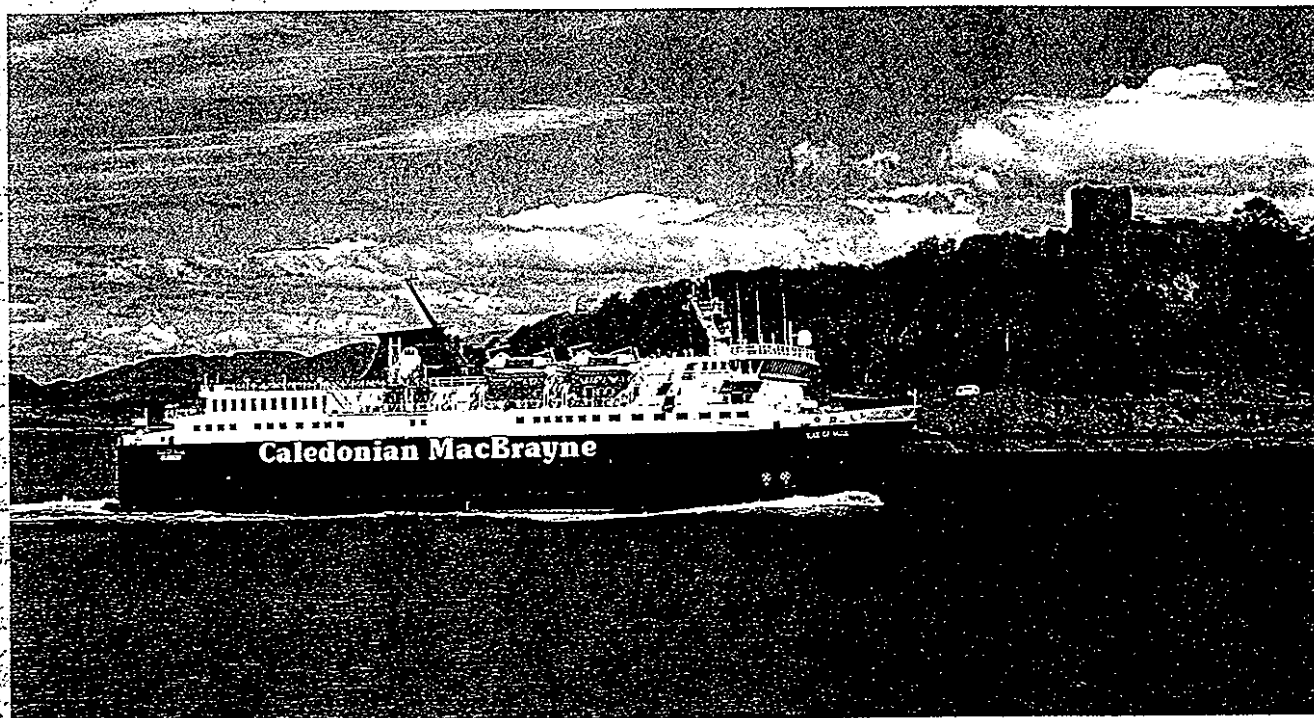


# Caledonian MacBrayne Limited



## ANNUAL REPORT AND ACCOUNTS 1996 - 1997





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**Caledonian MacBrayne**  
Hebridean and Clyde Ferries

Caledonian MacBrayne Limited  
The Ferry Terminal  
Gourock, PA19 1QP  
Telephone: Gourock (01475) 650100  
Fax: (01475) 637607

3 September 1997

The Rt. Hon. Donald Dewar M.P.,  
Secretary of State for Scotland,  
The Scottish Office,  
St. Andrew's House,  
EDINBURGH.  
EH1 3DG

*Dear Secretary of State,*

I submit the Report of Caledonian MacBrayne Limited for the year ended 31 March 1997, together with the Statement of Accounts and a copy of the Auditors' Report thereon dated 25 June 1997 in accordance with Section 8(1) of the Transport Scotland Act 1989.

