



# Burntisland Fabrications Business Plan



# BUSINESS PLAN

## BURNTISLAND FABRICATIONS LTD

Prepared by:



This document contains DF Barnes's business plan for the Burntisland Fabrications Ltd. All information contained in this document is strictly confidential, commercially sensitive, and proprietary information including strategy, partnerships, business, market and economic data. DF Barnes does not consent to the release or disclosure of any of the contents of this document to any third party and this document shall always be treated as strictly confidential.

# Table of Contents

- Overview..... 4
- Corporate Background ..... 5
  - JV Driver Group of Companies..... 5
  - DF Barnes ..... 7
  - DFB Driver..... 8
- Health, Safety & Environment..... 10
  - Innovative Safety Practices ..... 10
- A New Approach to Project Execution ..... 12
  - Project Organization ..... 13
  - Construction Planning..... 13
    - Constructability ..... 13
    - Pre-Mobilization..... 13
    - Project Mobilization Plan..... 14
    - Workface Planning..... 14
    - Project Controls ..... 15
    - Cost Management ..... 15
    - Primavera P6 Planning Schedule..... 15
  - Summary ..... 16
- Market Diversification Strategy ..... 18
  - Overview ..... 18
  - Energy-Based Fabrication..... 19
    - Europe..... 19
    - North America..... 20
  - Fabrication for Export..... 21
  - Marine Exhaust Gas Cleaning Systems ..... 22
  - Maintenance ..... 23
- Management Organization ..... 25
- Globally Competitive Infrastructure..... 26

Implementation Plan ..... 29

- Stage 1 - Revitalization of BiFab in Existing Markets ..... 29
- Stage 2 . Diversification and Growth..... 30
- Stage 3 . European Expansion..... 31

Financial Outlook ..... 32

Keys to Success ..... 33

Our Ask from Government ..... 34

- Financial Insulation from Beatrice Contracts..... 34
- Equity Conversion of Government to Beatrice Financing ..... 34
- Government Supported Working Capital and Project Financing Facilities ..... 35
- Capital Works and Site Development..... 37
- Other Government Support..... 37

Legal Structure of Proposed Transaction..... 37

Summary ..... 38

Benefits for Scotland ..... 39

# Overview

JV Driver Group, through its subsidiary DF Barnes, began efforts to identify a business acquisition in Scotland late in 2016. Our goal was to find a business that was actively engaged in energy infrastructure projects, and importantly, one that would fit well with our company's culture and core values. After reviewing several candidates that didn't meet our criteria, we were presented a business profile on Burntisland Fabrications Ltd. (BiFab). We were immediately interested in the company and started the process to learn more about it. We traveled to Scotland in March of 2017 to tour the Methil and Burntisland facilities and meet the management team. This further solidified our interest in the company and its people. Ultimately, we agreed to Heads of Terms for the acquisition of BiFab in May with a view to close the transaction within 3 months.

Unfortunately, since that time there have been many unexpectedly obstacles to closing the deal, not the least of which were the sudden passing of John Robertson and execution and commercial issues with the Beatrice project. Both of these events had catastrophic impacts to BiFab, leading to solvency concerns and the requirement for Government financial support.

These events have given us reason to re-consider our intentions to acquire BiFab. The company has gone from a state of financial strength to one with significant challenges. We initially viewed the management team as highly competent with the ability to manage the company with minimal input and oversight from Canada. We now know the management team has gaps in its ability and JV Driver will need to support it with capable leaders, some of which to be resident in Scotland on a full time basis.

But looking beyond those near-term challenges, we see:

1. A renewables sector that holds massive opportunities for BiFab
2. An oil and gas industry that still has life, especially at current commodity prices
3. An incredible opportunity to expand BiFab's presence into North America through the channels we have established with DF Barnes and JV Driver
4. Growth in complimentary lines of business to smooth out the cyclical nature of construction work, including maintenance, ship repairs, exhaust gas scrubbing fabrication and installs, and fabrication for export.
5. A Government that sees the value in executing projects at home in Scotland

So for these reasons, we remain committed to our goal of acquiring BiFab and re-establishing the company as a European leader in energy infrastructure fabrication. This document summarizes our plan to do just that. With the necessary support from the Scottish Government, we remain confident that our modernization and growth plans for BiFab will soon become a reality.

# Corporate Background

## JV Driver Group of Companies

JV Driver was founded in 1989 in British Columbia, Canada, as an industrial contractor specializing in construction and turnaround projects. Today, JV Driver provides a wide range of construction and fabrication services in the industrial, commercial, buildings, marine, environmental and public infrastructure sectors. Our flexibility, diversity, and history, gives us a unique offering in the market.



**Image - JV Driver's Nisku, Alberta Steel Fabrication Facility**

### **Industry-Leading Technology at Work**

JV Driver has successfully executed major projects across all sectors, in locations throughout North America, the Caribbean, and Africa. These projects span all sizes and scopes of industrial, institutional and commercial construction. From small brownfield projects, to the construction of high-rise apartments and large industrial processing facilities, JV Driver has the capability to self-perform projects of all sizes through its highly productive labour models and execution strategies.

In the industrial sector, JV Driver provides all facets of fabrication, civil, construction, and plant maintenance capability in the energy, chemical, mining, forestry, and marine sectors. We provide these capabilities through our subsidiaries JV Driver Projects, JV Driver Fabricators, IDL Projects, DF Barnes and DFB Driver.



**JACOS SAGD Oil Sands Project**  
**General Contractor – JV Driver Projects**

In addition to our industrial base, JV Driver has an extensive background in constructing commercial, multi-unit residential and industrial buildings. We also have extensive public infrastructure experience including the construction of roads, bridges, port facilities and airports. JV Driver executes these projects through our subsidiaries IDL Projects, Metrocan Construction, Metrocan Projects and Scott Construction.

We have been offering services and manufacturing in the marine and offshore sectors for over 80 years through DF Barnes and see heavy fabrication for Eastern Canada's Oil & Gas Industry as a major opportunity, especially subsea fabrications. In addition, JV Driver has recently developed proprietary technology for the Environmental Sector through Marine Exhaust Solutions (MES), which includes the fabrication and install of exhaust gas cleaning systems for ships.



