



**Scottish Government
Scottish Procurement
5 Atlantic Quay
150 Broomielaw
Glasgow G2 8LG**

13 June 2018

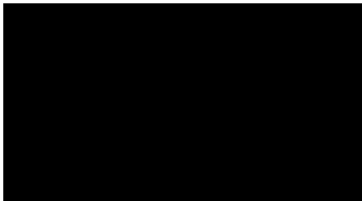
Dear Sirs

You have asked us to comment on the commercial aspects of the proposed loan from Scottish Government (“SG”) to Ferguson Marine Engineering Limited (the “Company” or “FMEL”) in accordance with our agreement dated 27 November 2017.

Over the past month we have worked alongside SG to document its initial draft heads of terms and explain them to FMEL. SG has since worked with its legal advisers to convert the draft heads of terms to draft legal agreements. This has included several discussions with FMEL around key commercial aspects of the loan. The initial terms discussed have continued to evolve throughout this process.

Save as described in the agreement or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report, and it may not be provided to anyone else.

Yours faithfully



PricewaterhouseCoopers LLP

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Background

We were engaged by SG in August 2017 to comment on the options available [REDACTED]. SG concluded that a loan should be provided [REDACTED]. We have monitored FMEL's progress against its projections for SG [REDACTED]. Whilst SG provided a £15m loan in September 2017 it was recognised that a further £15m would likely be required for completion of 801/2 and FMEL management expected to achieve this through contract price increases.

[REDACTED]

FMEL's customer for the delivery of 801/2 is CMAL. CMAL's shareholder is SG and CMAL is reliant on SG to fund the acquisition of new vessels [REDACTED]

[REDACTED] and [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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In order to provide a loan, SG needs to consider whether such a loan meets with the European Union's Market Economy Investor Principle (“MEIP”). As part of its MEIP considerations, SG wants to understand key factors to determine whether the loan can be made on commercial terms that would be acceptable to an independent private investor. This should take account of the financial factors that influence SG, but exclude factors such as economic development and employment.

Our comments are presented as a briefing paper to support discussions with Ministers. We understand that a conclusion on providing the loan is a matter for Ministers and that compliance with the MEIP is a broader legal question over and above the commerciality of the terms. We are not engaged to comment on these wider aspects.



We have not been instructed to perform a full independent review of the latest financial information provided and note that SG will consider the full suite of our work from August 2017 to date in reaching its conclusion.

Executive summary and conclusions

SG is considering providing a £30m loan to FMEL. We consider that the proposed terms of the loan are broadly in line with those that would be required by a commercial provider, in particular by considering how a customer might support a key supplier within its supply chain. For the reasons set out above, we consider this to be a relevant comparator for the current position of SG. The key matters that we have considered in reaching this conclusion are:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]



The terms of the facility offered to FMEL should be commercial

A loan will be considered relative to SG's stated commercial objectives of prompt delivery of 801/2 [redacted]

There is no standard approach for a financial lender providing a commercial loan: e.g. a high street bank, a high net worth individual and a private equity investor will have different considerations.

We understand the provision and terms of a loan from SG will be based on:

- The protections (including security) available for the loan;
- SG's existing connections with FMEL, both directly and through its subsidiary, CMAL: 801/2 contract and the £15m loan;
- The financial return on the loan.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

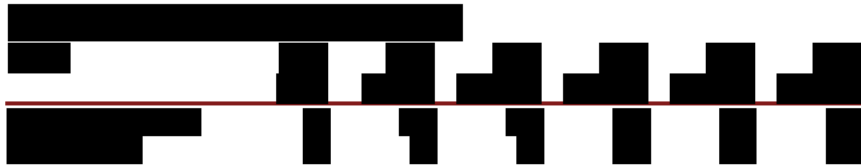


Appendix 1

FMEL projections



Margin



[Redacted text block]

[Redacted text block]



Appendix 2

Options investigations