*Yours sincerely,  
Neil Rankin*

QUALITY  
SCOTLAND



DIRECTORS: Rear Admiral N.E. Rankin C.B., C.B.E. (Chairman), C.S. Paterson C.B.E. (Managing Director), K.M. Duerden,  
Sir Robert Easton C.B.E. D.UNIV., A.M. Gold, S. Grier O.B.E., R.J. McKay, G.V. MacLeod, T.C. McNeill, Mrs. P.A. Ritchie  
COMPANY SECRETARY: G.W. McKENZIE  
REGISTERED OFFICE: The Ferry Terminal, Gourock, PA19 1QP (Registered in Scotland No. 1854)



*Presented to Parliament in pursuance of Section 8(1) of the Transport (Scotland) Act 1989.*

*Prepared for presentation to Parliament on 17 September 1997.*



## Chairman's Statement



*Rear Admiral N. E. Rankin CB, CBE*  
Chairman

I am pleased to report that the year ended 31st March 1997 shows a surplus of £0.2m which, although lower than the previous year, is still commendable bearing in mind that we budget to break-even. It will be noted that in 1996/97 there was a very satisfactory increase in revenue, despite the loss of day trip passenger income due to the poor Summer weather. With higher than expected expenditure in areas of safety, fuel, berthing and traffic dues, as well as the knock-on effect of being directed to sell MV Claymore and in addition being unable to dispose of the Kyle Ferries – all largely beyond our control – the surplus achieved becomes even more commendable. The financial, efficiency and quality targets set by Government have either been met or exceeded, which result reflects creditably the ongoing efforts of our staff to market, develop and fulfil our service commitments. Notwithstanding the adverse effect of the loss of the Kyle service and the ever increasing cost of compliance with safety regulations, this year's subsidy is below that of 1983 in real terms. This, I believe, is an important indication of our increasing efficiency and improvement in performance and the Board is determined to continue this trend. We intend to explore ways of improving revenue through complementary activities outwith the Undertaking but in accordance with the Secretary of State's guidelines. All such initiatives must be seen to stand alone and clearly show that they can generate a surplus and thereby reduce our need for subsidy. An example of this during the year has been the commencement of a five year contract to operate the Ballycastle to Rathlin Island service which will make a worthwhile financial contribution and has also been a useful experience. I hope that we will be encouraged to seek other such opportunities, in order to further the Company's progress. We will ensure that any peripheral activities undertaken do not divert attention from our main core activities – to which they must ultimately contribute – and, above all, that they support our drive for greater efficiency. It is particularly pleasing, as will be seen in detail in the Review of Activities, that even following a very successful year in 1995/96 we have still shown growth in all main areas. I foresee no reason why this trend should not continue into 1997/98, in support of which we will maintain an aggressive marketing stance. Last year my predecessor remarked on the Scottish Tourist Board's decision to place greater emphasis on the English market and this is helping to improve Scottish tourism figures generally; it is a policy which Caledonian MacBrayne has been promoting for many years and is enabling us to boost our traffic. Over 70% of visitors to Scotland travel by car and this figure is expected to increase; our aim is that they should visit at least one of the islands we serve. Much of the growth attained this year is due to our own marketing strategy, where we concentrate on promotion rather than pure advertising through our extensive exhibition programme both in the UK and overseas, and by increasing the deployment of our exhibition trailer. In June 1996, MV Loch Bhrusda inaugurated the Sound of Harris crossing between Leverburgh and Ottemish and soon validated the "new ferry effect" in terms of usage and carryings, both in support of Islanders' lifeline services and of tourism in the Western Isles with overall more traffic being carried than previously over the triangle service. Our latest vessel, the 24-car MV Loch Aline built by Buckie

Shipyards Ltd., came into service in June 1997 on the Fishnish/Lochaline service. The cascade effect from this new vessel also benefits the Largs/Cumbræ Slip service, where MV Isle of Cumbræ now provides a greater vehicle capacity, and the Sconser/Raasay service where a 12-car ferry (ex Largs/Cumbræ Slip) has been introduced. Finally, we signed a contract with Appledore Shipbuilders of North Devon for a new major vessel for the Oban/Castlebay/Lochboisdale and Oban/Coll/Tiree services which is due for delivery in April 1998.

