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### **FMEL Hulls 801 and 802**

Dear Mr McColl,

I would like to thank you for your letter dated 3rd April 2017 which relates to the New Build Contracts for Vessels 801 and 802 currently under construction at FMEL.

We are somewhat surprised at your response to our correspondence which relates to 2 matters being the Surety Bond and also the Cash Flow acceleration which I will take in turn. It is now clearly understood that you see these matters as linked - which we cannot presently accept without further consideration with, and requiring the adjustment of budgets and project-significant advice to be taken by, our shareholder.

### **Surety Bond**

It is very clear as to what you desire in regard to the Surety Bond. As you are aware we are owned by Scottish Ministers and as such we have to not only consult with our own Board of Directors but also with Scottish Government (Transport Scotland are our Sponsors). CMAL have taken preliminary legal guidance and also there is the Scottish Government Legal Department that advise the Ministers on heavyweight matters such as these. Your indication is that you feel that Scottish Government should step in. However, given we are owned by Scottish Ministers this is effectively "self-insuring" against the potential (small that it may be) that the FMEL fails to complete the Contracts. This, we are advised, would breach rules to which we are subject relating to both procurement and state aid.

### **Cash Flow Acceleration**

As mentioned in my correspondence of 30th March 2017 we advised that this was being considered at this time. That remains the current position. The issue is that CMAL receive "Voted Loans" from Scottish Government and the budgets for 2017/18 were set in December 2016. The cash profile at that stage mirrored the contractual milestones that were agreed with FMEL. You have since indicated 3 additional milestones which, in combination, amounts to £14.55m which in effect is taken from the final balloon payment



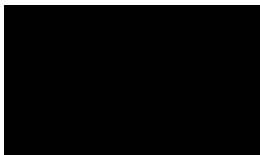
upon delivery of the vessels, which is due in the financial year 2018/19. In very simple terms if the principle was accepted (currently under consideration) then Scottish Government would need to advance CMAL £14.55m during this current financial year to cover those payments. At this juncture that money is not available without the express consent of Scottish Government; which consent we have not received.

To summarise:

Your letters dated 3rd April 2017 and 23rd March 2017 and a briefing paper has been forwarded to Transport Scotland and upwards to Scottish Ministers outlining the requests you have made. This is being considered both in principle and in regard to legal advice and grounds for potential challenge by third parties or regulators.

Once we have advice from Transport Scotland, SGLD and Scottish Government please be reassured we will respond promptly.

Yours faithfully



Kevin Hobbs

**Chief Executive Officer**

for and on behalf of

**Caledonian Maritime Assets Limited**