



**TYNWALD COURT  
OFFICIAL REPORT**

**RECORTYS OIKOIL  
QUAIYL TINVAAL**

**PROCEEDINGS**

**DAALTYN**

**(HANSARD)**

**SELECT COMMITTEE OF TYNWALD  
ON THE  
ISLE OF MAN STEAM PACKET COMPANY**

**BING ER-LHEH TINVAAL MYCHIONE  
SHESHAGHT PHAGGAD BREE ELLAN VANNIN**

**Douglas, Tuesday, 2nd June 2009**

**Members Present:**

Chairman: The Speaker of the House of Keys (Hon. S C Rodan)  
 Mr G D Cregeen, MHK  
 Mr W M Malarkey, MHK  
 Mr J R Turner, MLC  
 Mr G H Waft, MLC

*Clerk:*

Mr L Crellin

*In attendance:*

Prof. A Baird  
 Mr Clive McGreal  
 Mrs Sally Roberts

**Business transacted**

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*The Committee sat in private at 12.41 p.m.*

## Select Committee of Tynwald on the Isle of Man Steam Packet Company

*The Committee sat in public at 11.05 a.m.  
in the Millennium Room,  
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

### Procedural

**The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan):** Welcome to this meeting, which is a public sitting of the Select Committee of Tynwald on the Isle of Man Steam Packet Company, taking evidence in public this morning.

The Committee was first established by Tynwald in June 2007 and reported its findings to Tynwald in November 2008, at which time the Committee ceased to function, its job having been completed.

In February of this year, Tynwald approved the reappointment of the Committee, consisting of the same Members, for the purpose of attending to one outstanding matter, being the Company's accounts for the year ended 31st December 2007, which were unavailable for consideration at the time of the completion of our deliberations. The extended remit of this Committee, therefore, is to take further evidence on the accounts of the Isle of Man Steam Packet Company and to report to the Court by July 2009.

The Company has provided copies of the audited accounts for the Isle of Man Steam Packet Company for the year ended 31st December 2007 and also of the accounts of the parent company, MIOM Ltd. We have also been provided with draft accounts for both the companies for the year ended 31st December 2008.

I would like to begin by introducing my colleagues on the Committee: Mr Waft MLC; Mr Turner MLC; Mr Malarkey MHK; Mr Cregeen MHK. Also, Prof. Alf Baird, who is Head of Maritime Transport Research Institute at Napier University in Edinburgh, acts as a technical adviser to this Committee. We have Mr Les Crellin, the Clerk to the Committee, and also two individuals who have been appointed to assist and advise the Committee: Mr Clive McGreal, Financial Controller of the Treasury; and Mrs Sally Roberts, Financial Management Adviser for Treasury. Our *Hansard* recording is in the hands of the *Hansard* Editor, Ian Faulds.

At this point can I ask everyone to kindly switch off mobile phones to avoid interference with the recording. That completes the preliminaries.

**EVIDENCE OF MR R B M QUAYLE,  
MR M WOODWARD,  
MR D BOGG AND MR G PARSONS**

**The Chairman:** We are pleased to have with us today Mr Mark Woodward and Mr Robert Quayle for the Isle of Man

Steam Packet Company – good morning, gentlemen – and Mr Dyson Bogg and Mr Gordon Parsons for MIOM Ltd.

Before we commence, given that there are a number of witnesses, I shall direct questions in the first instance to Mr Woodward. If, of course, you judge that someone other than yourself, sir, should be answering the question, I would appreciate it if that member of the panel – that witness – would identify themselves before responding. I would also ask that all of us avoid speaking over each other, as this does cause problems for the *Hansard* recording: so it will be an individual question and an individual answer.

Now, if I therefore could ask you, gentlemen, to introduce yourselves and then, Mr Woodward, if you wish to take the opportunity to make some opening preliminary remarks before the Committee asks questions... We appreciate we have given you notice of those questions. You are certainly at liberty to make some opening remarks.

So, Mr Woodward, introductions.

**Mr Quayle:** Can I butt in, Chairman?

As the Chairman of the Company, can I thank you for your invitation to attend before the Select Committee this morning. We are delighted to have the opportunity of clarifying a number of issues and hopefully explaining some of the issues concerning our financial position that are, no doubt, pressing on you. We were very pleased to welcome you on *Mannanan* last week and I think you will see that as an indication of the Company's desire to do the best for the Isle of Man going forward.

I am joined this morning by Mr Woodward – as you know, the Chief Executive – who you have seen before, and we specifically asked Mr Gordon Parsons and Mr Dyson Bogg from Macquarie, and who are representatives of MIOM, to come, because I think they will be in a better position to answer your questions on the financial issues.

But thank you for your invitation.

**The Chairman:** Thank you very much.  
Mr Woodward.

**Mr Woodward:** We have nothing in terms of opening remarks, Mr Chairman, so we are quite content to proceed to questions, if that suits.

**The Chairman:** That is fine, thank you very much.

If I could start by asking this question: the Company's financial statements showed that, for the year 2007, turnover was 13 per cent more than in 2006, and operating expenses increased by 26 per cent over the same year. Could you explain to us what the increases in operating expenses were in 2007 vis-à-vis 2006?

**Mr Woodward:** You are referring to question 1, I think, of the original discussion that we had, and I think we have already given a written answer, which will be there as a matter of record, I am sure, in any addendum to the final report that is put out, I imagine, as a result of this.

**The Chairman:** Yes. I think it would be very helpful if, for the record this morning, you could give us the answer to that particular question. We appreciate you have given us a written form of answer, but I think it would be helpful to have it on the record in *Hansard* also.

**Mr Woodward:** Okay, well, in terms of the operating expenses, there was an increase, as you said, of about £8½

### Procedural

Select Committee of Tynwald on the Isle of Man Steam Packet Company –  
Evidence of Mr R B M Quayle, Mr M Woodward, Mr D Bogg and Mr G Parsons

million and a 13.1 per cent increase in revenue, too.

There were obviously inflationary factors at play in there of around 4 per cent, but there was also a one-off event in terms of *Sea Express One* and the costs thereof; the centenary TT, which was, again, very much a one-off; and, in terms of volumes, the *Sea Express One* collision had an additional insurance cost payment of £200,000 in the year. As a result of her being unavailable, we also incurred another £700,000 on chartering a replacement vessel, which was the *Emeraude France*, for the season.

The TT centenary, obviously, was a very big event, compared to an average year, and we had a high number of additional sailings. We carried, obviously, more passengers and vehicles and we also, as a result, incurred a great deal more costs, both in terms of operational costs and additional fuel costs. Fuel costs, I think we have highlighted, were something like an additional £1.5 million in the year. As a result of the additional traffic, we also paid, of course, additional traffic dues of around £0.6 million, charter costs for additional ships during the TT period of £400,000, and other vessel-related costs of in excess of £½ million.

**The Chairman:** Thank you very much.  
Mr Waft.

**Mr Waft:** Just a supplementary to your question, Mr Chairman.

The Company's draft financial statements for 2008 show that the turnover for 2008 was £1.1 million less than the 2007 2 per cent fall, but the operating costs rose by £3.8 million – 9 per cent. Could you explain what were the deciding factors, other than the rise in the fuel costs, which caused the increase?

**Mr Woodward:** I think you said that, in 2008, the operating costs were £44.7 million, as opposed to £40.8 million in 2007, and turnover was £55 million in 2007 and just under £54 million in 2008. Obviously the TT, which we have already remarked upon, in 2007 was a key point of those additional revenues and, as I mentioned earlier, there were costs associated with that.

Fuel was obviously a major component of the cost base in 2008 and I think, during 2008, fuel prices peaked and that has been something which we made very public. I think our fuel bill went from something like £5.3 million in 2007 to just over £8 million in 2008, so that was obviously a major component of those additional costs which were borne by the Company in that particular year. These are figures which we have, I think, made public before and have made reference to, certainly, as a factor in the profitability of the Company during that period.

**The Chairman:** Thank you.  
Mr Turner.

**Mr Turner:** Thank you, Mr Chairman.

The draft financial accounts for 2008, are they in the format submitted, or have there been any changes since they were submitted to the –

**Mr Woodward:** They are still draft. They have not yet been submitted or audited.

**Mr Turner:** Have there been any changes to them since they were submitted to the Committee?

**Mr Woodward:** Not as I am aware. I may have to come back to you on that point. I can certainly check with our Chief Financial Officer, who is here in the room.