In each of these sectors JV Driver has the capability, capacity, geographic reach and track record to provide high value solutions to our clients' most complex and challenging needs. Our company presents a tremendous base from which to build opportunities for BiFab.

## DF Barnes

DF Barnes has been in the business of steel fabrication and marine maintenance since 1932. The DF Barnes Make and Brake engines were heavily relied upon by fishermen from all over Newfoundland and Labrador, and the company built the first steel hulled fishing vessels in the province, enabling fishers to venture to and through the spring ice flows.

We have adapted that marine expertise to become leaders in maintenance and repair on offshore oil drilling and production platforms. DF Barnes crews regularly perform maintenance on vessels, production platforms, and drill rigs, both offshore Newfoundland and other jurisdictions including the North Sea, Africa and Gulf of Mexico. We have executed mini refits of drill rigs while under tow and extensive, complete rig refits at various locations in Eastern Canada.



**The Transocean Henry Goodrich Drilling Vessel  
Mechanical Refit – DF Barnes Services**

In addition to our offshore expertise, DF Barnes is one of the largest fabricators in Newfoundland and Labrador. With 100,000 sq. ft. of indoor fabrication space, DF Barnes specializes in subsea fabrication while carrying out a range of general steel and pipe fabrication across all industries. We hold over 400 welding procedures and certifications in-house from DNV and Lloyds, including specialty procedures for clients such as Cameron, Technip, FMC, Aker and MH Wirth. Most recently DF Barnes became certified to inspect and repair offshore drilling risers, the first Canadian company to achieve this certification. DF Barnes continues to fabricate and export Launch and Recovery Systems (LARS) that deploy ROV systems on ships and drilling rigs all over the world.

We recently completed fabrication of the Hebron Offshore Loading System. These two 150 ton modules will pump all of the oil that comes from the Hebron oil field . currently estimated at over 700 Million BOE.



**Hebron Offshore Loading Systems  
DF Barnes Fabrication**

## DFB Driver

DFB Driver, a division of DF Barnes, is primarily focused on industrial construction work throughout Eastern Canada. Drawing on the support and expertise of JV Driver, the company has grown into one of Eastern Canada's largest industrial construction companies. Since 2011, DFB Driver has safely executed 4 million person hours of civil, mechanical, electrical, and commissioning work. More recently, DFB Driver has been the lead commissioning, start-up and modifications contractor at Vale's Long Harbour Nickel Processing Plant.



**Vale Long Harbour Nickel Processing Plant  
Civil, Mechanical, Commissioning, and Start-up Contractor – DFB Driver**

DFB Driver is renowned in Eastern Canada for its leadership in innovative and productive labour models. We were the first company to have a non-jurisdictional construction agreement in Newfoundland and Labrador. We also employ flexible, non-union crews on many work sites. These innovative labour models, combined with industry-leading execution strategies, have resulted in highly successful and cost effective projects. In many cases, DFB Driver has received client feedback that we are the most productive and safest contractor on their sites. The company has focused heavily on safety and productivity, which ultimately have been its keys to success.

Building Great Things  
Since 1932



# Health, Safety & Environment

At JV Driver we are relentless about safety. Our never-ending pursuit is to ensure no one gets hurt – ever. Our constant innovation and investment in safety has resulted in world-class results and injury prevention. An example of these results is our group TRIR which was 0.23 in 2016. Others have recognized our expertise in safety with recognition and awards, with our most recent being the Shell Global CEO HSSE and SP award. This award is only given to the best safety performers around the globe. JV Driver has not had a lost time incident since 1994. This includes all sectors of construction with tens of millions of safe work hours completed.

## Historical Safety Performance – JV Driver Group

Year	Hours	Medical Aids	TRIR	LTIR
2012	4,370,389	8	0.37	0.0
2013	7,782,336	24	0.62	0.0
2014	8,032,342	8	0.20	0.0
2015	6,377,273	7	0.22	0.0
2016	6,924,366	8	0.23	0.0

## Innovative Safety Practices

At JV Driver our innovation-driven Core Purpose is to “Think Different, Build Better” and this is nowhere more evident than in our approach to safety. At its heart, our safety effectiveness is based on investment in, and use of, industry leading programs and tools. These approaches are created both internally and through the adoption of industry best practices. In fact, many our best ideas come from our people at the work sites. To support this grass roots approach we have dedicated on and off-site working sessions, like our annual 3 day Safety Conference, to develop and implement new ideas and refine existing ones. We have a systematic innovation program as part of living to our “Think Different, Build Better” Core Purpose where we nurture, implement and recognize the amazing ideas of our people. Our “Acts of Vigilance” Program is a great example of innovation in safety, with all employees required to intervene on an unsafe act or condition, or reinforce a safe act or condition, every day. These interventions are collected electronically and action items logged daily.



**Site Safety Meeting  
JV Driver Fabricators**

To be successful at JV Driver you must believe that no reason exists to put people at risk. We have lived this commitment as we go into our 24<sup>th</sup> year without a Lost Time Incident.

The policies and programs that form part of our world-class safety culture and performance would be implemented quickly at BiFab after an acquisition. This will achieve 2 short term goals:

1. A significant reduction in safety incidents and employee injuries
2. Integration of JV Driver culture and core values at BiFab

# A New Approach to Project Execution

JV Driver's success lies in its ability to safely and productively execute projects through planning, project controls, and effective day-to-day management. JV Driver employs an effective standardized, project management approach that is critical to the success of any project. A well thought out and executed strategy plays a large part in the effectiveness of the construction management function and the ultimate success of a project. The objective of the project management strategy is to establish an organizational framework to efficiently address all of the elements required for a planned outcome.

