



[Redacted]

[Redacted]
By email

Jim McColl
By email

15 July 2019

Dear [Redacted]

Ferguson Marine Engineering Limited (“FMEL”) and Ferguson Marine Engineering (Holdings) Limited (“FMELH”) (together the “Group”)

Thank you for taking the time to meet with us on Thursday 11th July and your letter of 12th July 2019.

We have considered your proposal to transfer your shares in FMELH to Scottish Ministers immediately while a fair value process by an expert is undertaken, with any consideration for value to be paid at a later date. We are unable to accept this offer for the reasons set out below.

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Transfer of Shares Prior to Agreement of Price

In terms of the proposal contained in your letter of 12th July, we note that you suggest that the shares are transferred with the price left outstanding until such a point as an expert can opine on the fair value of the Group.

I can confirm that this is not a course of action that I could recommend to Ministers as, for the reasons laid out above, we are of the opinion that Ministers are likely to be in deemed receipt of an Obligatory Transfer Event. Furthermore, certainty on such a key variable as purchase price would be expected as part of the financial analysis and advice required to support the decision on a transaction of this nature under the Scottish Public Finance Manual. In fact, we do not consider any party or person would consider entering into such a blind arrangement as a responsible action.

As we have stated repeatedly, given the current circumstances and ongoing due diligence, we do not believe that there is any equity value in the Group. This remains our view and we are not aware of any evidence to suggest otherwise.

CBC Loan

With regards to your proposal to have your £3,000,000 loan to FMELH repaid as part of any transaction, we do not believe there has been any event to trigger repayment of the loan plus, as you are aware, it ranks behind the £15,000,000 Scottish Government loan to FMEL. In such circumstances, we could not recommend a transaction which voluntarily prepaid a subordinated loan in preference to its own preferred debt.

We also believe the value of the business to be significantly below that required to cover the £3,000,000 loan; indeed, without further significant cash injections we believe the business is unable to complete its existing contractual obligations and unable to secure further work.

As a more general point, we have also listened to your requests to be treated fairly. We believe that we have conducted business in a fair and reasonable way, and in line with the contracts between us and that govern this situation. Our current stance and course of action merely reflect our rights under the contract and the commercial reality of the situation.

Timing and Conclusion

The element of your proposal that we do agree with is that speed is of the essence. With this in mind, we believe our position offers the best solution for the creditors and stakeholders of the Group. Our diligence of the business continues. Subject to satisfactory completion of this process, it remains the intention of Scottish Ministers to complete a transaction as quickly as possible and certainly within the time period stated in the Subscription and Shareholders Agreement.

With reference to your letter of 12th July 2019, our current and proposed actions are undertaken purely with the best interests of the creditors and stakeholders of the Group in mind. We trust that you would not be exercising your rights as a secured creditor and/or holder of share warrants merely to attempt to frustrate the situation, and indeed threaten any progress on a solvent solution for the business.

Yours sincerely



LIZ DITCHBURN