

Newark Works
Castle Road
Port Glasgow
Renfrewshire, PA14 5NG



5 July 2019

Liz Ditchburn
Director General Economy
St Andrews House
Regent Road
Edinburgh
EH1 3DG

Dear Liz

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

We refer to your letter addressed to the directors of FMEL and FMELH dated 4 July 2019.

We are continuing to consider the detail in the letter but the directors of FMEL (the “**Directors**”) have an immediate concern in relation to the solvency of FMEL. Given that the Scottish Ministers have now rejected the proposal from Clyde Blowers Capital (“**CBC**”), it would appear that insolvency cannot be avoided unless the Scottish Ministers are both prepared and able to make a solvent rescue of the Group.

The letter states that the Scottish Ministers wish to explore taking the Group into public ownership and that this should alleviate any concerns of the Directors to act in the best interests of creditors. The Directors are keen to explore this solution with the Scottish Ministers.

However, in order to do so, they require a great deal more clarity around what is proposed as it is not immediately apparent how insolvency would be avoided by taking the Group into public ownership. The Directors note that there is no commitment by the Scottish Ministers to proceed with this plan or to inject any funding into the company if they do. There is also a timing issue as you have requested several weeks to consider this solution and in the meantime you are looking for the Group to continue to trade “as normal”.

Accordingly, can you please provide the following information as a matter of urgency:

- (i) confirmation that the price paid for CBC’s shares in FMELH will be “Fair Value” in accordance with the subscription and shareholders’ agreement;

- (ii) how long do you need to complete your diligence and what concerns do you wish to address in carrying out your diligence;
- (iii) what are your plans for the business going forward (and not just the 801 and 802 contracts);
- (iv) how will the Group be funded;
- (v) have you given due consideration to any State aid and other compliance issues in relation to the plan and have you concluded that there will be no barriers in this regard; and
- (vi) the date on which you would anticipate completing the proposal.

As you will appreciate, the Directors require to ensure that the position of the creditors is not in any way worsened by any decision to continue to trade. Accordingly, in order to allow the Scottish Ministers the time that they have requested to explore this option, FMEL will require the Scottish Ministers to provide interim funding to enable FMEL to justify its decision to continue to trade. Can the Scottish Ministers confirm that they are in a position to provide immediate funding to FMEL in order to allow it to continue to trade?

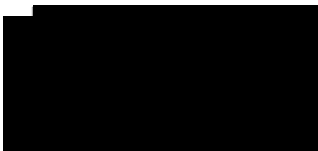
The Directors are currently working with their advisers to quantify the level of funding required. However, this will depend on how long the Scottish Ministers consider it will take to reach a conclusion.

In relation to the request to extend the 801 bond, as you will appreciate, this is inextricably linked to the Directors receiving the clarity on your proposal and the interim funding of the Group. The Directors cannot respond to this request until they have all necessary information.

Given the urgency of the situation, we require that you respond to this letter with the requested information and confirmation of your intention to provide the necessary interim funding by no later than 12pm on Monday 7 July 2019.

We look forward to hearing from you.

Yours faithfully



For and on behalf of the Directors of Ferguson Marine Engineering Ltd and Ferguson Marine Engineering (Holdings) Limited