For an execution team to be successful, it needs to be effective at a number of related functions. The key functions of an execution team include, but are not limited to:

- Integrated involvement at the preconstruction planning phases, to ensure scope clarity and provide input to constructability.
- Specification of project objectives and plans including delineation of scope, budgeting, scheduling, performance requirements, and selecting project participants.
- Maximization of resource utilization through procurement of labour, materials and equipment according to a prescribed schedule and plan.
- Integration of various operations through proper coordination and control of planning, design, estimating, contracting and construction through the entire process.
- Development of effective mechanisms for resolving conflicts among various participants.



**Phoenix, AZ Fabrication Facility – People, Planning, and Tools**  
**JV Driver Fabricators**

## Project Organization

The success of a project is tied to the ability of the Project Team to work together towards the goal of execution excellence. At JV Driver, each major project is led by a Project Manager who is the project's primary point of contact and has complete responsibility for its execution. A Project Manager's foremost responsibility is ensuring compliance with the project Health, Safety and Environmental plan. He or she also reviews and approves design documents, major vendor agreements, equipment requisitions, and trade contracts. A Project Manager oversees the development of the project schedule and staffing plan(s), and ensures alignment between all major functions of the team. Finally, a Project Manager is responsible for developing and implementing the project specific execution plan, managing owner expectations, and overseeing the change management process.

A Project Manager is typically supported by senior personnel in each of the following areas:

- Health, Safety, and Environment
- Engineering
- Construction
- Project Controls
- Quality
- Finance & Costing
- Contract Administration

## Construction Planning

No construction project can be successful without the development and implementation of an execution plan. At JV Driver, we are proud of our ability to plan and implement innovative construction approaches that serve our Core Purpose to "Think Different, Build Better".

### Constructability

When awarded a project, we encourage the Project Team to engage early with the client. This helps to influence and improve overall engineering and project execution before work in the field starts. JV Driver's experience demonstrates that early constructability involvement leads to higher safety, productivity and quality standards. This one-team approach with the client, leads to substantive gains throughout the project.

### Pre-Mobilization

The Project Team reviews all project deliverables prior to starting any work in the field. This practice assesses the status of key deliverables critical to the early success of field construction activities. Key areas of review prior to construction mobilization include:

- Contractual Terms
- Engineering Drawings
- Health, Safety, and Environmental Plans
- Project Controls
- Owner Supplied Materials
- Procurement
- Construction Management
- Subcontracts
- Quality Requirements
- Schedule Milestones

### Project Mobilization Plan

A Project Mobilization Plan details the pre-construction activities necessary to ensure the timely arrival of personnel, construction equipment, and temporary facilities to the project site. It includes scheduled onboarding dates for:

- Key Personnel
- Infrastructure
- Temporary Facilities
- Equipment
- Owned and Supplied Materials

It also considers lay-down, local logistics, security, lodging, and other areas as required. Led by the Construction Manager, members of the Project Team develop the following:

- A detailed schedule to include construction delivery dates and long-lead procurement items
- The construction portion of the Project Execution Plan
- Rigging and heavy lift plans and procedures
- Health, Safety and Environmental plans
- A Responsibility Matrix for all participants of the Construction Team
- Project specific construction procedures

### Workface Planning

JV Driver uses a workface planning system which utilizes Field Installation Work Plans (FIWP) to maximize productivity. An FIWP details the breakdown of tasks in advance of actual work taking place. It outlines the specific labour, materials, permits, equipment, preceding work, special safety considerations, and quality requirements for a scope of work. The intent of a FIWP is to ensure, once issued, that workers have everything needed to complete a task. The removal of %waiting waste+ and rework significantly improves productivity, safety, quality and employee morale.

## Project Controls

Project Controls, in its purest form, is the integration of cost with schedule and progress. Understanding, in real time, where a project is with respect to these three areas is the true indication of Project Health and provides the necessary visibility to manage a project to successful completion. For Project Controls to be effective, the information produced has to be timely, accurate, reliable and integrated. JV Driver uses 3 integrated software platforms in its Project Controls System:

- CMiC (financial ERP) for Project Costing
- Primavera P6 for Scheduling
- Prevail (proprietary software) for Progressing

All 3 software have been integrated electronically to accurately measure project health. Performance data is shared amongst the entire Project Team so areas of success or concern can be identified, leveraged, and/or mitigated. This integrated approach to Project Controls is a key tool used by a Project Team to effectively execute work.

## Cost Management

Project costs are managed by JV Driver's CMiC ERP software. CMiC is used to track and report budgets, actual results, and forecasts for labour, materials, subcontracts and equipment. Progressing data is derived from Prevail to accurately manage productivity factors and forecasts. These 2 software work in tandem to manage:

- Financial Statements and Reporting
- Recruitment, HR, and Payroll
- Job Forecasting and Billing
- Subcontracts
- Contract Management
- Cost Forecasting
- Productivity Reporting

CMiC is a fully integrated cost tracking and accounting system, configured specifically for construction and maintenance work. The system is configured for easy deployment and use in remote locations.

## Primavera P6 Planning Schedule

JV Driver utilizes Primavera P6 as its primary scheduling tool. After contract award, we work with clients to develop an appropriate Level 5 planning schedule. The schedule is updated continuously using data derived from daily field progress reports. The team, led by the Construction Manager, identifies opportunities to advance the schedule and mitigate issues negatively impacting it. The Project Scheduler maintains an updated work plan and three week look-ahead schedule. This schedule becomes a key tool in planning work activities, developing manpower / equipment /

infrastructure plans; identifying available work-fronts; managing bottlenecks; and developing strategies to advance the schedule.

Key aspects of an effective construction schedule include:

- Alignment with various milestone and critical delivery dates
- Focusing on priorities identified by the planning team
- Resource Loading of discipline, key equipment and infrastructure
- Manpower and equipment levelling
- Identification of early start opportunities and available work fronts
- Maintenance and management of float
- Schedule performance index analysis and reporting

## Summary

JV Driver believes heavily in a systematic approach to Project Management. Developing an Integrated Project Team, with a focus on safety and planning, is the core foundation. The goal is to make the health of the project continuously visible to the Project Team, the Client and JV Driver management. Intertwined with this approach is a culture of innovation, with a goal of continuous project execution improvement.

