



Caledonian Maritime Assets Ltd
Municipal Buildings
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Paul Wheelhouse MSP
Minister for Energy, Connectivity and the Islands
The Scottish Parliament
Edinburgh
EH99 1SP

23 May 2019

Dear Paul

**MV "GLEN SANNOX"
NEWBUILDCON ship building contract with Ferguson Marine Engineering Limited**

As you know, CMAL entered into two ship building contracts with FMEL on 16 October 2015. This letter primarily concerns hull 801, for completeness I shall mention hull 802 in conclusion.

The contractual date of delivery of hull 801, launched as "GLEN SANNOX", was (and remains) 25 May 2018. The contractual date of delivery of hull 802 was (and remains) 26 July 2018.

In August 2018, in consultation with Transport Scotland, CMAL resolved to allow FMEL additional time to complete the first vessel, based on the cardinal dates programme proposed by FMEL in June 2018 showing delivery of "GLEN SANNOX" on 21 June 2019.

In exchange for this concession by CMAL, FMEL was able to arrange an extension to the Surety Bonds (each to the value of £12,125,000) issued under the contracts, provided by an insurance company known as HCCI. The Surety Bond for "GLEN SANNOX" expires on 31 July 2019.

To date only one of the milestones of the revised cardinal dates programmes provided by FMEL in June 2018 has been met and the state of construction of the two vessels has not progressed significantly during the last year.

Furthermore no revised cardinal dates programme has been received from FMEL despite numerous requests made in writing and in discussions since January 2019. We therefore have no current certainty as to when "GLEN SANNOX" shall be completed and believe that under no circumstances will the yard will be able to meet those delivery dates.

Our best estimate at present is that it will take another 12 months to complete hull 801 and perhaps 21 months from now to complete hull 802, assuming that the job is performed by a fully functioning and appropriately manned and managed shipyard.



Please note the foregoing estimates also assume there are no other issues which could result in further delays – including 'as-built' design and installation issues and the time required to commission all the equipment and systems in the vessels, particularly given that the majority of the equipment in the vessels by the time of their commissioning will have been delivered to the shipyard several years ago and sitting idle for so long.

These estimates are in line with ongoing information provided through numerous meetings and consultation with Transport Scotland and Scottish Government.

This letter is however to notify you that at the meeting of the Board of Directors of CMAL held on 21 May 2019, based on above status of completion of "GLEN SANNOX" and hull 802, it was resolved that the Board in order to protect the interests of CMAL has no other option than to cancel the ship building contract for "GLEN SANNOX" and thereafter to seek reimbursement of the secured amount under the Surety Bond from HCCI.

Mindful of the relatively limited time available prior to the expiry of the Surety Bond for the "GLEN SANNOX" contract, the applicable notice periods for first demanding repayment by FMEL and (anticipating failure of such repayment) then from HCCI in turn prior to the expiry date, it was resolved that CMAL should take such steps at the earliest opportunity.

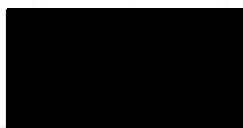
I understand that a notice of cancellation of the "GLEN SANNOX" contract can be given by CMAL to FMEL during the week commencing 24 June 2019.

Please take this letter as advance notice to begin such preparations as the Ministers may consider appropriate in these circumstances.

Finally, in relation to hull 802: in August 2018, in consultation with Transport Scotland, CMAL resolved to allow FMEL additional time to complete that vessel, based on the cardinal dates programme proposed by FMEL in June 2018 showing delivery of hull 802 on 10 March 2020.

The Board of Directors recognises that enforcement events following from a demand against HCCI for satisfaction of the "GLEN SANNOX" Surety Bond may give rise to additional grounds for termination of the contract for hull 802 but (consistent with our earlier grant of time and indulgence) does not seek to cancel that contract on the grounds of late delivery at the present time. However, there are many moving parts here and it may be that as matters develop a claim against the Surety Bond issued in respect of the hull 802 contract may also be possible within a very short period from the claim being made against that issued for the first vessel.

Yours sincerely



Kevin Hobbs
Chief Executive Officer

for and on behalf of
Caledonian Maritime Assets Limited