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Edward Mountain MSP
Convenor
Rural Economy and Connectivity Committee
Room T.3.60
Scottish Parliament
EH99 1SP

24 March, 2021

Dear Mr Mountain

Ferguson Marine: Annual report for year ending 31 March 2020

I write to provide you with a brief update on the annual report of Ferguson Marine for the year ending 31 March 2020.

Publication of annual report

Since Ferguson Marine was brought into public ownership in December 2019 we have tried to be as transparent as possible, and I have welcomed the opportunities to brief the Committee on the challenges and progress at the yard. On this basis, we had intended to lay the annual report with Parliament ahead of its publication at Companies House, although I understand that for Ferguson this is not a legal requirement. However, with Parliament being in recess from tomorrow, this will not be possible as the accounts will not be finalised before then.

We will proceed with filing the annual report at Companies House and will lay this with Parliament at the earliest opportunity following its recess.

Financial statements

The annual report will contain the financial statements for Ferguson Marine for the year ending 31 March 2020, its first year of trading which included a period where the shipyard was in administration as well as the transaction to bring it into Government ownership. They are therefore unusually complex.

As the accounts are due to be published whilst the Parliament is in recess, I thought it would be helpful to make the Committee aware that the consolidated profit and loss account for Ferguson Marine (Port Glasgow) Holdings Limited will show an accounting loss of approximately £99 million.

This primarily relates to an accounting provision for a loss based on the auditor's view of the contractual arrangements in place at the time the shipyard was brought into public ownership. This represents the loss that would have been incurred if those contractual arrangements had continued, with the contractual payments remaining on the contracts being significantly less than the costs to complete the vessels, and reflects the position communicated to Parliament on 18 December 2019.



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With the yard being brought into public ownership the Scottish Government, working with Ferguson Marine and CMAL, has made some contractual changes to reflect the most appropriate financial arrangements for the project going forward. These changes do not alter the underlying cost position previously announced.

As a result of these contractual changes, the reported loss will not be realised and will therefore be reversed in the accounts for the year ending 31 March 2021 which will show a corresponding profit. Both the 2020 loss and the 2021 profit are simply accounting matters that are not reflective of the underlying performance of the shipyard, and do not have any impact on the estimated costs to complete the ferries.

The total cost to complete the vessels remains unchanged at between £110.3 million and £114.3 million.

2020 was a challenging year for Ferguson. The work required to stabilise the business was always going to make it a demanding time, but the addition of a global pandemic and prolonged shutdown at the yard created a uniquely difficult situation. Despite this, and because of some exceptional efforts, improvements have been made across the business that give a good foundation for completion of the ferries.

Since the Committee visited Ferguson in February 2020 there have been too many changes to list, but I am particularly pleased to see the creation of an engineering function largely made up of permanent employees and working effectively with ICE, our detailed design contractor; the collaboration with CMAL that has resulted in the agreed "design freeze" of 801 giving a stable basis for the work to complete the vessel; the move of inventory from Westway to Greenock and its cleaning and checking; the introduction of proper procurement practices and placing of contracts for the outfit of the vessels; the reintroduction of an apprentice programme and the recruitment of over 100 locally-based workers; and the extensive effort to properly define business processes and make systems work. This level of change in a single year is hardly ever attempted and, although some of our processes do not yet fit together perfectly, a huge amount has been achieved.

We are keenly aware of the importance of the ferries to the island communities which they will serve. We will continue to make every effort to deliver the ferries and to work towards securing a bright and sustainable future for commercial shipbuilding on the Clyde.

Under separate cover, I have sent the first of our quarterly updates for the Committee which has also been submitted early because of the recess, and look forward to continuing to work openly with you and your colleagues when Parliament resumes.

Yours sincerely,



Tim Hair
Turnaround Director