It is our intention to implement this Project Management approach on BiFab's next major project. We will involve Project Management and Project Control professionals from Canada to ensure the implementation of the system is timely and effective. We will likely have insufficient time to implement all of the software and other integrated parts of the system in advance of BiFab's next project. But most importantly, we will start engraining the JV Driver Project Management Philosophy at BiFab to help the company avoid many of the issues encountered during the Beatrice project..















































DFBARNES





**Subject:** RE: Urgent: BiFab and DF Barnes

FM

Cab Sec EJFW

I spoke with [Redacted] today:

- They confirmed BiFab's board of directors will not issue a Notice of Intention to appoint administrators.
- The board are comfortable that efforts are being made by SG to deliver a solution for both the short-term cash flows, and the long-term sustainability of the business.
- The board recognise there is a risk that an agreement will not be reached, and money is not transferred to BiFab.
- On the strength of that comfort, the directors have postponed today's board meeting. The next board meeting is now scheduled to convene on Friday, 23<sup>rd</sup> March, time TBC.

Within this context, the planned call with Mr Brown and BiFab is not necessary. Officials will maintain our ongoing dialogue with [Redacted] and BiFab. If Mr Brown still wishes to speak to [Redacted] we can arrange.

An update will be provided upon completion of HoT.

David

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**From:** [Redacted] **On Behalf Of** Cabinet Secretary for Economy, Jobs and Fair Work  
**Sent:** 20 March 2018 10:10  
**To:** Ritchie D (David) Energy; First Minister; Cabinet Secretary for Economy, Jobs and Fair Work  
**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills; Cabinet Secretary for Finance and the Constitution; Cabinet Secretary for the Rural Economy and Connectivity; Minister for Business, Innovation and Energy; Permanent Secretary; Lord Advocate; DG Economy; DG Scottish Exchequer Mailbox; DG Organisational Development & Operations; Chief Financial Officer; Director of Energy & Climate Change; McAllan M (Mary); Gillespie G (Gary); Sinclair MA (Murray); Pacitti F (Frances); [Redacted]  
Lloyd E (Elizabeth); Maxwell S (Stewart) (Special Adviser)  
**Subject:** RE: Urgent: BiFab and DF Barnes

David,

Mr Brown has noted this update.

Thanks  
[Redacted]

[Redacted]

Deputy Private Secretary to Keith Brown MSP - Cabinet Secretary for Economy, Jobs and Fair Work

The Scottish Government | Web: [www.gov.scot](http://www.gov.scot)

Tel: [Redacted] | Mobile: [Redacted] | Email: [CabSecEJFW@gov.scot](mailto:CabSecEJFW@gov.scot)

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**From:** Ritchie D (David) Energy

**Sent:** 19 March 2018 14:38

**To:** First Minister; Cabinet Secretary for Economy, Jobs and Fair Work

**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills; Cabinet Secretary for Finance and the Constitution; Cabinet Secretary for the Rural Economy and Connectivity; Minister for Business, Innovation and Energy; Permanent Secretary; Lord Advocate; DG Economy; DG Scottish Exchequer Mailbox; DG Organisational Development & Operations; Chief Financial Officer; Director of Energy & Climate Change; McAllan M (Mary); Gillespie G (Gary); Sinclair MA (Murray); Pacitti F (Frances); [Redacted]

Lloyd E (Elizabeth); Maxwell S (Stewart) (Special Adviser)

**Subject:** RE: Urgent: BiFab and DF Barnes

Allen

Officials spoke with the Finance Director and Managing Director at Bifab, and PWC (BiFab's commercial advisers) today. We outlined:

- we reached a deal in principle for Head of Terms with DF Barnes, and are working towards concluding those HoT as quickly as possible;
- [Redacted]
- [Redacted]
- there will be no communications by DF Barnes or SG with interested parties during this phase;
- that we believe this is a material development which Directors should be cognisant of when considering their fiduciary duties and their potential option to trigger a Notice of Intention to appoint administrators; and
- that we will provide a further update once HoT are concluded.

[Red<sup>t</sup> indicated that if HoT were not concluded today, they would recommend another board meeting is convened tomorrow. Within this context, we are arranging a call from Cabinet Secretary EJFW to that board meeting.

This will reinforce the level of commitment from SG and will allow Mr Brown to emphasise the importance of all parties restricting external communications, and a deal being concluded swiftly.

David

---

**From:** First Minister

**Sent:** 19 March 2018 13:53

**To:** Cabinet Secretary for Economy, Jobs and Fair Work; First Minister; Ritchie D (David) Energy

**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills; Cabinet Secretary for Finance and the Constitution; Cabinet Secretary for the Rural Economy and Connectivity; Minister for Business, Innovation and Energy; Permanent Secretary; Lord Advocate; DG Economy; DG Scottish Exchequer Mailbox; DG Organisational Development & Operations; Chief Financial Officer; Director of Energy & Climate Change; McAllan M (Mary); Gillespie G (Gary); Sinclair MA (Murray); Pacitti F (Frances); [Redacted]

Lloyd E (Elizabeth); Maxwell S (Stewart) (Special Adviser)

**Subject:** RE: Urgent: BiFab and DF Barnes

David

The FM has asked if there is an update on this today - ahead of the board meeting.

Thanks

Allen

[Redacted]

Office of the First Minister

Scottish Government

5<sup>TH</sup> floor/St Andrews House/Regent Road

Edinburgh EH1 3DG

Tel [Redacted]

First Minister's preferences can be found at:

<http://intranet/InExec/AboutUs/Ministers/MinisterialPrivateOffices/OfficeOfTheFM>

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**From:** Cabinet Secretary for Economy, Jobs and Fair Work

**Sent:** 18 March 2018 20:40

**To:** First Minister; Ritchie D (David) Energy

**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills; Cabinet Secretary for Finance and the Constitution; Cabinet Secretary for the Rural Economy and Connectivity; Minister for Business, Innovation and Energy; Permanent Secretary; Lord Advocate; DG Economy; DG Scottish Exchequer Mailbox; DG Organisational Development & Operations; Chief Financial Officer; Director of Energy & Climate Change; McAllan M (Mary); Gillespie G (Gary); Sinclair MA (Murray); Pacitti F (Frances); [Redacted]

Lloyd E (Elizabeth); Maxwell S (Stewart) (Special Adviser)

**Subject:** Re: Urgent: BiFab and DF Barnes

Thanks David, Mr Brown is also content.