**The Chairman:** Thank you. When would you expect them to be signed off in the final form?

**Mr Woodward:** I think we are hoping for them to be completed before the end of this month.

**The Chairman:** Thank you very much.  
Mr Malarkey.

**Mr Malarkey:** In your written response to question 1, you disclosed that part of the increase of operating expenses for 2007 related to management fees of £2.9 million, which were not incurred in 2006 and which were payable under an operational consultancy agreement. Can you tell me... These do not appear in the 2008, so was this a one-off fee, and for what purpose was the £2.9 million paid?

**Mr Woodward:** I think it may be better if I ask one of my colleagues to answer that particular question.

**Mr Bogg:** Sure, I can answer that. I am Dyson Bogg.

There is a contract between an entity of Macquarie Bank and one of the companies that sits above me, where there are management fees payable of in the order of £1 million per year for the role that Macquarie plays in assisting the business in its strategy. Then there is also an arrangement for performance fees with the investors – the owners of the business – and the difference was due to performance fees during the 2006 year. These were fees paid in 2007.

That was the question, I believe.

**Mr Malarkey:** Yes, well... your fees appear not to be paid in 2006: they do appear again in 2007, and they do not appear again in 2008 –

**Mr Bogg:** Yes.

**Mr Malarkey:** – so, if they are management fees, are they not a yearly fee?

**Mr Bogg:** They are, but the ownership changed in December 2006, so there really were no material fees in 2006 because that arrangement... A subsidiary of Macquarie Bank owned the Steam Packet 100 per cent prior to December 2006.

**Mr Malarkey:** But they do not show in the 2008: can we expect them to show in the 2009, 2010, going forward with the management fees?

**Mr Bogg:** Yes.

**The Chairman:** Thank you.  
Mr Cregeen.

**Mr Cregeen:** On your management fees of £2.9 million, can you explain the purpose of this agreement a bit more fully?

**Mr Bogg:** Sure. The agreement is to assist the business through our roles as directors on the various boards; to assist

with the strategic direction of the business; to assist with the capital structure of the business, the financing of the business. It is to provide project-type assistance, if there are particular opportunities in the business that can be resourced by staff that exist in Macquarie Bank – that is part of the agreement, as well.

I think they are the key areas of assistance for which the shareholders put in place the agreement.

**Mr Cregeen:** Can you give an example of what you would consider as a project for management?

**Mr Bogg:** Sure. A project, for instance, is the refinancing of the lending facilities of the business which, as I think is discussed in the accounts, are due in October 2010. So there is a process that is ongoing, liaising with the lenders around the performance of the business, around what the performance is going to look like over the next 10 or 20 years, and discussions of, therefore, what type of financing can be put in place to support the business.

So that is one example.

**The Chairman:** Thank you.

If I could now turn to the question of dividend payments, the dividend paid by the Isle of Man Steam Packet Company in 2006 and 2007 to its immediate parent, MIOM Ltd, exceeded the amount required by MIOM to repay interest on its borrowing. Can I therefore ask by whom have the dividend payments finally been received?

Mr Woodward.

**Mr Woodward:** The dividend payments ultimately go up to the top group company, which is Steam Packet Group International Holdings Ltd, I believe.

**The Chairman:** Yes. Could you elaborate on that?

**Mr Woodward:** The dividends that you see in the accounts are an amalgam, if you like, of both dividends in terms of money necessary to finance debt repayment, or service debt requirements higher up in the Group, but also true dividends, to some extent, in terms of moneys that are available and returned to shareholders.

**The Chairman:** So can you confirm that, of the £18.4 million dividends paid out of the banking group by MIOM in 2006-07, £15.9 million was received by shareholders of the Group, being NSW Super, CBUS, Number One Super and Macquarie, and that figure was net of the Group costs, including director fees, management fees?

**Mr Woodward:** I think that is correct, Chairman.

**The Chairman:** Thank you very much.

Can I ask what, if any, of their own cash have those particular shareholders, who are essentially pension funds in New South Wales, invested?

**Mr Bogg:** These shareholders invested... I might have to refer back. I think it was £70 million... Yes, £70 million.

**The Chairman:** £70 million.

**Mr Bogg:** Correct.

**The Chairman:** Thank you very much.

The dividends paid by the Steam Packet Company in 2006 and 2007 substantially exceeded profit on ordinary activities after taxation for those years. Why is it necessary for such sizeable dividend payments to be made when interest-only repayments are made by MIOM on its borrowing from Banco Espírito Investimento?

**Mr Bogg:** I think the investment objectives of these Australian – and one Papua New Guinean – pension funds is to receive moderate cash returns on their investment of £70 million over a long period of time. Their investment horizon is, consistent with the User Agreement, ideally perpetually holding the business and continuing to support the business, and in return the investors view it as a steady, stable business that would generate modest but steady dividends to the shareholders. So on an investment of £70 million, I think, as we have outlined in the answer to question 4, the average dividend over the four years 2006, 2007, 2008 and 2009, would be £4 million. So that is a 6 or 7 per cent cash return on their investment.

There is no absolute requirement for returns in any one year. That decision is taken on the basis of what are the requirements of the business for capital going forward and, to the extent that there is excess cash that is not required to either fund the business operations or to service the debt that the business has, then that will be dividended out. So in 2006 and 2007, they were relatively strong years for the financial performance of the business. Likewise, in 2008 and in 2009 very different and more difficult financial performance, and that is the type of, I guess... the ups and downs of returns that the investors would... that is within the range of what they would expect, although probably less than original expectations, but that is a reflection of the current type of times.

**The Chairman:** So no dividends were paid in 2008 and you are not forecasting dividends for 2009 to the shareholders.

**Mr Bogg:** That is correct – dividends in the form of dividends out of the top company to the owners of the business, which are the pension funds.

**Mr Woodward:** Mr Chairman, would it be helpful if I actually read part of the answer – it then being on the public record – on this, because I think it is relevant?

The statement we made earlier is that shareholders and lenders to the Steam Packet were attracted to the essential service nature of the business, a stable regulatory environment and the modestly growing but predictable earning stream underpinned by the Isle of Man economy. These attributes matched the long-term liabilities of pension funds. These pension funds do not require any minimum dividends in any particular year, but do expect a cash return on their investment over time. Annual dividends are therefore made, when possible, in the context of current and forecast cashflow generated by the business. Consistent with this policy, dividends were paid to shareholders by Steam Packet Group International Holdings Ltd, i.e. the top group company, in both 2006 and 2007. No dividends were paid in 2008. No dividends are forecast to be paid in 2009.

**The Chairman:** Thank you very much.

Mr Malarkey.

**Mr Malarkey:** Can I ask where the £70 million went that was paid for... Did it come off the capital loan?

**Mr Bogg:** No, that was paid to Macquarie, who were the owners of the business at the time.

**Mr Malarkey:** It did not come off the debt?

**Mr Bogg:** No.

**Mr Parsons:** No, that was the purchase price – sorry, Gordon Parsons.

It was the purchase price, so the asset was bought and the previous owners were paid that to sell the asset, in the same way any purchase would operate.

**The Chairman:** At 40 per cent of turnover, is the dividend level maintained for 2006-07 a very high figure for the ferry sector, would you say?

**Mr Woodward:** I think, again, Chairman, the most succinct way of dealing with the question would be to read the answer that we had prepared previously, which I believe encapsulates what we are trying to say.

**The Chairman:** Yes, by all means, quite happy for you to do that.

**Mr Woodward:** The dividends paid by the Steam Packet Company to MIOM need to be of a sufficient quantum to satisfy the interest obligations under the facility and other applicable Group costs. The dividends paid to shareholders of Steam Packet Group International Holdings Ltd were £8.4 million in 2006 and £7.6 million in 2007, representing 17 per cent and 14 per cent of turnover. We believe the average annual dividend forecast to be paid to shareholders from 2006 to 2009 of around £4 million is a reasonable return.

**The Chairman:** Thank you.

Can I ask my colleagues if you have any supplementaries arising from that? No?

Just in relation to your statement that dividends need to be of a sufficient quantum to satisfy the interest obligations and other Group costs, would it be fair to say that the high dividends are needed because of the very high purchase price paid for the Steam Packet Company initially, and also in order to cover the additional management fees that the Group's structure requires to be paid throughout its different levels, and this, in fact, dictates a more complex and expensive outcome than would be for a typical undertaking, looking at the Group structure as a whole?

**Mr Woodward:** I think it would be fair to say that the dividends reflect the necessity to service the debt which the Company has. I do not believe that the management fees within that framework are particularly material, so I think by far more the important issue is the ability to service debt – and the dividends are necessary to service that level of debt.

**The Chairman:** We would make the observation that it is a very highly leveraged undertaking and consequently there will be additional management costs because of this

structure. A lot of the dividend is required to finance the costs of that particular structure.

