

DAVID MACBRAYNE LIMITED

**MINUTES OF BOARD MEETING HELD AT THE FERRY TERMINAL, GOUROCK,
AT 10.30 P.M. ON WEDNESDAY 10 FEBRUARY 2016**

Present: Mr D C McGibbon, Chairman
Mr Hagan
Mr Stirling
Mr A V Tait
Mr M Dorchester
Mr R L Drummond

In attendance: Mr J Nicholls, Dir. of Aviation, Maritime, Freight and Canals, Transport Scotland
Mr R Hadfield, Scottish Government (Assessor)
Mr C P Paterson, Board Administrator

1. PRELIMINARIES

1.1 Safety moment

Mr McGibbon noted the weather event where the MV Anthem of the Seas, a Royal Caribbean cruise vessel encountered 110 knot winds and heavy seas on a voyage to the Bahamas. Passengers were instructed to stay in their cabins as a safety measure. Only four people were injured out of a complement of 6,000 passengers and 1,500 crew. Mr McGibbon noted that the master had obtained a weather forecast that had apparently been inaccurate and unexpectedly severe and that the decision to sail would be likely to be subject to review by owners.

In a separate observation, Mr Nicholls noted that a CalMac Ferries' master is never subject to any pressure to sail.

Welcome

Mr McGibbon extended a welcome to Mr Nicholls and Mr Hadfield.

Declarations of interest

There were no further declarations of interest, other than those previously made and known to all Directors.

2. MINUTES/MATTERS ARISING

Approve Minutes of Board Meeting held on 30 September 2015

1.4 CHFS2 Bid

It was noted that the Group's shareholder should be more correctly described as Scottish Ministers.

1.7 Wemyss Bay

To correct the commencement date to read 1 October 2015.

Subject to the foregoing amendments, the Minutes for the Board Meeting held on 30 September 2015 were approved.

3. CHAIRMAN'S REMARKS

Mr McGibbon noted that two Non-Executive Directors, Ms Stark and Mr Easton, had resigned on 31 December 2015 and 31 January 2016 respectively . He had spoken to the Minister for Transport and Islands, Derek Mackay MSP, and Transport Scotland and it had been conveyed to Mr McGibbon how much the two Non-Executive Directors' efforts had been appreciated.

Mr McGibbon noted that Ms Stark had been Chairman of both Safety and Audit Committees for more than six years in total and Mr Easton's passion for good safety culture had been very much appreciated.

Mr McGibbon noted that governance would be maintained and that the Committees' membership would be amended. Mr Tait would become Chairman of the Board Audit and Risk Committee and Mr Hagan would join as a new member. Mr Stirling would remain Chairman of the Board Safety Committee and Mr Hagan and Mr Tait would join as members. Mr McGibbon will step down from his role as Chair of the Remuneration Committee after the announcement of the CHFS tender.

Mr McGibbon congratulated Mr Hagan on his appointment to the Board of VisitScotland.

Mr McGibbon noted that the new CHFS2 contract may require different management skill sets to meet its challenges. Mr Tait and Mr Dorchester would be preparing a paper for the Board on potential changes. He noted that the Board was united in meeting the challenges. Mr Nicholls noted that he wished to hear the Non-Executives' views on CHFS2 challenges. Mr Tait noted that a lot of information about CHFS2 had already been provided and that it would be desirable for him and Mr Dorchester to provide a shorter, more concise, paper about potential changes.

Mr McGibbon noted that the meeting's Board Pack paper demonstrated that an overview role of the Marchwood contract by the DML Board Non-Executives was appropriate.

Mr McGibbon also noted that a focus on operational matters by the CFL Board, and on strategy by the DML Board, would offer more structure to group governance and that this approach would be subject to approval by the Boards.

Mr McGibbon noted that, although there had been recent resignations, the complexity of current key and critical issues providing significant challenges meant that the appointment of new Board members at this time would not be of benefit. Mr Hagan agreed with Mr McGibbon. Mr Tait noted that the Board was unified in meeting its challenges and that there were no concerns raised by the current shortfall in Board membership. However the shortfall would be addressed in due course.

Mr Nicholls noted that the Board had been continuing to challenge decisions and strategies where necessary and that there was recognition of the pressure that the management team was under.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr McGibbon noted that Mr Drummond and the Bid Team had put a tremendous effort into the CHFS2 Bid submission.

Mr McGibbon commented on the recent Board Committee meetings which were held at Marchwood Military Port, noting the benefit to the Board in being able to visit the location.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr McGibbon noted that the latest hybrid vessel, MV Catriona, had been launched at Fergusons Marine Engineering Ltd's premises in Port Glasgow on 11 December 2015 and the Cutting of Steel Ceremony for the two new 100M vessel was to be carried out on 16 February 2016.

