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PROJECT POSEIDON: LOAN DRAWDOWN ASSURANCE REPORT

Reference: Project Poseidon VATIS

Background

The Scottish Government has provided a commercial loan facility to Ferguson Marine Engineering Limited (FMEL) – the Project Poseidon Commercial Loan – and has identified the need for independent operational expert advice relating to the Loan. This is to monitor FMEL’s performance against its vessel delivery programme and resourcing plan and provide assurance that Loan conditions and expectations are being met.

The Loan Agreement states that FMEL will provide the following information for review:

“a build update report on the build out of vessels 801 and 802 plus cost overruns and other issues, details of cost estimations in connection therewith and any such other information as relevant to the delivery of the vessels and to the running of the business”

One condition precedent to drawing the Loan is:

“satisfactory assurance from the Scottish Ministers’ independent operational expert that progress of the build of the vessels known as 801 and 802 is proceeding in accordance with the overall resource program presented by FMEL on 28 and 29 May 2018 at Port Glasgow, taking account of factors that are outside FMEL’s control.”

Report

The report below is the third independent drawdown report of the progress of the build of the vessels known as 801 and 802 with respect to the overall resource program presented by FMEL on 28 May onsite in Port Glasgow. The review was undertaken on 5 November on site in Port Glasgow.

LOAN DRAWDOWN ASSURANCE REPORT

Drawdown Number: 4

Date of Drawdown Request: 28 Sept 2018

Summary

My last visit to FMEL was at the end of September and during this visit I completed a Quarterly Review (dated 4 Oct 18). Little has changed since this last report although recruiting continues apace and the much anticipated ship managers have joined. FMEL is on track against previously declared work force numbers.

One new order (a hover barge) has been signed and there appear to be several further, relatively low value, orders which are close to being confirmed.

Over the next 3 months I will be looking for the identified key dates to start to move left (i.e occur earlier) and this will form a significant element of the subsequent (early January) Quarterly Review. As 801 enters its commissioning phase a key milestone is the load and power management test scheduled for 7 January. This starts the commissioning process and is on the critical path to delivery of 801. I continue to have concerns about the setting to work and testing of the LNG system. The multiple nature of the responsibility for this activity is a risk.

I suggest that the poor (and probably deteriorating) relationship with CMAL continues to be a significant risk to the programme particularly if there is a recourse to litigation.

Despite these reservations the programme is progressing well. Sub contractors are actively engaged in both electrical and outfitting activity. All the senior management I spoke to are aware of the critical nature of delivering on time and appear well motivated to achieve it.

I have no reservations in recommending draw down is approved.

Luke van Beek CBE
VATIS Ltd
Independent Expert