**Mr Woodward:** I do not accept that a lot of that is required. I accept that there is some additional cost and I think it is fair to say we are looking, going forward, at ways in which we can simplify that structure and hence the costs necessary to service that, but certainly the significant part of those dividends is required to service debt, not to pay management fees or other fees that are intra Group.

**The Chairman:** We will perhaps come on to that. Thank you very much.

If I could ask now, the continuing payment of a dividend which exceeds profits earned in the year depletes the shareholder reserves: was a similar level of dividend paid for the year 2008, and is the Company intending to continue with this policy? I think essentially you have answered that, but nonetheless, just for the record.

**Mr Woodward:** I think, again, if I may refer to an answer we gave previously: in 2008, due to high fuel costs, capital expenditure, notwithstanding the *Mannanan* projects, as well as other capital expenditure, and lower passenger, vehicle and freight volumes, there was less cash available for distribution and therefore shareholders received no dividends.

Similarly, due to lower volumes experienced in the current challenging economic environment, we forecast no dividends to be paid in 2009.

**The Chairman:** Mr Malarkey.

**Mr Malarkey:** Yes, on a similar line, then, obviously we do not know what the director fees are, or salaries – we would like to! – did the directors also receive additional income through incentives or fees through the last two or three years, directors of the Company?

**Mr Woodward:** Directors of which company?

**Mr Malarkey:** We could start with the Isle of Man Steam Packet Company Ltd.

**Mr Woodward:** There is a directors' bonus scheme. It is an informal scheme and it depends on results at director level within the Steam Packet. I could not speak to MIOM but I am sure my colleagues could speak at that level.

**Mr Bogg:** I think, in terms of the statutory directors of the business, Gordon Parsons and I receive no... or Macquarie's receives no fees as a result of being directors of the business – as previously discussed, there are fees for the operating consulting agreement – and we are not directors of the boards all the way from the Isle of Man Steam Packet Company through each of the parent companies to the top company.

There are independent directors appointed by the shareholders of the holding company, the top company – Steam Packet Group International Holdings Ltd – and they do receive modest normal directors' fees for non-executive directors, of an immaterial nature to the sums we are talking about.

**Mr Malarkey:** How many companies are you a director of, including...?

**Mr Bogg:** I do not know the exact answer to that question, but it is probably... 11 companies.

**Mr Quayle:** While Mr Bogg is doing his sums –

**Mr Malarkey:** Eleven companies, very impressive.

**Mr Quayle:** – I can assure the Committee that I am only a director of one company. I receive a flat fee for being a non-executive director of the operating company, and my fellow non-executive directors similarly.

**Mr Bogg:** Sorry, I correct that: it is eight companies.

**Mr Cregeen:** Do you get a fee for each one of those through the company?

**Mr Bogg:** I do not get a fee for any of those roles directly as a director, no.

**Mr Cregeen:** Indirectly?

**Mr Bogg:** Through the operating... No, not as a director role. Not for our role as directors.

**Mr Cregeen:** As consultants?

**Mr Bogg:** Yes, we provide services under the operating consulting agreement, which was the one previously discussed, and a subsidiary of Macquarie receives fees for that.

**Mr Parsons:** So the only remuneration is through operating things. No other remuneration comes and Dyson and I receive no remuneration at all as individuals, other than our pay, for being employees of Macquarie Capital.

**Mr Quayle:** Mr Chairman, possibly I could help here.

It is a quite common feature, where a company is providing certain services to another company, including the provision of directorships, the directors very rarely get fees in their capacity as appointed representatives of the company. This is no different.

**The Chairman:** Thank you.

If I could move on, then. The financial statements of the Isle of Man Steam Packet Company show related party transactions with other Group companies: can I ask by whom was the balance of £21,393,000 owed, and what was it for?

**Mr Woodward:** The balance of £21.4 million is owed to the Steam Packet Company by the holding company, Steam Packet Company Limited. This balance is part of a financing structure put in place at the time of the Sea Containers sale of the business to Montagu Private Equity in 2003. It is, therefore, an historic balance to enable cash to flow upstream to service the previous debt structure. This figure has not changed during the period of ownership by the current shareholders.

**The Chairman:** Then, moving on, does the Steam Packet Group Ltd have the means to settle the intra-Group debt of £21.4 million?

**Mr Woodward:** The Steam Packet Group has sufficient assets to enable it to settle the debt in due course.

**The Chairman:** What evidence do you have to substantiate that claim?

**Mr Woodward:** Sorry, can you just explain that question?

**The Chairman:** What evidence do you have to substantiate the claim that the Group has the means to settle that intra-Group debt?

**Mr Parsons:** Operating as directors, we have a fiduciary duty to make sure the Group has an ability to operate the going concerns and settle its debts as they fall due, and therefore that falls just as part of a more general view of settling debts, as part of our directors' duties.

**The Chairman:** Mr Waft.

**Mr Waft:** MIOM Ltd, the intermediate holding company, had equity shareholding funds of £3.7 million at 31st December 2007 which was depleted further by 31st December 2008 after the payment of over £12 million in interest of negative shareholders' funds. In those circumstances, it is necessary to seek additional financial information. Can you do that?

**Mr Parsons:** Sorry?

**The Chairman:** Would you like to just rephrase the question?

**Mr Waft:** Yes. In those circumstances, it is necessary to seek additional financial information as to the financial security of the Group from the parent company. Are you able to provide information regarding the ability of MIOM, to the Group, to meet its interest obligation in 2009 and beyond?

**Mr Bogg:** The business does go through a process of... Clearly, and as I think Gordon outlined, we have an obligation, I understand, that the debts, when they fall due, can be repaid, and part of the regular business planning process we go through does ensure that we are, in fact, comfortable that those debts can be paid when they are due. So we do have that information within the Company. I think providing financial forecasts is something we would have to take away.

**Mr Woodward:** Could I just add, Mr Chairman that, obviously, the issues arising from MIOM are commercially sensitive in their own right and, I believe, completely outwith the remit of this Select Committee, with respect.

**The Chairman:** We note your comment. If we move on, then. Mr Cregeen.

**Mr Cregeen:** Does the Company consider that its Group structure is efficient and assists in keeping operational overheads to the minimum?

**Mr Woodward:** Yes, in a short answer. The legal structure of the Steam Packet is regularly

reviewed and is being so as we sit here today, and I think if there are efficiencies to be enjoyed by improving or simplifying the structure then we will certainly move to take advantage of those, going forward.

**The Chairman:** Mr Turner.

**Mr Turner:** Thank you, Mr Chairman.

So, are the 2008 results likely to bring forward a review of the structure with the objective of reducing –

**Mr Woodward:** I am sorry, Mr Turner, I missed the first bit.

**Mr Turner:** Are the 2008 results likely to bring forward a review of the Group structure, with the objective of reducing the operating costs?

**Mr Woodward:** I think, not necessarily predicated on the 2008 results, but we are certainly looking at means and ways of simplifying the Group structure, which is both efficient and simpler for all to understand and administer.

**Mr Quayle:** Mr Chairman, if I could just add there, to the directors of the Steam Packet Company, the operating company, in a sense, the arrangement above the Company and how our shareholders organise themselves, is not of a great deal of interest to us. Obviously, we have to pay dividends to our shareholders and we are aware that there is a structure above us, but at the same time, from an operating company point of view, we have one set of shareholders to consider and we, as directors, have to consider whether the Isle of Man Steam Packet Company is an operating concern and the availability of finance is a key issue in that. It is a question we ask and satisfy ourselves on.

**The Chairman:** Thank you.

Just turning now to the holding companies and the services that are provided, what services were provided by the holding companies for which management fees were charged?

I appreciate we touched on this in the earlier part of the questioning, but I think we are interested in what return, what the management fees are in fact purchasing from the holding companies, given the complexity of the structure, which is certainly very noteworthy to the Committee.

**Mr Parsons:** If I could say, before we do, I do not think the complexity of the structure *ought* to be noteworthy to the Committee.

**The Chairman:** You do not think it ought to be noteworthy to the Committee?

**Mr Parsons:** No, I do not think it ought to be noteworthy. There is always a –

**The Chairman:** You think it is irrelevant to –

**Mr Parsons:** If I can just finish, the resource involved –

**The Chairman:** Excuse me –

**Mr Parsons:** Sorry.

**The Chairman:** – I am just asking, are you saying it is irrelevant to the Committee?

**Mr Parsons:** I am saying – like Dyson said earlier on – the resource involved in administering the structure is *de minimis*, compared to the resource involved with working with the operating company on the services we provide into the operating company. So I do not... There have just been two or three comments saying this is a very cumbersome structure and that is what is, sort of, eating up a whole load of cost here, and that is just not the case. That is not where the resource is going.