The Board returned to the matter of appointing two new Board members, with Mr Hadfield endorsing previous remarks by noting that the process would normally take four months and was quite involved. Mr Tait noted the current gender imbalance. Mr McGibbon noted that the previous appointments process had attracted 65 applicants and that only seven of them had been submitted by women.

4. GROUP REPORTS

4.1 GROUP CEO UPDATE

Mr Dorchester presented his report and indicated that he would highlight the main points of interest.

1. ORGANISATIONAL HIGHLIGHTS

1.1 SSE and Quality

Mr Dorchester noted that the STT had been deployed in respect of the MV Clansman incident and that it had provided some valuable lessons.

1.2 Operations

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Dorchester noted that weather patterns had provided huge challenges during the winter season and that 10 named major weather systems had occurred already over the period.

1.3 Commercial

Mr Dorchester noted that lessons learned from the Titan project were being embedded in the Compass system and a future ticketing system procurement process.

Mr Dorchester noted that CalMac Ferries had been the first Company to win a Business Creativity Award at the Arts & Business Scotland Awards 2015 on 3 February 2016.

1.4 Technical

Mr Dorchester noted that the challenges of meeting the overhaul deadline for some vessels was resulting in delayed departures from yards.

1.5 People

Mr Dorchester noted the appointment of Mr Ross Moran to a Network role as Operations General Manager.

2. FUTURE WORKS

2.1 Safety

Mr Dorchester referred to the Safety Strategy Day, held in October. He noted that Mr De Wolff was to bring a paper on it to the Board Safety Committee. Mr Dorchester noted that he would provide further dates for the Board to consider for the next Board Safety Strategy Day.

Action1: Mr Dorchester

Mr Dorchester also noted that on 22 February there would be a feedback review of a Safety Survey recently conducted and invited Board members to attend.

Mr Dorchester noted that the RNLI was one of the few charities that was supported by the Company. He noted that the RNLI's experience of events over recent years had led to a conclusion that the public did not appear to engender sufficient respect for the sea. Mr Stirling noted that there appeared to be a reduction in the number of people understanding the potential hostility of the environment.

Mr Tait noted that an open letter signed by the Chairman could be one way to convey safety priority to the public through news media.

Mr Dorchester noted that he had written to the Chief Executive of the MCA, Mr Alan Massie, to ask if he would consider publicising the MCA's views on changing weather patterns.

2.2 Projects

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

2.2 CMAL

The Board agreed that a further meeting with CMAL should be considered, to offer additional support to them in the new build programme and during the period that two new Directors were being appointed.

2.4 CMAL

The Board and Mr Hadfield discussed options for progressing pension fund reform, noting the Unions' input and position in the matter.

2.6 Business opportunities

Mr Dorchester asked the Board to note forthcoming business opportunities. It was agreed that these prospects were worth considering after the CHFS2 Bid submission.

3. KEY EVENTS and MEETINGS

Mr Dorchester noted that the CRSC excursion to Rothesay was very successful, with more than 60 attendees and a significant management presence.

Mr Dorchester noted that the Minister had been a keynote speaker at the Scottish Passenger Transport Excellence: What's next? Conference in Edinburgh on 2 February and that Mr John Gray, Project Manager for Project ECOSHIP, had also been a speaker.

Mr Dorchester noted that Deputy First Minister and Cabinet Secretary for Finance, Constitution & Economy, Mr John Swinney, MSP, had been a keynote speaker at the One Public Sector Scotland 2016: Achieving Public Services Excellence Conference and that Mr Drummond had also been a speaker.

4. FUTURE PLANNING

Mr Dorchester noted the launch of involvement and debate to help set the agenda for the next Scottish Rural Parliament on 6-8 October 2016, in Brechin, Angus. CalMac Ferries is a sponsor.

Mr Dorchester noted that he would circulate the draft CalMac Promise to the Board. The intention was to draw together key messages, to provide a positive public communication.

Action2: Mr Dorchester

Mr McGibbon noted the very helpful operational reports which supplemented Mr Dorchester's Group Chief Executive's Report.

4.2 GROUP FINANCE UPDATE

Mr Drummond presented his report.

2. Key Group Financial Numbers 9 months to 31 December 2015

Mr Drummond noted that the P&L Account showed a positive variance to plan. The waterfall chart provided an analysis of the variance, including the adverse effect of the farebox revenue result.

Mr Drummond also noted the results showed that there was trending ahead on both CHFS1 and Gourock Dunoon Contracts, a current underspend on CHFS1 contract (which will be reversed) and a Project underspend, partly due to the cessation of Project Titan. The Board noted the waterfall chart, commenting favourably on how it assisted in reviewing the Group Finance update.

