Àrd-stiùiriche na h-Eaconomaidh Director-General Economy Liz Ditchburn





Clyde Blowers Capital IM LLP 5 Redwood Crescent Peel Park East Kilbride G74 5PA

By email:

26 June 2019

Dear ,

Following our initial response yesterday to your proposals, we have set out below a summary of some of the key challenges in the written proposal (Proposal) that we see that need to be addressed as a priority.

As we discussed in the meeting on Monday, we have explored several options around similar structures but could not find an MEIP compliant route. In terms of your specific Proposal, we note the following key issues that would need to be addressed before this option could be considered further:

## State Aid considerations

We set out below our understanding of your MEIP basis. We comment, in italics, what we consider to be the key challenges.



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. The Proposal is a better result than other creditors taking action



 This gives comfort that SG/CMAL would not have to deal with "some form of litigation proceedings in the future arising out of the current circumstances"

Scottish Ministers could achieve the aim of no FMEL/CMAL claim by exercising its option to acquire the shares in FMEL Holdings. This would only leave the potential for some form of CBC action against Scottish Ministers not being pursued as the reason for the MEIP case. If this is what is being alluded to, we do not see any basis for such a claim.

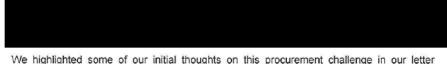
 An alternative would be to take ownership at Fair Value which would have to value the FMEL claim against CMAL.



## Contract modification - Procurement Rules

In addition to the State Aid challenges outlined above, we believe there are also significant challenges posed by the procurement rules.

The Proposal states that the CMAL/FMEL contract is <u>not</u> being amended on the basis that all that is happening is that FMEL is sub-contracting the work to a Newco with the approval of CMAL.



We highlighted some of our initial thoughts on this procurement challenge in our letter yesterday but given the challenges faced by the State Aid considerations, we don't think it beneficial to focus on these procurement challenges until the State Aid challenges can be addressed. We also have other commercial concerns with the Proposal but again don't think it productive or a good use of the current time to look to address any of these points at this stage until the bigger, fundamental State Aid considerations can be addressed.







## Conclusion and proposed next steps

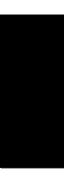
Whilst we want to continue to work with you to explore any potential solutions we consider this Proposal not deliverable for the primary reasons set out above. We will, of course, consider this further if you can provide satisfactory responses to our key concerns. In the meantime, we recognise that it is important for the directors to be conscious of their The directors and CBC are aware that Scottish Ministers will have the right to buy FMEL Holdings to avoid insolvency. directors' duties given the current circumstances.

We are considering this, amongst other options, and therefore think it is sensible for Scottish Ministers and its advisors to work closely with senior management at FMEL to perform further detailed diligence that will require to be undertaken before we could consider taking FMEL into public ownership. Similarly, we think it is important for us to make contingency plans with the FMEL directors across a variety of scenarios given the current position of FMEL and our We therefore request your confirmation that senior management will support in providing the necessary information. position as a secured creditor.

We further would encourage ongoing dialogue with the other secured creditor, the surety bond holders, in order to attempt to achieve the optimal solution for all. We appreciate this is a difficult situation for the directors and CBC and we remain committed to working collaboratively in order to achieve the best outcome for the employees, yard and delivery of our vessels.

We look forward to hearing from you

Yours sincerely



LIZ DITCHBURN





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