I think, Dyson, if you repeat the answer from earlier on in terms of what we actually do...

**The Chairman:** Could you tell us, then, what services were provided by the holding companies for which the management fees were paid?

**Mr Bogg:** Yes, I think, as outlined in the answer to question 9, the agreement is between Steam Packet Group Holdings Ltd... it is a 10-year agreement with a subsidiary of Macquarie.

The purpose of the agreement is for Macquarie to act as adviser to Steam Packet Group Holdings Ltd, including advising on significant operating decisions, monitoring implementation of such decisions. An example there would be the acquisition of *Manannan*, a very large capital acquisition, something that requires a bunch of people to think about it and throw around ideas on what is the best way to execute this: is this the right vessel, the pros and cons, how much is it going to cost, what benefits can it provide? All those types of things are something that we are actively involved in with the senior management team of the Steam Packet.

Certainly, the annual budgeting process is something we also assist in, being involved in the financing requirements of the business, as previously outlined. One of the examples there is the refinancing of the current lending facilities in October 2010, so we are involved in discussions and assisting the business in discussions with its lenders. Valuations of the Group are required by the holding company and the shareholders. The pension funds need valuations, so we carry out those valuations. Preparing and operating a financial model which goes to satisfying the directors' obligations in the previous point around comfort that the debts can be paid when they are due and also are part of the obligations to the lenders.

We are also involved in the discussions with the regulators and stakeholders, like being available to talk to yourselves on where Macquarie and the shareholders play a role in the business.

**The Chairman:** So Macquarie's is providing services and advice to the Steam Packet Company in return for management fees.

**Mr Bogg:** Correct.

**The Chairman:** The sort of function that one might normally expect a typical company's finance department and senior management board to carry out.

**Mr Parsons:** Can I just say Macquarie operates about

130 companies across the globe. Okay? It is not the only provider of infrastructure services. There are a number of providers of infrastructure services. All of those operating models, where you are trying to bridge between pension fund cash, which is looking for long-term stable businesses, and businesses themselves...

The level of management fee here is standard across that, so these management fees are not exceptional and this is an operating model which happens across the entire infrastructure space, not just Macquarie, but various other infrastructure operators as well, bridging between pension plans and the companies themselves. So I do not think you should view these management fees as abnormal at all.

**The Chairman:** But they are an additional cost burden.

**Mr Parsons:** They are a payment for a service provided that needs to be provided if that pension fund money is going to appropriately find investment homes that allow the Company to then take investment decisions like *Manannan*. It is a standard model we are operating here.

**The Chairman:** Thank you.  
Mr Malarkey.

**Mr Malarkey:** Can I just ask Mr Woodward: is there no way some of this consultation could be done locally, or are you obliged, under the company rules, that you must go through MIOM? Could you not source some of this advice that these fees are taking up and use local resources?

**Mr Woodward:** There is an agreement in place which requires us to consult and to use their services, which was part and –

**Mr Malarkey:** So you have no option and you cannot use local?

**Mr Woodward:** No, it is not something that is within our gift, but that does not mean that it is not something that is of benefit to the Company.

**Mr Quayle:** Chairman, could I perhaps add, being at the receiving end of these services, that I have been involved with the Steam Packet under two previous owners, who were very active investors, and the sort of services we receive from Macquarie are not particularly distinctive from the sort of involvement that those previous active investors had. They obviously get involved in the operation of the Company because they wish to protect their investment.

**The Chairman:** Thank you.  
Mr Cregeen.

**Mr Cregeen:** Would you not consider that, with this structure that you have got of running the Company, it is actually diluting the investment from the pension funds because you are saying that your infrastructure... so the business is actually infrastructure, so the more companies you have in that line is the more that you are getting before it gets to the investor?

**Mr Parsons:** No, I think we have answered that the

number of companies in the line does not impact the cost associated with the services provided, apart from audit fees as you go down to the very *de minimis* cost levels. It is not a function, the number of companies in the line.

**Mr Cregeen:** Is that just your company, or is this across the whole infrastructure business that you are referring to?

**Mr Parsons:** Sorry?

**Mr Cregeen:** You are saying that you are an infrastructure business.

**Mr Parsons:** Yes.

**Mr Cregeen:** Does that just apply to your business or other infrastructure companies as well, this level of company complexity?

**Mr Parsons:** I do not think there is anything abnormal about a corporate structure that has more than one holding company. I do not think there is anything abnormal about that at all.

**Mr Bogg:** I think a thing to add, perhaps, is that one of the many advantages, apart from the direct service provided to the business that we have talked about, is that, as Gordon talked about it, bridging the gap between pension funds that do have a 20, 30, 40-year outlook on wanting to receive yield that is then paid to the pension funds. For them to get comfortable to directly invest in a business, and in fact cut out a lot of other middle people who are normally involved in how much money a pensioner is going to get from, ultimately, businesses that are invested, our role in bridging that gap between pension funds and finding businesses that match the attributes to the pension funds, like a long-term, stable, cashflow-generating business like Steam Packet... enables the business to support investment that would otherwise not be available, I do not think, in the levels that it is.

**Mr Cregeen:** But aren't your £2.9 million management fees... Do you not consider that as quite high, compared to the £4 million return to the shareholders?

**Mr Bogg:** That is an agreement that the shareholders have put in place voluntarily with Macquarie, so in a way that is what they deem as a fair share of the profits. As you can see, there were performance figures associated with 2007 that are not likely to be earned for several years because the performance of the business has deteriorated, given the economic environment. So I would say that the shareholders, in fact, put that arrangement in place because they thought it was a way of them receiving good and reasonable returns over a long period of time, over a 10-year timeframe.

**Mr Cregeen:** Can you just clarify one point: your £2.9 million management fee is an ongoing fee that will be based on the Company, yet you are saying there is very little chance of a dividend being paid for 2009.

**Mr Bogg:** Those fees are paid out of funds that would otherwise have gone as dividends to the business... to the shareholders. So the annual management fee is around £1 million and the rest of those fees were performance fees. So,

on an ongoing basis, there is a payment by the shareholders, effectively, of £1 million a year.

**Mr Cregeen:** As in 2008-09 there is very likely no dividend paid to the shareholders?

**Mr Bogg:** Sorry, the last bit?

**Mr Cregeen:** Sorry, in 2008-09 there is very little likelihood of a dividend being paid to the shareholders' pension fund?

**Mr Bogg:** That is correct, yes.

**The Chairman:** Thank you.  
Mr Turner, a question?

**Mr Turner:** Yes, thank you.

In your written submission to the Committee, you say that one of the tasks for the management reviews is to carry out annual valuations of the Company. Why is that, and are you in a position to inform the Committee of the current estimated value of the Steam Packet Company, and how does it differ from the price paid to acquire the Company from Montagu?

**Mr Bogg:** The first part of the question: why is it required? Because the pension funds have people moving in and out of those pension funds every week or month, or however those pension funds work, so they need to know the value of all the assets in their portfolio of investments and, therefore, that obligation is part of the services that they require.

The valuation... I would need to take that away. I would need to consult with the shareholders on whether that type of confidential information is something that they would like to share, if that is okay.

**The Chairman:** We appreciate that, thank you.  
Mr Cregeen.

**Mr Cregeen:** Can you confirm if the management fees are in your 2008 audited accounts?

**Mr Bogg:** Yes, I believe they are. I would have to double check.

**Mr Parsons:** I think, just to reiterate on the management fees: the management fee agreement is an agreement with the investors in the Company. Okay? So the people who invested the money chose to enter an agreement for these services to be provided. So, insofar as you are in any way worried about any conflict between dividends and management fees, the people who would receive the dividends are the people who chose to enter the agreement for the management fees.

**The Chairman:** Thank you for assisting us in our understanding of the relationship of the various entities within the Group and how they financially relate to each other.

Just turning now to the new vessel and, the Chairman... you made reference at the start of the proceedings to the vessel, and certainly, as one whom you very kindly invited, with others, to the re-naming ceremony, I must say I was very

impressed with your new fastcraft and would congratulate the Company on it.

Can I ask you what was the cost of the new fastcraft, the *Manannan*, and how has this acquisition been financed?

**Mr Woodward:** *Manannan*, we have, I think, fairly publicly said was a £20 million project, and indeed that is pretty much where we have ended up. We did have a vessel acquisition facility, i.e. a loan which was set up at the time when Macquarie purchased the Company from Montagu Private Equity, so there were, specifically, funds put aside, anticipating the purchase of a new fastcraft. That was an amount of £17 million, of which we have drawn down £16.5 million, so the remaining balance between that and the £20 million that we have spent to date has been financed from operational cashflow, i.e. profit.