3. Group Balance Sheet as at 31 December 2015

Mr Drummond noted the Cash at bank and in hand figure. Mr Tait suggested that it might be useful to have a statement on cash flow.

4. CHFS Contract Year 9

Mr Drummond noted the year to date pre Clawback Operator Return was positive in the amount of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** generating both Clawback and Operator return.

4. Gourock-Dunoon Contract year 5

Mr Drummond noted that the Contract was showing a positive variance after 6months in Year 5.

5. PORTFOLIO UPDATE

Mr Drummond presented his paper.

Mr Drummond noted that Mr Dorchester had already covered Projects Valiant and Titan.

Mr Tait noted that he had attended a PMB meeting and had found it very useful and informative.

The Board noted that the Business Benefits status was mostly rated as Green.

Mr Drummond noted the difficulties in getting specialised resource for projects. Project Veritas is 95% complete and a process to make it operational was being developed.

Mr Dorchester noted that resource had been directed to the Data Room operation. He also noted the value to Board of attending a PMB. Mr McGibbon indicated that he intended to attend the next meeting. Mr Tait noted that the focus was moving away from 'detailed solutions' to 'what would the project deliver'.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

6. FUTURE FOCUS DISCUSSION

6.1 Key Risks over the next 6 months

Mr Dorchester indicated that the report was for noting.

Mr Tait noted that the quality of reporting has now improved. He noted that Mr Singh had been visiting management teams to get better perspective on risk measurement.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Paterson agreed to approach Mr Singh about re-phrasing the two items.

Action3: Mr Paterson

8. ANY OTHER BUSINESS

FRS101 Transition

Mr Drummond presented his paper. He outlined new financial reporting requirements that permitted Group subsidiaries to take advantage of reduced disclosure when preparing financial statements, which would lessen preparation costs. KPMG had advised on the matter. Mr Drummond noted that the impact of adopting FRS101 would not be significant, but it was standard practise to implement it.

The Board carefully considered the matter and Mr Tait and Mr Dorchester agreed to report to the Board in due course on the consequence of reduced disclosure and what it would mean in effect for the Annual Report.

Having given the matter careful consideration, the Board approved Mr Drummond's proposal that David MacBrayne Ltd adopts the FRS101 Reduced Disclosure Framework.

Marchwood update

Mr Dorchester noted that Mr Stirling was involved in a high-level overview role and Ms Bruce was Transition Lead in the Project. Mr Dorchester noted that risk was being regularly reviewed. Conditions Precedent was being focused on by the team. The Contract commencement date of 1 April was considered to be achievable, but there was leeway if any dates slipped. It was noted that the Contract Delivery period was somewhat shorter than the 180 days transition period initially agreed.

Mr Stirling noted that a considerable effort was being expended on delivering the Concession Agreement and in liaising with the MoD. Some aspects of the Agreement were proving to be a challenge and the MoD was working to mitigate them.

The Board discussed the Transition Team making licence applications, obtaining certification and mitigations and how decisions were validated and proved.

Mr Dorchester noted that a Governance Paper had been agreed with GBA on 21 December 2015.

7. ITEMS FOR NOTING / UPDATE

- 7.1 Group Audit & Risk Committee Meeting Minutes 20 January 2016 (tabled)
- 7.2 Safety Committee Meeting Minutes 20 January 2016
Mr Stirling noted that he had not yet received the minutes for approval.
- 7.3 Group Risk Register
- 7.4 Appendices (CEO report supporting papers)

The Board noted the Group Audit & Risk Committee Meeting Minutes, the Group Risk Register and the appendices.

8. ANY OTHER BUSINESS (continued)

6.2 Future structure of Board Meetings

Mr Hagan noted that focus should be brought on producing a paper or deciding on the future Structure of Board Meetings.

Transport Scotland

Mr Hadfield noted that Mr Roy Brannen had been appointed as Chief Executive of Transport Scotland.

Mr Hadfield noted that a refreshed National Transport Strategy had been issued.

MV Hebridean Isles

Mr Stirling noted that the retro fit of the previous propellers to the MV Hebridean Isles had been successfully achieved, after a period with propellers designed to achieve more fuel economy had provided some operational difficulties.

9. NEXT MEETING

10am on Wednesday 22 June 2016 at Gourrock.

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Chairman

DAVID MACBRAYNE LIMITED

MEETING ACTION POINTS

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|------------|---|----|---|---|
| 10.02.2016 | 1 | MD | <u>2.1 Safety</u> | To arrange a further Safety Strategy Day. |
| 10.02.2016 | 2 | MD | <u>4. Future Planning</u> | To circulate the draft 'CalMac Promise'. |
| 10.02.2016 | 3 | CP | <u>6.1 Key Risks over the next 6 months</u> | To re-phrase references to the Scottish Government. |