Simon

Private Office to Keith Brown MSP, Cabinet Secretary for Economy, Jobs and Fair Work

The Scottish Government | Web: [www.gov.scot](http://www.gov.scot)

Mob: [Redacted] | Email: [CabSecEJFW@gov.scot](mailto:CabSecEJFW@gov.scot)

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**From:** First Minister <[firstminister@gov.scot](mailto:firstminister@gov.scot)>

**Sent:** 18 Mar 2018 20:34

**To:** "Ritchie D (David) Energy" <[David.Ritchie@gov.scot](mailto:David.Ritchie@gov.scot)>; "Cabinet Secretary for Economy, Jobs and Fair Work" <[CabSecEJFW@gov.scot](mailto:CabSecEJFW@gov.scot)>

**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills <[DFMCSE@gov.scot](mailto:DFMCSE@gov.scot)>; Cabinet Secretary for Finance and the Constitution <[CabSecFC@gov.scot](mailto:CabSecFC@gov.scot)>; Cabinet Secretary for the Rural Economy and Connectivity <[CabSecREC@gov.scot](mailto:CabSecREC@gov.scot)>; "Minister for Business, Innovation and Energy" <[Ministerbie@gov.scot](mailto:Ministerbie@gov.scot)>; Permanent Secretary <[PermanentSecretary@gov.scot](mailto:PermanentSecretary@gov.scot)>; Lord Advocate <[LordAdvocate@gov.scot](mailto:LordAdvocate@gov.scot)>; DG Economy <[DGEEconomy@gov.scot](mailto:DGEEconomy@gov.scot)>; DG Scottish Exchequer Mailbox <[DGScottishExchequer@gov.scot](mailto:DGScottishExchequer@gov.scot)>; DG Organisational Development & Operations <[DGODO@gov.scot](mailto:DGODO@gov.scot)>; Chief Financial Officer <[cfo@gov.scot](mailto:cfo@gov.scot)>; Director of Energy & Climate Change <[directorofenergyandclimatechange@gov.scot](mailto:directorofenergyandclimatechange@gov.scot)>; "McAllan M (Mary)" <[Mary.McAllan@gov.scot](mailto:Mary.McAllan@gov.scot)>; "Gillespie G (Gary)" <[Gary.Gillespie@gov.scot](mailto:Gary.Gillespie@gov.scot)>; "Sinclair MA (Murray)" <[Murray.Sinclair@gov.scot](mailto:Murray.Sinclair@gov.scot)>; "Pacitti F (Frances)" <[Frances.Pacitti@gov.scot](mailto:Frances.Pacitti@gov.scot)>; [Redacted]

"Lloyd E (Elizabeth)" <[Elizabeth.Lloyd@gov.scot](mailto:Elizabeth.Lloyd@gov.scot)>;

"Maxwell S (Stewart) (Special Adviser)" <[Stewart.Maxwell2@gov.scot](mailto:Stewart.Maxwell2@gov.scot)>

**Subject:** Re: Urgent: BiFab and DF Barnes

David

The First Minister is content to approve the recommendations as set out in the submission.

Many thanks

Nicola

Sent from my BlackBerry 10 smartphone.

---

**From:** Ritchie D (David) Energy

**Sent:** Sunday, 18 March 2018 18:48

**To:** First Minister; Cabinet Secretary for Economy, Jobs and Fair Work

**Cc:** Deputy First Minister and Cabinet Secretary for Education and Skills; Cabinet Secretary for Finance and the Constitution; Cabinet Secretary for the Rural Economy and Connectivity; Minister for Business, Innovation and Energy; Permanent Secretary; Lord Advocate; DG Economy; DG Scottish Exchequer Mailbox; DG Organisational Development & Operations; Chief Financial Officer; Director of Energy & Climate Change; McAllan M (Mary); Gillespie G (Gary); Sinclair MA (Murray); Pacitti F (Frances); [Redacted]

Lloyd E (Elizabeth); Maxwell S (Stewart) (Special Adviser)

**Subject:** Urgent: BiFab and DF Barnes

First Minister

Cabinet Secretary Economy, Jobs & Fair Work

Please find attached submission on BiFab. I would be grateful if this could be considered urgently.

David

---

David Ritchie | Deputy Director | Head of Energy Industries Division | Scottish Government

St Andrew House, Edinburgh | Atlantic Quay, Glasgow  
[david.ritchie@gov.scot](mailto:david.ritchie@gov.scot) | [Redacted]



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Bruce Crawford MSP  
Convener  
Finance and Constitution Committee

[Finance.Constitution@parliament.scot](mailto:Finance.Constitution@parliament.scot)

COMMERCIAL IN CONFIDENCE

17 April 2018,

Mr Bruce Crawford MSP,

I write to inform the Committee about the Scottish Government's ongoing support of Burntisland Fabrications Ltd (BiFab).

In my recent letter to the Committee on 29 March, I took the opportunity to notify you that the Scottish Government had [Redacted] This was on the basis of our expectation that a third party investor would be secured in the near future. I can now confirm that Canadian based JV Drivers, through its subsidiary WREDS Holding Inc, is set to imminently acquire BiFab.

As previously stated, the precise details of the inward investment and associated support package will remain commercially confidential. However, in the spirit of transparency to Parliament, I wish to highlight that the Scottish Government will become a minority shareholder in BiFab. This shareholding could reach up to 38% of the issued share capital of BiFab. By taking such a stake, we are improving the return on our initial investment, and subsequent investments over the longer period.