**The Chairman:** Mr Waft.

**Mr Waft:** Could you give us an indication of who were the lenders of that amount, the facility you have?

**Mr Bogg:** There are five international banks, the lead bank of which is the agent which is mentioned in the documents, which is Banco Espírito Santo, which is a Portuguese bank, and there are four other similar international banking institutions that lent as part of the original acquisition.

**Mr Quayle:** I think the point Mr Waft, as I understand it, is seeking to make, is it is not a different set of bankers from the general bankers.

**Mr Bogg:** No, sorry, it is the same.

**Mr Quayle:** It is the same banking syndicate.

**Mr Bogg:** I think, again, that is one of the advantages of the structure that is in place, that the lenders, as well as the shareholders, are allowed to take, and do in fact take a long-term view on the performance of the business, understanding that there are risks on the business from volume and pricing but there are investment obligations as part of the User Agreement.

So the structure that was put in place, including the financing structure, allowed for certainty of investment to satisfy the User Agreement, albeit as you can see there is some uncertainty and volatility in the year-by-year earnings of the business which result in some volatility in the dividends that go back out to the shareholders. But I think that the availability of a facility like this, agreed up front, provides a lot of assurance to the Company and to the Island that, in fact, those investments are thought of well in advance and are provided for and go part to providing the servicing investment that is required under the User Agreement.

**Mr Waft:** Thank you very much.

**Mr Quayle:** Mr Chairman, you referred to some members of your Committee having seen the vessel. We are conscious that a number of members of your Committee have not seen the vessel – because we did not invite the Committee as such, we invited Members of Tynwald through their departmental responsibilities – but if there are members of your Committee who would like to see it, I am sure we

can arrange to show them around.

**The Chairman:** Thank you very much. That is much appreciated.

What do you anticipate being the working life of the *Manannan*, Mr Woodward?

**Mr Woodward:** I think, from our point of view, we have always said that fast ferries were an unknown quantity, as indeed they were in the early years, but certainly now, if you look at *Snaefell*, which is getting quite elderly but is perfectly serviceable and indeed could be serviceable for a long time if we chose to do that, I do not think that there is any finite life *per se*. Certainly, from our point of view, we would expect *Manannan* to give good service for the next 10, if not 15, years.

**Mr Malarkey:** How old is the *Snaefell*?

**Mr Woodward:** 1991, I believe; perhaps 1992.

**Mr Malarkey:** And *Manannan*?

**Mr Woodward:** 1998.

**Mr Malarkey:** So it is already 10 years old.

**Mr Woodward:** Well, you say 'already 10 years old', Mr Malarkey, but if you have been on the ship, or I am sure when you do go on the ship, you will realise that that is not accurately reflecting the standard or the quality of the ship and in no way is a concern that the ship hull is actually 1998, because the passenger accommodation and all the interior has been extensively refurbished, if not replaced.

**Mr Quayle:** And we do have an obligation, under the User Agreement, Mr Chairman, not to have tonnage that is over 25 years old, so there is an inevitable ceiling to whatever we provide.

**The Chairman:** Thank you very much.

Turning to the next question, could you please explain how the interest rate cap arrangement, which is referred to in the 2007 audited financial statements of the Isle of Man Steam Packet Company, impacted on the financial position of that Company?

**Mr Bogg:** If I can take that question, I think as a very standard process in acquiring businesses, to mitigate the risk that interest rates move up and down, when the debt facilities are put in place then there is a hedging contract that is put in place to effectively fix the interest cost over the period of that facility. So what that means is the business can operate, knowing the annual interest bill that it has and it will not move. So that is what was put in place, and why.

**The Chairman:** Thank you.

Just moving on, then, to the investment levels, reference was made a moment ago to the User Agreement and the cost of the new investment that you have undertaken. Who determined the level of investment of £26 million before 2015, as disclosed in the note on the User Agreement with Isle of Man Government in the Isle of Man Steam Packet 2007 financial statements? Who determined the level of

investment and on what basis was the calculation made?

**Mr Woodward:** Mr Chairman, I think I can answer that, in the sense that you will be aware that the original User Agreement had a number of targets in terms of investment, as well as many other criteria that had to be met by the operating company. That User Agreement has been ratified or amended again on several occasions, the last of which was in December 2004, and obviously approved by Tynwald in each case.

The Department of Transport, on each occasion that we have gone back to them to seek to address certain issues, has, if you like, raised the bar and demanded more in terms of guarantees, service provision, flexibility, investment etc on each occasion. So the Department of Transport are the ones who have actually insisted on the levels of investment that we see going forward, and as part of the most recent amendment to the User Agreement in 2004, the Company was required then to spend £26 million by December 2015, of which £18 million had to be spent by 2012. That £18 million, obviously, has now been spent already with the purchase and refurbishment of *Manannan*, so we are a considerable number of years ahead of those requirements within the Agreement.

**The Chairman:** Thank you.  
Mr Turner.

**Mr Turner:** You said the Department of Transport set those levels. In your written submission, you say it was agreed that the Company was required to spend this amount. What was the basis of coming up with that figure, the £26 million by 2015, £18 million by 2012? What was the basis of that agreement and how were those figures arrived at?

**Mr Woodward:** I am not sure I could speak to the basis from the Department of Transport view of the logic behind those figures, but certainly their view was that, in return for getting us additional requirements under the User Agreement, they wanted also to up the ante in terms of the investment that was required of us and also to bring forward investment.

So the actual mechanics and logic I think would be best answered by the Department of Transport but, obviously, we were in a position to either agree or disagree and ultimately we chose to agree to those terms.

**Mr Turner:** I was going to say presumably the Company... Well, you have stated they have agreed and that is a matter of record. Surely, during those – they would have been quite lengthy – discussions, you queried how those figures were arrived at?

**Mr Woodward:** I think we made the point, during those discussions, that we had a plan in terms of what our long-term business needs were and when we envisaged replacing tonnage and so on and investments that we would have to make: obviously we were able to provide, from our perspective, what the quantum of those investments was likely to be. The Department of Transport have obviously considered those and the figures you see before you are the ones that, in the round, are the ones that were eventually agreed upon by both parties.

**Mr Turner:** Is it fair to say those figures were compromise figures?

**Mr Woodward:** From whose perspective?

**Mr Turner:** From both parties. Was it a negotiated figure?

**Mr Woodward:** I think it was certainly a negotiated figure, yes.

**Mr Quayle:** And approved by Tynwald.

**Mr Woodward:** And approved by Tynwald, yes.

**The Chairman:** Thank you.

Just turning now to the question of the borrowing taken out by MIOM Ltd, a fixed-term borrowing facility of £2,009 million was taken out by MIOM Ltd in 2005, and only the interest has been repaid and the capital amount was repayable in October 2010. MIOM Ltd, does it have any intention of reducing its borrowing requirement by using profits to make some capital sum repayments, either before October 2010 or during the duration of a subsequent credit agreement?

**Mr Bogg:** There is no requirement under the agreement, or intention, to make capital repayments prior to September 2010.

I think, again, stepping back to some of the comments before, the shareholders and the lenders viewed this as an appropriate structure and lending facility at the time that the business was acquired, again reflecting the stable nature of the business and the long-term investment horizon. So the expectation of the lenders and the shareholders was that it was an interest-only facility, in fact a facility that could be increased to provide the investments required under the User Agreement, like *Manannan*, and then that that facility will be refinanced in October 2010. So those discussions are ongoing and where that may end up, in terms of whether it is interest-only or other types of financing arrangements, is a discussion that is ongoing.

**The Chairman:** So can I ask, perhaps, the Steam Packet Company then, how do the Company, or the companies, envisage the borrowing will eventually be repaid?

**Mr Bogg:** It will be repaid by borrowing again from either the existing lenders or other lenders.

**The Chairman:** In 2010?

**Mr Bogg:** Yes.

**The Chairman:** Thank you.

You state it is the current intention of the Steam Packet to use profits to repay the debt over time. We have just said that the current loan facility with the Banco Espírito Investimento needs to be repaid by 2010. Clearly, the profits cannot repay by next year – that would be a physical impossibility – so again I would ask over what period, and how is the capital borrowing eventually to be repaid? Presumably, from the shareholders' point of view and the private equity arrangement, there is always the option to sell on the Steam Packet Company to pay the debt?

**Mr Parsons:** I do not think that is part of the strategy of the investors. The investors are long-term pension funds

looking for long-term stable returns. Again, it is a common practice that businesses have an amount of debt associated with them. There are very few businesses that will be debt free in the way they operate, and businesses can support and sustain a level of debt, so that is a fairly common practice.

