for them to be paid in full;
- The avoidance of the negative impact of a potential insolvency scenario;
- Delivery of 801/2 with minimal disruption; and
- Protection of jobs and the yard capabilities.

We believe that, based on there being no known route to funding, this option should alleviate any concerns of the Directors to act in the best interests of creditors. We are also seeking to work constructively with CBC to mitigate negative PR and other potential issues for both parties. We seek a similar constructive working relationship with you as Directors of the Group.

As you would expect, we need to perform some diligence (which is already underway) to satisfy ourselves that public ownership is the optimal course for the Scottish Ministers.

Our focus over the coming weeks is on the business continuing to trade 'as normal' whilst we explore the transaction and carry out further work in order to make an informed decision on the overall optimal outcome for all parties, including:

- Assessing value for money considerations for the taxpayer;
- Continuing discussions with the bond provider in order to deliver the optimal outcome; and
- Undertaking normal diligence requirements associated with any share purchase, in the time frame available.

We want to work closely with you and require your cooperation in facilitating the diligence in order for it to be meaningful. We also want to work closely with CBC to respect their position as a secured creditor and current shareholder of the business. CBC are aware of our requirement to complete further diligence.

Directors' Duties

We trust that you are taking the appropriate legal advice and will be aware of your statutory duties as Directors regarding your requirement to act in the best interests of all creditors. If not, we recommend that you take personal legal advice.

We consider that a potential public ownership solution supports those duties and hence for you to be compliant with your statutory responsibilities as Directors you should work with us as we fully explore this potential option.

You are aware that your major creditors, Scottish Ministers and the surety, want to extend the 801 bond in order to allow more time for constructive communications between all stakeholders. Given that this extension is offered at no further cost to FMEL we consider it critical that the 801 bond extension documentation is signed by the Directors immediately to avoid the acceleration of decision making and options that may result in a worse outcome for creditors. If you cannot deliver this by midday on Friday 5th July we request that you inform us immediately.

We are also motivated to ensure that the overall build cost of 801/2 is not increased any further and are keen that the work should continue on an 'as normal' basis whilst the transaction is explored. We do not want any further delays to construction (and consequently cost) without our prior knowledge.

We recognise that you will have concerns around your ability to pay FMEL's debts as they fall due and around commitments or payments for future orders during this period. We intend to be fully supportive throughout the period and maintain regular dialogue with you on the progress of our diligence.

We expect you to continue to consult with us as your largest secured creditor and not take any action that could be detrimental to our position / options whilst we collectively develop the best solution for all creditors from this current situation.

We are of the view that negative PR or uncontrolled messaging could result in negative financial consequences for creditors and hence we request that you do not speak to media, employees, creditors or other sources of public knowledge around the current situation without our prior consultation (other than in the normal course of business).

We recommend that you continue to take independent legal advice on your duties from solicitors experienced in such circumstances.

Next steps

We recognise that this is not the situation you envisaged as Directors of this business and we want to work consensually with you to find the best solution for creditors, employees, the business and the completion of the 801/2 vessels.

We will therefore be engaging with you over the coming days on the following:

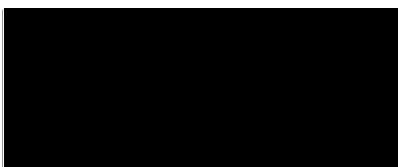
- Supporting dialogue with your other major secured creditor - the surety; and understanding if there are other major creditors you consider with whom you need to communicate;
- Agreeing any messaging for the media, unions or employees. We request that you do not have any external messaging without discussing with us first;
- Completion of our diligence requirements;
- Understanding your personal role and future with the business going forward.

However we URGENTLY require your confirmation, or otherwise, that the 801 bond extension has been fully executed and delivered by FMEL. We request this response before midday on 5th July 2019.

We anticipate that a solution will be decided upon over the coming weeks and we will continue to keep the Directors updated on the status of our work. We would be grateful for a response to this letter should you have any direct concerns.

If you have any questions please do not hesitate to contact me. Once again, I want to thank you for your continuing support through this difficult period for everyone concerned with the business and to assure you of our commitment to identify the best available option to secure the successful completion of the 801/2 vessels, the protection of employment, and a viable future for shipbuilding at the yard.

Yours faithfully,



LIZ DITCHBURN