The Committee should also be aware that once a change of control has been secured, the Scottish Government [Redacted]

This will help secure short term contracts as part of a ten year plan for growth and expansion. This loan will be provided on a commercial basis.

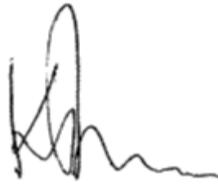
[Redacted]

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I believe our intervention will maintain confidence in an important sector and support the local economy. Our support will also help to create employment and growth in the Scottish economy, which would have been foregone without our support.

As before, I would be grateful if you could please treat the content of this letter in strictest confidence.



**KEITH BROWN**

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
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From: David Ritchie  
Deputy Director Energy Industries  
Division  
18 March 2018

First Minister  
Cabinet Secretary for Economy, Jobs and Fair Work

**IMMEDIATE - COMMERCIALY CONFIDENTIAL – BURNTISLAND  
FABRICATIONS LIMITED AND DF BARNES SERVICES LIMITED**

**Purpose**

1. To provide an update on the proposed acquisition of Burntisland Fabrications Limited (BiFab or the Company) by DF Barnes Services Limited, a subsidiary of the JV Drivers Group (DF Barnes), including proposed support by Scottish Government.
2. To seek your approval to progress Heads of Terms on the terms of support to be provided by SG to DF Barnes, with a view to concluding contracts in the coming weeks. This will incorporate terms for SG equity and debt pre- and post-acquisition, enabling a commercial deal between BiFab and DF Barnes.

**Timing**

3. Urgent.

**Background to the transaction**

4. BiFab is a fabricator of oil and gas and offshore wind structures. It operates from three sites: Burntisland and Methil on the east coast of central Scotland; and Arnish on the Isle of Lewis. At maximum capacity, it has the potential to utilise a workforce in excess of 1,000 individuals across the three sites.
5. The previous majority shareholding of JCE Offshore AB (a Swedish owned investment vehicle) has now been transferred to management, and the shareholding of SSE Venture Capital Limited is also in the process of being transferred to management. The balance of equity is owned by 5 individuals including a director, a non-executive director and 3 investors not directly involved in the running of the business.
6. The Company has a contract with SHL Offshore Contractors BV to provide 26 offshore wind jackets. The Company also has a contract with Siemens to provide two transformer platform jackets. Both contracts are for the Beatrice Offshore Wind development (BOWL). It has no other confirmed contracts at present.

[Redacted]

[Redacted]

8. The two main shareholders agreed to provide convertible loans to the Company:

- SSE Venture Capital Limited – £6,000,000; and
- JCE Offshore AB – £2,000,000.

[Redacted]

## **Public Sector Involvement**

10. Scottish Government's initial intervention in November prevented an insolvency situation materialising.
11. The rationale for our support was to secure the completion of the BOWL contracts, and to deliver a long-term future for fabrication across all three yards operated by BiFab. Both these points had wider strategic importance across Scotland.
12. Our steps have maintained confidence in and the reputation of the Scottish supply chain, an important sector central to Ministers' ambitions for a prosperous transition to a low carbon economy. SG's support has extended some employment that would, without intervention, have been terminated.
13. Prior to the Notice of Intention being lodged, DF Barnes had expressed interest in the acquisition of BiFab, but that acquisition was put at risk by the prospect of an insolvency situation. Ministers' approach has kept DF Barnes engaged, and has now led to them committing to investment in BiFab over the longer term. As a result, the prospects of BiFab securing future contracts has improved. This will realise longer term employment opportunities, and a platform for further diversification into other sectors. The management, knowledge and skill that DF Barnes brings can lead to demonstrable improvement in execution of project delivery.
14. Within this context, there is now a tangible path to expand the scope and remit of BiFab, post-acquisition by DF Barnes. The ambition is not only to service the domestic market but to export this expertise internationally.

## *Recent Developments*

[Redacted]

[Redacted]

17. Without further support BiFab will again be faced with an insolvency situation. It is our understanding that BiFab's directors have expressed concern in relation to their duties around over-trading, and will consider whether to lodge a further notice of intention to appoint administrators at a specially convened board meeting on Monday 19 March 2018. If another notice to appoint administrators were to be triggered, our understanding is that creditors would not be supportive.

[Redacted]

19. It is possible that SHL and other interested parties would acquire the company out of administration for a nominal value, and complete the outstanding work on the remaining BOWL contract.
20. However, it is not assured that completion would be delivered at the BiFab yards, and the prospect of any further employment would be minimal. In the event there was some further employment at BiFab to facilitate completion of BOWL contracts, once complete, the company would most likely be wound up. Our understanding is that SHL nor any of the other interested parties, has any appetite to maintain BiFab as a going concern.
21. The two contracts for which BiFab are currently bidding would not be pursued further. These have a valuation of [Redacted] for Moray East, and [Redacted] for Kincardine. Within this context, the yards would not be utilised for fabrication, and fall into further disrepair. It would be challenging to credibly and/or commercially foresee any further fabrication of scale and strategic value across all three yards going forward.
22. Following discussions with developers, officials and ministers it is understood that the BiFab bids for the Moray East and Kincardine projects are competitive. It

is also our belief that BiFab tenders and prospects of securing contracts would be enhanced if there was an improved balance sheet, particularly with a strong parent company, and that DF Barnes' expertise and project delivery competence would be viewed positively.

*Current Position*

23. DF Barnes has asked for SG support for its acquisition of BiFab, to reflect the changing risk profile associated with acquisition post financial difficulties which came to light in November 2017.

[Redacted]

[Redacted]

*Principles to Inform Heads of Terms*

26. In summary, the main components of the support by SG to DF Barnes to secure its acquisition of BiFab would be:

[ [Redacted]  
R

[Redacted]

[Redacted]  
R

27. Following lengthy commercial negotiation, the principles of SG support were agreed late Friday, 16<sup>th</sup> March, subject to necessary internal and Ministerial approvals being obtained. Our independent commercial advisers [Redacted] and legal advisers [Redacted] closely involved in those negotiations.