Clearly, the world has changed, though, significantly, since last September particularly with the Lehman's collapse but also with the change in the financial world. Therefore, there are far more conversations going on with existing lenders about restructuring debt, and that is part of our conversations now.

So normally the model would be you borrow money and, as Dyson says, that money is able to be refinanced at a future date. That is a very standard practice. At the moment, not just for the Steam Packet but I would say for the vast majority of companies across the world, they will be carrying debt which looks harder to refinance at the moment, given the current state of the market. Therefore, there are conversations going on about restructuring the debt and looking to pay it off over a longer period of time. Those conversations are very common.

They are conversations we are having here with the lenders. The lenders are, at the moment, supportive of those conversations. I would say the level of regulatory uncertainty around the business at the moment is making those conversations much harder than they would otherwise be but, notwithstanding that, those conversations are ongoing, so that will be the likely outcome, in the same way it will be the likely outcome for the vast majority of companies.

**The Chairman:** Thank you.

Mr Malarkey.

**Mr Malarkey:** I am just trying to get my head round it, to be perfectly honest.

The Company cost £210 million. You have paid none of the capital back, only the interest. You have received £70 million back from the pensions, which you have mentioned. You have assets in your accounts of approximately £20 million. It would still leave a debt of about £120 million and you have a User Agreement that runs out in 16 years' time. At the present time, you are paying back £12 million a year in interest. You would have to find another additional £7½ million to clear the debt, or the balance of the £120 million by the year 2025. Is this normal practice?

My worry here is what happens if the User Agreement is not renewed for 2025 and you are not paying off any of the capital?

**Mr Bogg:** I think that the shareholders and lenders entered into the arrangement with the full knowledge of the User Agreement – we have the option to extend the User Agreement in 2026 – and the shareholders and the lenders were perfectly comfortable that the financing arrangements were reasonable in that context.

Notwithstanding everything else, as the Island grows, as the business grows, the earnings of the business are expected to grow modestly and therefore the earnings do grow over time, are expected to grow over time, and the cash the business generates is expected to do so between now and the end of the User Agreement.

**Mr Malarkey:** Would you not agree that the Isle of Man Steam Packet Company is under extreme pressure to fulfil its

obligations through MIOM up the company because of the price that was paid for the Company in the first place?

**Mr Bogg:** I think that, as Gordon articulated, the financing arrangements were put in place at a time, and the shareholders paid a price at a time that was a reasonable price.

I think your point is correct in one sense. As Gordon outlined, the world has changed in terms of the willingness of banks to lend to businesses and generally that willingness has... there is less credit out there and generally the markets are in a lot of difficulty, so are things looking more difficult now going forward than what they were looking forward from a point three years back...?

**Mr Malarkey:** What would you be putting forward as security for the next time you go forward in negotiation? Your collateral in the Company is only £20 million of assets and you are looking for £220 million, or £210 million.

**Mr Bogg:** It is a good bit more than that with *Manannan* now, (*Interjection by Mr Malarkey*) but I take your point.

As collateral, the lending facilities take collateral over all of the assets of the business and that would be the arrangement going forward.

**Mr Malarkey:** Basically we are back to the User Agreement.

**Mr Parsons:** Yes, I think absent the User Agreement here, this business would not be there. Absent the User Agreement, you may not have the ferry service, I think, because there were two ferry companies before who tried to operate and neither of them were really a going concern. So I think we agree that the User Agreement is what provides stability, which attracts pension fund moneys.

**Mr Malarkey:** That is all I wanted to hear.

**Mr Parsons:** Yes.

**The Chairman:** Thank you.  
Mr Turner.

**Mr Turner:** Can I ask, are you confident this facility will be renewed in the light of your October 2010 deadline?

**Mr Bogg:** One point that is creating uncertainty at the moment is the regulatory uncertainty, through inquiries like this Select Committee, through reference to the OFT here. I think what that does is makes the shareholders and the lenders question whether the Government of the Isle of Man is committed to the User Agreement going forward.

As answered in the last question, there is the ability of the business to invest and to have a level of debt and to operate in providing unprofitable services. Providing investment in the business is intrinsically linked to the User Agreement, so if there is increasing doubt around whether the User Agreement, in its current form, is going to continue, as per the contract, then that does create uncertainty. Absent that –

**Mr Turner:** Why would it not continue in its present form? It is in place.

**Mr Parsons:** I just think you have to understand that

the banks we are talking to are somewhat distant from this and they are seeing an awful lot of regulatory scrutiny at the moment. I suppose they would say, 'Well, why is there a Select Committee and an OFT inquiry if, at the end of it, nothing is going to change?' So I do not think you should underestimate the current regulatory scrutiny, the impact that has on our ability to talk to the current investment banks.

**Mr Turner:** Good scrutiny, of course, can be of assistance.

**Mr Parsons:** Absolutely.

**Mr Bogg:** And of benefit and it has been, I think, as Robert and Mark mentioned, an opportunity to talk about the validity of the User Agreement.

We think it is an excellent Agreement that provides tremendous service and investment to the Isle of Man through the Steam Packet. The flip side is that it allows pension funds and lenders to take a long-term view to put a stable capital structure behind the business, but with significant regulatory scrutiny it does make people question – the lenders question – whether there is, in fact, that long-term commitment to the User Agreement. So absent that uncertainty, yes, we are confident that the refinancing will be –

**Mr Quayle:** Mr Chairman, if I can add an Isle of Man perspective to that, I am relieved to hear Mr Turner say that the User Agreement is there and in place and there is no suggestion of change but, obviously, if recommendations from this Select Committee lead to OFT inquiries, which in turn raise the question of caps on fares or reducing freight fares or whatever, when we are actually complying fully with the terms of the User Agreement, which is our sole regulatory framework at the moment, it does raise questions with bankers, with shareholders, and the confidence that is so necessary is undermined.

**The Chairman:** I think, just to be absolutely clear, the Committee, which was charged with scrutinising the fares structure and the reasonableness of fares in that quite detailed remit, has reported and is concluded. This Committee simply was re-formed to receive and look at the accounts for 2007 as a piece of outstanding business. So it is not within our remit, I do not believe, to be making any recommendations and reports of the sort you are suggesting, but clearly it will be a matter for Tynwald to form a view.

I wanted just to ask, from that local perspective, in answer to the question: does the Steam Packet Company feel confident that the facility will be renewed? I am aware, in your written response, you made reference to some of the difficulties regarding the recent recession, passenger volumes and so on. I just want to give you the opportunity to expand on that aspect, particularly year-on-year freight volumes, which we understand are down by over 10 per cent, and vehicle volumes are down by 3 per cent. Clearly that impacts on the business and there is, I know – it has been of interest to the Committee – an aspect of the Fuel Surcharge Agreement comes into this as well. So I just want to give you the opportunity to expand on the recessionary backdrop, which is difficult for everyone, and not least your Company, in terms of that changed financial climate and the renewal of the lending facility that clearly you are going to undertake.

**Mr Woodward:** I think, obviously, we have touched

on the so-called credit crunch and there is no denying that the financial markets have changed out of all recognition in recent times. I think that is making it difficult for all companies, not just the Steam Packet, who have financing arrangements in place or that are due for renewal in the near future. So I do not think there is any discussion or debate about that and I think it has been made quite clear that, certainly, we are in discussion and we expect to conclude those discussions, because, at the end of the day, we have a solid business here and it is a business which is worth preserving and which provides a valuable service to the Isle of Man. So I do not think we have any doubts going forward as regards the Steam Packet Company.

In terms of EBIT and profit and all the other issues which are of concern to the Committee, the Steam Packet has had some very good years in recent times. When we entered the User Agreement, we did so with our eyes open and we were prepared to take the commercial risk. At the time, it was unknown as to whether the future would be good, bad or indifferent. In reality, we have had some bad years and we have had some very good years. I think we are now into a period of, certainly, indifferent and probably bad, going forward for a number of years in terms of carryings.

The freight market is soft, the boom years of the Isle of Man economy, in terms of construction, are probably somewhat behind us now, and passengers, along with most other people on the Isle of Man, probably have less disposable income. We are seeing that, in real terms, in terms of numbers and traffic to the Isle of Man and I suspect that that will impact perhaps even more as we move into the busy summer period, where the predisposition of our passengers changes from being local-based people to perhaps UK-based people, and those are perhaps even harder hit than we are here locally... So we certainly expect to see a worsening of the situation over the summer months, and that obviously has a consequential knock-on effect to our trading throughout the year.

