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Erik Ostergaard
Chairman
Caledonian Maritime Assets Ltd ("CMAL")
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24 March 2018

Dear Erik

'NEWBUILDCON' Standard Newbuilding Contract between the Ferguson Marine Engineering Limited (the "Company") and CMAL dated 16 October 2016 as amended on 2 November 2016 for the construction of a Euro Class B Dual Fuel Passenger Ferry with Builder's Hull Number 801 (the "801 Build Contract")

'NEWBUILDCON' Standard Newbuilding Contract between the Company and CMAL dated 16 October 2016 as amended on 2 November 2016 for the construction of a Euro Class B Dual Fuel Passenger Ferry with Builder's Hull Number 802 (the "802 Build Contract")

I refer to the 801 Build Contract and the 802 Build Contract (together the "**Build Contracts**") and in particular the milestone payments provided for in each of the Build Contracts (the "**Milestone Payments**"), together with the two Refund Guarantees (as defined in each Build Contract) issued by HCC International Insurance Company plc ("**HCCI**") to CMAL on 2 November 2016.

As I believe has been communicated to Kevin Hobbs and Jim Anderson previously, the profile of the Milestone Payments and the security arrangements which have had to be put in place by the Company to allow the issuance of the two Refund Guarantees, is placing untenable working capital pressure upon the Company.

Taking each of these aspects of the Build Contracts in turn:

1. At present, 25% of the contract price for each Build Contract (being £12.125m per vessel) is retained and payable by CMAL on delivery.



Our understanding is that your desire for such a large final payment is to ensure we remain incentivised to achieve the delivery dates. As you are aware, since saving the Ferguson shipyard from administration, the only major contract wins for the Company have been the three vessel orders from CMAL. The success in delivering the vessels under the Build Contracts on time, or indeed ahead of schedule as we did for the Catriona vessel (build contract 727), is imperative to the ongoing success of the Company. Having invested £25.8m to date into the Company, we are therefore already highly incentivised not to default under the Build Contracts. I am also hopeful that following the visit by Kevin Hobbs and Jim Anderson to the yard this morning, that they will be able to give you the required assurances that the build of each vessel is indeed on track to meet the contractual delivery dates.

2. Due to the lack of trading history of the Company, in order for HCCI to issue the two Refund Guarantees in November 2016, in addition to securing all of its physical assets (including the land and buildings), the Company had to put in place cash collateral security of £15.4m. This cash collateral cannot at present be accessed by the Company.

Our view is that these requirements are disproportionate to the benefit which CMAL receives under the Refund Guarantees. Under each of the Build Contracts, CMAL receives title to each of the vessels as they are built. In addition, CMAL is receiving the benefit of any supplier advance payment guarantees. We believe that this should be sufficient protection for CMAL thus removing the requirement for Refund Guarantees.

As noted above, the combination of the foregoing factors is placing untenable cash pressures on the Company. Accordingly on behalf of the Company we would like to request that the board of CMAL consider as a matter of urgency the following specific requests:

Request Number 1:

A reduction in the final milestone payment to 10% (£4.85m) per vessel, with the £15.55m of brought forward payments being rescheduled as follows:

- £5m payable in June 2016 against a new agreed milestone for each vessel;
- an additional¹ £5.0m milestone payment payable on the launch of vessel 801;
- an additional² £4.55m milestone payment payable on the launch of vessel 802.

Request Number 2:

In respect of the two Refund Guarantees either (i) a full release or (ii) a replacement of the current security arrangements provided by the Company to HCCI with an underwrite of the Refund Guarantees by the Scottish Government in favour of HCCI.

¹ This payment would be additional to the current milestone payment due on the launch of vessel 801

² This payment would be additional to the current milestone payment due on the launch of vessel 802



Our request for such amendments to the Build Contracts should be considered against the backdrop of our commitment to re-establish the Ferguson Shipyard in 2014.

We, Clyde Blowers Capital, have invested heavily to establish a modern shipbuilding capability in Port Glasgow. The investment required to do this has been far greater than had been anticipated but notwithstanding this, we have made the investment and fulfilled our obligations in this regard. In doing so we have secured the future capability and skilled employment for the local area. What we are therefore now requesting is that CMAL and the Scottish Government ensure that the delivery of the vessels under the Build Contracts does not place the Company under such cash pressure as to put the future of the Company and the workforce at risk. We remain firm in our belief that it is important for Scotland and in particular the Scottish ferry fleet and therefore CMAL, that a modern competitive shipbuilding capability be retained on the Clyde.

So critical is this issue that I have already briefed the Scottish Government and Transport Scotland in full on this matter and I believe I have their full support for the requests made above.

Due to the momentous importance of this issue to the Company and its workforce, it is essential that I have your outline written commitment to the requests no later than 30 March 2017.

Yours sincerely



James A McColl

Chairman and CEO

c.c Derek Mackay MSP, Cabinet Secretary for Finance and Constitution
 Keith Brown MSP, Cabinet Secretary for the Economy, Jobs and Fair Work
 Humza Yousaf MSP, Minister for Transport and the Islands