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23 Jan 2019

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 fourth independent drawdown report (complemented by several other reports) on 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 22 and 23 January on site in Port Glasgow.

LOAN DRAWDOWN ASSURANCE REPORT

Drawdown Number: 5 Date of Drawdown Request: 23 Jan 2019

Summary

My last visit to FMEL was in early December and during this visit I completed a Quarterly Review (dated 13 Dec 18). As result of shortage of cash, I highlighted, as a minimum, a 3 month slip to the programme. An interim loan of £3M from the Scottish Government and £3M from CBC has helped and the request for a further £5M (latest request) will restore the liquidity of the business.

During this visit I have detected a more positive attitude and this provides confidence that a revised programme can be delivered.

As was predicted by my December report the delay remains in the 3-4 month bracket. Whilst uncertainty remains (the loan is not drawn down) it is difficult to be more specific on dates however a new cardinal point programme will be available in the first week of February. [redacted] On a positive note the risk register continues to mature and provides a good reflection of the potential issues.

I suggest that the poor (and probably deteriorating) relationship with CMAL continues to be a significant risk to the programme particularly now that the legal claim has been submitted.

To ensure the best chance of delivering to time and budget I suggest the following measures should be taken:

Simplify the build (both process and delivered capability)
Freeze all change to the design
Work quickly to resolve the medium term cash issue
Instigate action to improve the relationship with CMAL

I recommend that draw down is approved.

Luke van Beek CBE
VATIS Ltd
Independent Expert