From our point of view, *Manannan* has come at a time when we were hoping that passenger numbers would be continuing to rise and she obviously provides huge capacity which, frankly, we simply do not need now and, on current forecasts, we will not need for many years. Having said that, she will provide a standard and a level of service that passengers here, I think, will become very used to and will appreciate very much indeed, going forward, and we hope that we can fill the boat in due course. We certainly will be doing our best to make sure that we play our part to boost visitor numbers to the Isle of Man. We are the major carrier of tourist traffic to the Isle of Man. We have been for many years, and I think it is important we continue to play that part.

So, yes, I think it is certainly a tough time for all – there is no denying that – and I think the Steam Packet has got a couple of tough years ahead of it – no doubt about that, as well – but I think we remain positive that we have a sound business, that we can continue to grow the market, that we have a product now that will be attractive to both Island residents and visitors and that we move forward on that basis.

**The Chairman:** Thank you very much.  
Mr Waft.

**Mr Waft:** Just for clarification, with regard to refinancing

the loan next year, did you say that conversations had already commenced on that?

**Mr Bogg:** Correct.

**Mr Waft:** So it is an ongoing discussion?

**Mr Bogg:** Yes, I would say it is a normal course to enter into those discussions well in excess of 12 months of those type of facilities.

Perhaps the only thing to add to Mark's comment is that the impact of tougher times will be less dividends, or no dividends, to the shareholders, but the shareholders and the lenders very much took a 20, 30 or 50-year view on the business and said that this business is going to go up and down, like all businesses and economies. But the stability of the User Agreement enables investment decisions to be made for a long period of time and for the business to withstand several years of recessionary times, because they come and go, and the business takes that risk willingly and, in spite of that, invests for the long term and continues to provide the services that... Without the Agreement, those services, those investments, just simply would not be there. It would not be prudent for the directors of the business to continue operating well in excess of profit... a bunch of unprofitable services to make major investments in the teeth of what looks like a very difficult recession coming on, and that is where we hope that that is appreciated as one of the huge advantages of the User Agreement.

The previous point: with refinancing, when effectively the lenders are going to re-look at that commitment, to have the regulatory uncertainty does raise questions in the minds of those lenders about the commitment to the User Agreement. It is encouraging to hear that there is no... Everything we hear is that there is no expectation of that changing, that it is a tremendous service to the Island, but this process of a Select Committee... As you say, it is perfectly reasonable for the business to answer questions and to justify the way it operates its business. It is an essential service part of the business, but that scrutiny, particularly in the form of the OFT, does create significant difficulty, through the uncertainty it creates, for whether the User Agreement is going to be in place for the next 18 years.

**The Chairman:** Mr Cregeen.

**Mr Cregeen:** Would you not agree that, as you have just agreed a new Fuel Surcharge Agreement with the Department of Transport, when you are looking at your annual fare review, that fuel should be taken out of the RPI figure when you are calculating the fares for next year, because it looks like you are getting a double-whammy there? You are getting the Fuel Surcharge Agreement to put on the fare and you are getting it in the RPI as well. Would you not agree, if you took the RPI out of that, it would look a lot fairer to the public than getting two lots of –

**Mr Woodward:** Can I address that, because I think I am aware, from the first Select Committee, that it was obviously a concern I think you raised, Mr Cregeen, at the time and I think there was certainly an element of truth in that. However, the quantum was very small, in terms of the RPI element which related specifically to fuel. However, the new Agreement, which came into effect yesterday, is

RPI adjusted, so there is no double counting in terms of the fuel element.

**Mr Cregeen:** So it has taken it out?

**Mr Woodward:** It has taken it out, yes.

**The Chairman:** Mr Turner.

**Mr Turner:** Would it be helpful to explain the basis of the new Agreement, as it was announced in the press yesterday?

**Mr Woodward:** Yes, I think from some of the criticisms that were made, obviously, in the first Report about the fuel surcharge adjustments – and it is important to understand that the background at the time was that we were attempting to balance the views of our freight customers, who obviously have a longer lead time and are wanting to be in a position where they can actually negotiate with their customers well in advance and give them a degree of certainty over what surcharges are likely to be, and balancing that with the needs of the passengers, who obviously, in an ideal world, would like to see a daily, if not hourly, real-time adjustment in what the actual fuel surcharge should be. So the compromise that was struck, with the full agreement of the Department of Transport at the time, was the old Agreement, which the Select Committee obviously recommended should be terminated in their final Report last year. That was put in place and we have been negotiating a new Agreement.

The new Agreement addresses some of the key concerns of the old one. Primarily, they were the fact that it was not reactive enough, i.e. six months was perhaps too long a period and the new Agreement is reflecting a three-month period, so there has been a degree of compromise there. That has been discussed with both, I understand, the passenger travel bodies and also freight customers, so there seems to be a degree of unanimity on that point as to how appropriate it is, going forward, and I think also that the fuel surcharge model now reflects both forecast-forward prices as well as backwards-looking historic prices so, again, there is an attempt to try and strike a happy balance between the system that we had in place and perhaps what would be an ideal but unworkable-in-the-real-world system. I think the new system which came into effect yesterday strikes a reasonable balance between those two extremes.

**Mr Turner:** And the OFT are happy with this Agreement?

**Mr Woodward:** The OFT were consulted, as were the Department of Transport, obviously, and also the various passenger travel watchdog and freight customers. So all have been consulted and have been part of the Agreement.

**Mr Quayle:** So we are advised by the Department of Transport.

**Mr Woodward:** So we are advised.

**Mr Quayle:** We have not personally consulted them, obviously.

**Mr Woodward:** I should make the point that the

Department of Transport are the ones who undertook to consult on the basis of a model that we had jointly discussed with them.

**Mr Malarkey:** So those who have already paid excessive... are they getting any refunds or...?

**Mr Woodward:** No, Mr Malarkey. The point was made very clearly that the fuel surcharge scheme that was in place was a surcharge which applied at the time of booking, not relevant to the date of travel, so the new scheme applies at the time of booking.

**Mr Cregeen:** Looking back on your website, you have removed the fuel surcharge adjustment on your booking page and amalgamated it into the fee. Is it still going to be on your website, as this fee is included, or...?

**Mr Woodward:** The site price will be inclusive of the fuel surcharge and we will put on additionally what is the surcharge level which is included in those prices. That will be made available to make sure there is still transparency.

You will recall, from the last Select Committee findings, that our original intention and belief was that the fuel surcharge should have been incorporated in prices in the first place, not kept separate. That was a Department of Transport requirement at the time. It was contrary to what we wanted to do and contrary to how we believed was the best way of portraying it, but nevertheless that was what we ended up with, essentially. So we are back now in a position, I think, which is both fair, in the sense that there are no add-ons – people see the price and that is the price they pay – but they are able to understand what the fuel surcharge element of that price is, and that will fluctuate, obviously, going forward as the model kicks in now.

**The Chairman:** Thank you.

I think that brings our broad area of questioning to a conclusion, but I would like to ask our advisers – starting perhaps with you, Prof. Baird – if there are any areas of questioning that you would like to put to the Company representatives.

**Prof. Baird:** Thank you, Mr Speaker.

Mr Bogg or Mr Parsons mentioned that the pension funds invested £70 million in the Company. We understand the loan facility with Banco Espírito is £209 million, which comes to something like £280 million, which we might say is a cash injection, but my recollection is that the Steam Packet was bought from Montagu Private Equity for £240 million. That leaves a difference of £40 million. Can you account for that difference?

**Mr Bogg:** That was the price that the buyer and the seller agreed. They had a different view of value at the time, than those two points in time.

**Prof. Baird:** Yes, but the purchase price was £240 million, yet the injection of capital into the business, if it was £209 million from Banco Espírito plus £70 million from the pension funds, that comes to £280 million.

**Mr Bogg:** I think the purchase, as such, was of the equity of the business, so that the debt that was there stayed the

same. So I would say the analogy there was the ownership of the business, the equity of the business was acquired for £40 million, and then it was reacquired by the current shareholders at £70 million.

**Mr Quayle:** At some time later.

**Mr Bogg:** Some time later, that is correct.

**Prof. Baird:** Just one observation on the management fee, and I understand and appreciate it is not paid every year but if it were to be paid every year, that management fee of about £3 million, that would be, over 10 years, equivalent to sufficient capital to buy a ship. It is just an observation...

**Mr Bogg:** The annual fee that the shareholders pay... The management fees are about £1 million, and then there is... So that is the fixed obligation on an annual basis. The remainder were performance fees, so if it was viewed that the business is growing in value, then a performance fee is paid. The fixed obligation is about £1 million.