28. Given the pace at which matters are progressing, this submission has been drafted in advance of receipt of written confirmation of the advice provided verbally during the course of the negotiation. However, they have clearly advised that the approach to securing this deal has been conducted on a fully commercial basis. The agreed terms represent the best option presently available for ministers to support a long-term future for BiFab as a going concern. The commercial terms provide the best available route for government to mitigate its existing exposure, maximise its ability to recover its initial investment and any further commitments. It has been advised that this is consistent with a Market Economy Investment Principle (MEIP) approach.

#### *Short-Term Sequencing*

29. As outlined, our proposal is to agree Heads of Terms [Redacted]. We believe this can be done early next week. In preparation, we have instructed [Redacted] to draft an amendment to the existing loan agreement.

30. Once Heads of Terms are concluded, we would action [Redacted] to formalise the amended loan agreement with BiFab. This would be the mechanism which enables the [Redacted] to be delivered.  
acte
31. The Directors of BiFab are due to meet at 3pm on Monday, 19<sup>th</sup> March. In order to carry out their fiduciary duties with competence, the Directors will need to be satisfied that they are content to continue to trade and accept more credit. We have agreed with PWC and the Finance Director at BiFab that an update will be provided in advance of the 3pm Board of Directors meeting at BiFab on Monday, 19<sup>th</sup> March.

## Risk

32. To keep the Company solvent and preserve the possibility of acquisition as a going concern, cash is required immediately. As noted, it is proposed that SG release [Redacted] of Heads of Terms [Redacted] Redacted]  
R

[Redacted]

[Redacted]

35. It is also our view that once Heads of Terms are agreed and that all interested parties are aware, BiFab will be in a stronger position to manage their debtors and creditors more effectively. This should mitigate the risk of any creditor placing a cessation of assets and demanding payment in the fear that an insolvency situation is pending.

## *Recovery of Equity*

36. The debt equity conversion ratio and interest rates have been calculated on base assumptions about future performance provided by DF Barnes. There is an inherent risk that performance does not match the projected forecasts.

[Redacted]

[Redacted]

38. This risk has been mitigated by stress testing the forecasts, with base case, low case and high case projections having been considered by our commercial advisers when considering appropriate pricing.

#### *Future Contracts*

39. There is a risk that the Company will be not be successful in securing either the Moray or Kincardine contracts, being the short term contract opportunities which inform the business model.

40. This risk can be mitigated by making draw down of funds under the £10 million restructuring loan facility contingent upon need to progress new contract opportunities.

#### **State Aid Considerations**

41. We considered two methods of public sector support for BiFab:

- Rescue and Restructure (R+R); and
- Market Economy Investment Principle (MEIP).

#### *R+R*

42. R+R can be provided where a company is in distress and the state wishes to provide short term funding to improve liquidity. R+R requires advance referral by the member state (in this case BEIS on behalf of the UK Government) to the EC for approval.

43. Cashflow challenges for BiFab have always been known, though the scale of these challenges have been further exacerbated by cost overruns and delays in conclusion of the BOWL contracts. Without an immediate cash injection, it is understood that the company will go into administration in week beginning 19<sup>th</sup> March.

44. Within this context, the timescales associated with such a referral would exceed the time available to secure funding to alleviate BiFab's current cash flow issues. After discussion with State Aid colleagues, we also concluded that given the sector which BiFab operates within, it is unlikely that the EC would support any R+R intervention.

*MEIP*

45. Our preferred option is to provide support which is MEIP compliant. To demonstrate compliance, the facility must be delivered on a commercial basis. This can be assessed by benchmarking against comparable loan arrangements, the terms offered by alternative finance providers, the commerciality of the specific terms of the investment, project profitability, general market conditions, and terms being progressed through commercial negotiations.
46. The EC has the ability to consider MEIP compatibility and review the use of state resources at a later date. If the EC were to conclude that the principles of MEIP had not been demonstrated, the Company would need to repay funds received, even if that led to its future insolvency.
47. Audit Scotland will also comment on any assessment in the context of regularity, propriety and value for money and has set out its intention to consider the original transaction in November in its audit plan for the 2017-18 annual accounts. This would focus on the use of public funds, and given that the original loan facility and wider deal was discussed in parliament it is clear that they will look at the range of actions the SG took both then and now.

[Redacted]

### **Strategic Case for Government Intervention**

49. If SG do not facilitate further support, the BOWL contract will not be completed and prospects for BiFab to continue as a going concern and secure future contracts would be lost.
50. There would be a call for SG to step in to rescue and operate the company, both for the completion of the BOWL contract and as a going concern. [Redacted]
51. [Redacted]  
There would be considerable losses for all creditors. This would be challenging for all businesses affected, though those worst affected would be a number of small businesses who would likely cease trading in this event.

52. Within this context, the proposed restructuring of the company, equity share SG, and additional loan facility has wider strategic importance. [Redacted]

53. Our intervention will maintain confidence within this industry, while simultaneously supporting the local economies, and the Scottish economy more widely. The Programme for Government sets out a forward-looking economic vision for Scotland. Central to that is the opportunity to seize the economic opportunities of tackling climate change, helping existing industries adapt to future challenges, and to make our economy more competitive, productive, innovative, fair and profitable.

### *Employment*

54. The Scottish Input-Output Model estimates the impact of a plant closure across the wider Scottish economy. This includes the direct (output of the plant), indirect (wider supply chain impacts including suppliers, utilities and services) and induced (consumption effects of the expenditure by workers) in the economy.

55. Focussing on the aggregate results for Scotland, based on the maximum potential total combined employment estimates from Bifab of c1,400 being treated as direct, it is estimated that BiFab operations could support between 2,000 and 3,000 full time equivalent employees in the wider Scottish economy.

56. The provision of a loan facility will deliver short term security for employment that would, without intervention, be terminated. It significantly enhances the possibility of securing future contracts to provide longer term employment opportunities.

### *Strategic Location*

57. The yards from which BiFab operate have characteristics which make them strategic in both their location and infrastructure.

