



Liz Ditchburn
Director General Economy
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

3 August 2019

Dear Liz

Ferguson Marine Engineering Limited ("FMEL") and Ferguson Marine Engineering (Holdings) Limited ("FMEHL") (together the "Group")

HCC International Insurance Company PLC ("HCCI")

Clyde Blowers Capital GP III Ltd ("CBC")

We refer to your letter dated 2 August 2019 (the "**Letter**"), the contents of which are, in the opinion of the directors of FMEL (the "**Directors**"), unclear, confusing and in some areas, factually incorrect. We also take great exception to some of the statements made in the Letter.

The Scottish Ministers have repeatedly reassured the Directors that they are working to pursue and implement a solvent solution for the Group (the "**Solvent Solution**"). We have, on reliance upon such assurances, continued to trade, fully co-operated with the Scottish Ministers in relation to the due diligence exercise (the "**DD Exercise**") and agreed to the extension of the 801 Vessel Bond, all in the genuine belief that the Scottish Ministers would implement the Solvent Solution.

As regards the DD Exercise, you state that you have not been "able to obtain all the information we would expect", suggesting either a lack of co-operation or the absence of financial information. We take great exception to this statement. We have fully co-operated with PwC over the past 5 weeks, fully answered all questions and provided every piece of information and documentation requested of us, including a 5 year cash flow forecast (despite to the assertion otherwise), and have not been advised to the contrary by PwC or any other member of the Scottish Ministers' team.

The Directors now have grave concerns regarding the deliverability of the Solvent Solution by the Scottish Ministers, particularly given that:

1. After a 5 week period, the Scottish Ministers have still failed to provide us with any details of the proposed structure and funding of the Solvent Solution;
2. The Letter makes the Scottish Ministers' intentions unclear regarding delivering the Solvent Solution, and falls short of a firm commitment to do so. Indeed you state that you are unable

to confirm "that executing a solution that maintains FMEL's solvency can be justified at present";

3. The Letter, through many repeated references, also effectively states that any solution proposed by the Scottish Ministers will be dependent on the outcome of discussions with, and support from, all secured creditors and key stakeholders – this is a matter which is entirely outwith the control of the Directors. It is simply not in our gift to deliver;
4. After a 5 week period, the Scottish Ministers have still failed to reach any agreement with the other secured creditors and stakeholders, in particular CBC and HCCI;
5. Specifically in relation to HCCI, not only have the Scottish Ministers failed to reach agreement with them but you have also failed to provide us with an update as to progress of any discussions (as you confirmed you would by close on 2 August). This is notwithstanding that you are fully aware that HCCI may exercise their enforcement rights if agreement with the Scottish Ministers cannot be reached by 6 August, which could ultimately result in the insolvency of FMEL. You state in your Letter that "The solution involving them is however not an absolute requirement of us deploying a solvent solution". Why then are you not in a position to confirm to us the details of the proposed Solvent Solution, absent an agreement between Scottish Ministers and HCCI?

Given that the Directors have absolutely no control over the outcome of any of the Scottish Ministers' discussions with third parties, it is imperative that the Directors obtain absolute clarity and certainty from the Scottish Ministers at a meeting on Monday (which we have requested) that they will deliver an unconditional Solvent Solution in line with the repeated Scottish Ministers' assurances given to date.

Further, we seek confirmation of the following:

1. full details of the Solvent Solution (by means of the purchase of the shares held by CBC in FMELH or otherwise), full details of its implementation and concrete timescales of implementation; and
2. that the Solvent Solution is not fully dependent on agreements being reached with all secured creditors and key stakeholders.

The financial position of FMEL has, over the course of the last 5 weeks significantly tightened and now reached a critical stage. If the Scottish Ministers fail to provide the Directors with the comfort that we require, we will have no option but to take necessary action at the start of next week to protect our own positions and those of the creditors of FMEL.



The Directors simply cannot continue to potentially expose themselves personally on reliance upon assurances from the Scottish Ministers without there being a firm commitment to an unconditional Solvent Solution and a concrete timeline for implementation of the Solvent Solution.

Yours faithfully

[Redacted signature]

Director, Ferguson Marine Engineering Limited