**Mr Quayle:** Chairman, I am not sure it is helpful to make a correlation between what might be saved if we did not do certain things and our possibility of buying a ship over 10 years, because the two matters are very distinct and different.

**The Chairman:** Thank you. (*Interjection by Mr Cregeen*)

I will give you an opportunity, Mr Cregeen.  
Mrs Roberts, any questions?

**Mrs Roberts:** No.

**The Chairman:** Mr McGreal?

**Mr McGreal:** No, thank you, Mr Chairman.  
Mr Cregeen.

**Mr Cregeen:** Just one point of clarification then, you said the shareholders are paying you £1 million. Does that actually come from the shareholders paying you, or do you filter that out of the Steam Packet accounts?

**Mr Bogg:** Yes, that probably does require some clarification. It is paid... the profits that the business generates that would normally be paid as dividends, if no management agreement was there, would flow out to the shareholders. So those profits do fund the management fees, and what is left – the excess cash that is left – goes to shareholders.

**Mr Cregeen:** So it is the profits that are financing it, not the shareholders. They are not giving £1 million; they are just receiving less £1 million.

**Mr Parsons:** It is paid out of funds that would otherwise go to the shareholders as dividends.

**Mr Bogg:** It is a bit of one, a bit of the other, I guess, a different way of looking at it.

**Mr Cregeen:** You would not be making money if you

were losing money... If the Company was losing money, then where is your £1 million going to come from? Is that going to be an additional debt to the Company for your management fees?

**Mr Parsons:** Correct.

**Mr Cregeen:** It is an additional debt?

**Mr Bogg:** It is an obligation of the company to pay those fees, yes.

**Mr Parsons:** Which company?

**Mr Bogg:** Of the Steam Packet Group Holdings Ltd, which is the company above MIOM.

**Mr Parsons:** I think the point is that it is not being paid out of Steam Packet Company Ltd, the operating company. If that Company makes a profit, it pays distributions up the line, dividends up the line, and those dividends go up to the top company and that top company then pays Macquarie's management fees, as opposed to paying that money out as a dividend. So if there is no money coming up the line, there is no money with which to pay the management fee.

**Mr Cregeen:** Somebody has got to pay the management fee, though.

**Mr Parsons:** The management fee, then... There is no cash to finance the fee at that stage, so it does not get paid as a cash fee.

**The Chairman:** Mrs Roberts.

**Mrs Roberts:** Mr Chairman, I think there is confusion arising between what we are seeing as having been disclosed in the accounts of Isle of Man Steam Packet, which for 2007 was a management fee of £2.9 million, and not a corresponding payment in the draft 2008 accounts. We appreciate that that management fee is paid up the structure, up the layer of companies, and I *think* you are saying – if you would not mind clarifying – that the £1 million is what Macquarie's is receiving from Steam Packet Group International Holdings from the ultimate... So costs are being taken out in the structure as the payments are going through, but we are understanding that the accounts are bearing a management charge in its operating costs before any dividends are paid out. Dividends from Isle of Man Steam Packet then cover the financing costs and the ultimate dividend to shareholders, but the Isle of Man Steam Packet accounts are showing, to us as readers, that the management fee is coming out of operating costs. So there is some confusion between the £2 million and the £1 million that you are referring to.

**Mr Bogg:** Yes, perhaps we need to just reflect on that and come back with a further explanation, if that is okay.

**Mrs Roberts:** Yes, thank you.

**The Chairman:** Thank you.  
Mr Malarkey, any final supplementary questions?

**Mr Malarkey:** If I could give a final one, through the

Chair... Would you agree with me – I go back to what I was asking before – that Isle of Man Steam Packet Company, who have performed extremely well, does have to perform under pressure because of the price paid by Macquarie in the first place for the Company: is Macquarie happy that the price it paid relates to a good deal?

**Mr Bogg:** The last question first: yes, I think it was a sensible price paid for the business from Montagu Private Equity in 2005.

The first part of the question – does the financing structure put additional stress on the business – I think that the business, as previously scrutinised by the Committee, delivers all its obligations and more, well in excess of the requirements of the User Agreement, so I think it certainly does all that as a first step. Do we think about where does the cash come from to pay the interest on the finance facilities? Certainly. The business performs not as well during tough economic times. Does that occupy more of our time? Yes. So, yes, it does put... It is a consideration that we occupy ourselves with, servicing those obligations of the business.

**Mr Malarkey:** I think the point I am trying to get at is, if we took the User Agreement out of the equation as having a value and got the User Agreement in place without it having a cash value, Macquarie would not have had to pay that type of money for the Company and then the Isle of Man Steam Packet Company would not have been under such heavy pressures financially to repay loan accounts and loan fees going back up. So, basically, it is about putting this value onto the User Agreement which is causing the pressure.

**Mr Parsons:** Sorry, there is an implication in your question that there is something that affects the Isle of Man Steam Packet Company, the way it operates, the way it is behaving, the services it provides. You seem to be implying there is something about the debt further up the Group that is having an impact on that, and I do not think we would accept that at all.

I think our view would be the Company is operating in a full and proper way. It is in compliance with the User Agreement, it is investing above and beyond the level of investment that was required by the User Agreement. So I do not think we accept the implication that somehow the Company is failing to deliver services it ought to because of any financing structure.

**Mr Malarkey:** The Committee has never commented on how well the Isle of Man Steam Packet Company, as a Company, is performing.

**Mr Parsons:** Okay, that is alright.

**Mr Malarkey:** We have never commented on that. I am asking about the financial-pressure question, that possibly the Company would have more flexibility if it did not have so many commitments to fulfil, basically.

**Mr Parsons:** Flexibility to do what?

**Mr Malarkey:** Maybe to introduce more reduced fares, if they wanted to, or anything, or even... I know they are within the Agreement, and it is not the Agreement that is coming into question here. What I am saying is if there was not as

much debt laid upon the whole company, putting pressure all the way down the line: that is normal business.

**Mr Parsons:** To be honest, I do not think that is any different from any other regulated business anywhere in the world. I just think... There is a regulation framework in place. Does that determine the sort of equity that invests, the sort of lending the Company can...? Yes. That is what a regulated business is.

**Mr Malarkey:** Thank you.

**The Chairman:** Mr Turner?

**Mr Turner:** No, Chairman.

**The Chairman:** Mr Waft?

**Mr Waft:** No.

**The Chairman:** Well, gentlemen, that brings our formal questioning to an end, but if there was any final comment, Chairman or Mr Woodward, you would like to make, please take the opportunity to do so.

**Mr Quayle:** Chairman, thank you very much for the good hearing we feel we have had from the Select Committee this morning.

If I may ask, just for my own clarification... I am intrigued, as a student of parliamentary matters, to see Treasury officials sitting with a Select Committee and I just wonder if you could clarify exactly what the relationship is between the Select Committee and the Government. Obviously, we do have contact with the Treasury through the Department of Transport and this sort of thing, and I am just a little intrigued to see that the Treasury are here advising a Select Committee, which is a bit unusual from my perspective.

**The Chairman:** I am quite happy to do so. The individuals who are, as you say, Treasury officials, are here purely in a professional advisory capacity: professional advisers, not Government advisers. There is no connection from a parliamentary investigation and professional accountants who are actually employed by Treasury. I just want to make that perfectly clear.

**Mr Quayle:** I am grateful to you for the reassurance, because we have been explaining to our colleagues that there is total separation between the Tynwald Select Committee and the Government's involvement, and the Government can have no power to tell the Select Committee what to say and nor can you tell the Government what to say!

**The Chairman:** I would want to just emphasise that the advice that has been tendered has been purely professional advice regarding our interpretation of accountancy matters, not matters of policy or direction or anything of that sort.

**Mr Quayle:** We have no disagreement on the quality of advice, Chairman; it was just for clarification.

In conclusion, Chairman, thank you again for your favourable hearing and we obviously look forward to seeing what you have to say. We are busy working at the Steam

Packet Company to provide the best possible service we can to the Isle of Man community and we intend to go on doing that.

**The Chairman:** Thank you very much and, equally, on behalf of the Committee, can I thank you, representatives of MIOM Ltd and the Steam Packet Ltd – Chairman and Chief Executive – very much for the open and forthcoming manner in which you have dealt with the Committee’s questions this morning, but also in terms of the written information and written answers that you provided to certain questions

that we put to you, and for the earlier discussions with our advisers. I would like to put that on the record and thank you very much indeed.

Ladies and gentlemen, that brings the hearing this morning to a conclusion. The Committee will now reflect on the evidence that has been given and it is our intention to make our report to the July sitting of Tynwald. I would like to thank everyone very much for their attendance this morning. Thank you.

*The Committee sat in private at 12.41 p.m.*