58. The east coast yards are in close proximity to potential offshore wind developments in Scotland, as well as future north sea investment. They have deep water access, and are able to accommodate heavier structures. The quayside configuration also allow for easy barge transfer.

59. The west coast facility is in close proximity to potential offshore wind developments, and can serve future oil and gas investments west of Shetland. The proximity to these markets allow developers to reduce costs and risks from transportation.

60. The location of the yards from which BiFab operate also mean that is an advantageous position to bid for work on decommissioning. Decommissioning

is a £300 million opportunity over the next decade. Scottish Ministers are committed to Scotland capturing as much of this business as possible. The loss of BiFab would compromise Scotland's capacity and capability to take full advantage of these opportunities.

### *Offshore Wind*

61. Offshore wind is a key part of the UK's current energy mix. It generates 5% of UK electricity, and is expected to generate 10% by 2020. By 2030, it has the potential to supply over a third of the UK's power needs.
62. The cost of offshore wind continues to fall. The result of the recent Contracts for Difference (CfD) auction was £57.50 per megawatt hour for capacity delivered in 2023, nearly 50% lower than prices at the last auction in 2015. This will see 10GW constructed by the end of this decade and up to a further 20GW by 2030.
63. It is estimated that Scotland has a future potential of over 7.6GW of offshore wind capacity, with the opportunity to power over 6.3 million homes.

### *Supply chain*

64. The UK has the largest offshore wind market globally, closely followed by Germany and Denmark. Scotland's close proximity to these markets enables our domestic supply chain to also target these markets. The BOWL, Neart na Gaoithe and MORL projects are due to deliver 2GW of power by 2023. This will be followed by the next CfD auction in Spring 2018, for projects due to be built out in 2024/25.
65. In addition to Moary and Kincardine projects which are currently being bid for, NNG, and Hornsea 2 will also be finalising their tier 1 contractors and subcontractors. Other offshore wind projects in France, and oil & gas projects in Scotland will also be contracting over the course of 2018 and 2019. Combined, these provide an opportunity for BiFab/DF Barnes to bid for high value contracts. DF Barnes have also indicated that they would look to place work from their North American base.

### *DF Barnes*

66. DF Barnes proposed a three stage approach to delivering long terms growth for BiFab.
67. The first stage is to re-establish BiFab in its existing markets. This will be delivered by securing capital to operate more effectively and secure new work, by investing in client relationships to mitigate impact of recent performance issues on BiFab's reputation, by supplementing the existing management team with DF Barnes staff, by securing near term Moray and Kincardine contract opportunities in the first instance, and implementing established project management and execution practices from across the JV Drivers group. This is anticipated to take around 2 years.

68. The second stage will be to diversify BiFab's services to include maintenance, fabrication for export, exhaust gas cleaning systems and oil and gas decommissioning. This forms years 3 – 5 of the plan.
69. The third stage is for European expansion by year 10, with specific entry points to be determined closer to implementation.

## Affordability

[Redacted]

## Financial Accounts

71. The loans will be recorded as financial assets and our preference is they charged against Financial Transactions. Once loans are converted to equity they remain as financial assets on the balance sheet.
72. SG would need to formally consider the value of equity stake a minimum of once a year as part of the annual accounts process. If there were events in the intervening period that caused us to reflect on their recoverability then we would write down as we would any other loan.
73. The equity stake will be priced via an agreed formula of company book value. [Redacted] have identified a range of ways this could be done. This will be agreed with all parties following Heads of Terms being concluded.

## Timescales to completion

74. Subject to agreeing more formal heads of terms (w/b 19<sup>th</sup> March), we should be in a position to [Redacted]. This will alleviate the immediate cashflow pressure and remove the immediate threat of administration.
75. Our focus would then switch to finalising a set of commercial terms acceptable for all parties. DF Barnes have indicated that they would like to conclude as soon as possible, and our aim would be to conclude **legal agreements by Friday, 30 March would be prudent.**
76. However, there will be some diligence required by SG and DF Barnes, and within this context we will seek views from [Redacted] on an achievable point to conclude legal agreements.
77. As we approach conclusion we will seek your approval to execute the agreements, outlining the full terms in which ministers are investing.

## Parliamentary Handling

78. In November 2017, Mr Brown notified parliament of SG's commitment to support BiFab. This outlined the process to stabilise the company and the commitment of all interested parties to deliver the Beatrice contract and provide BiFab with an opportunity to continue as a going concern.

79. We recommend that a further statement to parliament is delivered. We will liaise with MPO on timing, and that formal planning for this should only commence once Heads of Terms are agreed between SG and DF Barnes,

## Communications

80. We are in constant dialogue with DF Barnes. We have agreed there will be no communications with any other interested parties over the weekend.

81. We have discussed with Cabinet Secretary EJFW and Chief of Staff, and agreed to now develop a comms plan which will establish our narrative and sequence of engagement. This will include engagement with BiFab and parties who will need reassurance that Scottish Ministers' are extending their commitments to secure delivery of the BOWL contract and enable a long term future for BiFab/DF Barnes.

82. We will also liaise with Private Office and SpAds on opportunities to announce the formal conclusion of the deal with DF Barnes. We recommend that the detailed terms of our agreement between DF Barnes, and the deal between DF Barnes and BiFab are treated as commercially confidential.

## Recommendation

83. That you note:

- i. the content of this submission, and provide approval for officials to proceed to formal Heads of Terms and conclusion of legal contracts;

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84. This advice has been agreed with DG Economy and the Chief Financial Officer.

## David Ritchie

Energy & Climate Change Directorate

[Redac  
ted]

18 March 2017

Restricted - Commercial in Confidence

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Deputy First Minister Cabinet Secretary for Finance & Constitution Cabinet Secretary for Rural Economy & Connectivity Minister for Business, Innovation & Energy					

Permanent Secretary Lord Advocate DG Economy DG Scottish Exchequer DG Organisational Development & Operations Chief Financial Officer Chris Stark Frances Pacitti [Redacted] Gary Gillespie [Redacted] [Redacted]  Caroline Beattie [Redacted] Elizabeth Lloyd Stewart Maxwell
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