I firmly believe it is essential for the Company's long term health that the policy of timely vessel and infrastructure replacement be maintained as the best way of ensuring continued growth in carryings and related subsidy reduction. Additional finance is needed to support the placing of an order for a further major vessel before the end of 1997 (to replace MV Claymore), otherwise we will not have a reserve vessel after 1999. Additionally, in order to improve safety and bring the Fleet up to modern standards we would wish to bring forward the replacement of MV Lochmor, the Small Isles vessel, and in each of the next 3 years replace two of the existing Island Class vessels. Finally, it would be sensible to proceed soon with the proposed Sound of Barra service, as preliminary studies show there to be a clear economic, financial and operational advantage in so doing.

Safety within the Company is our highest priority and, in this respect, I am pleased to report that there were no significant safety incidents this year. We have achieved International Safety Management certification for all our vessels in advance of regulatory requirements and have also received accreditation for ISO9002, which reflects the Company's commitment to improving management systems and safety procedures. All our staff are to be congratulated for their extra effort in obtaining this recognition.

With specific reference to safety measures, we are currently engaged in an on-going high expenditure programme to comply fully with all current legislation from our regulatory bodies, the Marine Safety Agency (MSA) and Lloyds as far as the UK is concerned, and the International Maritime Organisation world-wide. The MV Isle of Lewis was the first UK flagged vessel to comply fully with Solas 95 requirements. Appreciative of the need to ensure that all our vessels operate safely, we adopted the option of tank testing offered by the Stockholm agreement and demonstrated to the MSA that our vessels meet the stability requirements of the legislation without any structural alterations, thereby avoiding capital expenditure estimated at £58m. Notwithstanding the continued absence of guidelines for Public Sector bodies, the Board has reviewed its Corporate Governance procedures and implemented changes where necessary.

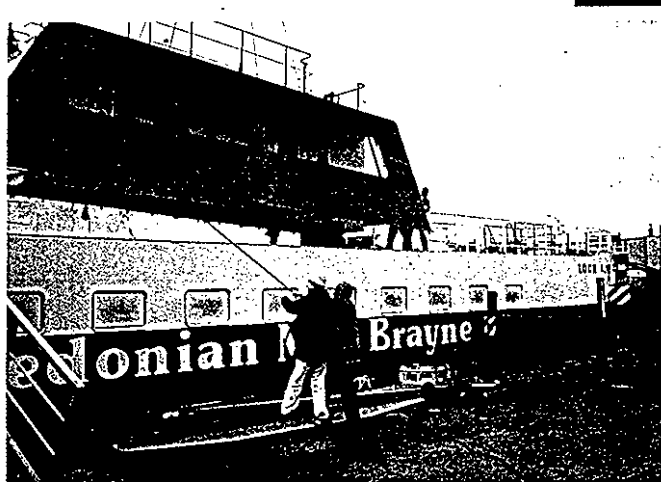
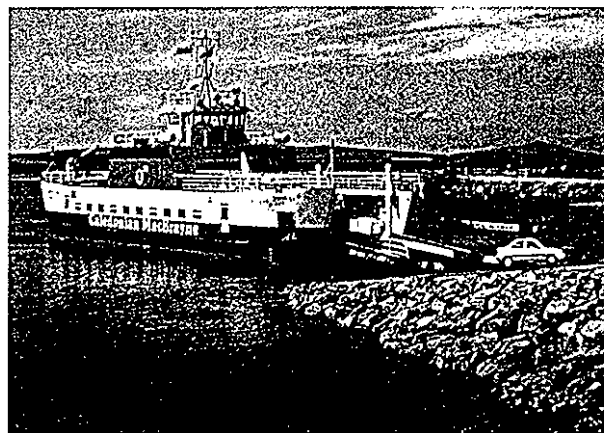
I was appointed Chairman in August 1996 and Scott Grier joined the Board as a Non-Executive Director in September 1996. Lex Gold was appointed as a Non-Executive Director in April 1997 and Sir Robert Easton was appointed as a Non-Executive Director in June 1997, following the retirement of Archie Gilchrist and Duncan Martin in March 1997. The Board acknowledges the significant contributions made by both retiring Directors, and in particular, that of Archie Gilchrist who acted as interim Chairman between April and July 1996, a hectic period during which the Company was well served. Looking ahead, Colin Paterson will be sorely missed when he retires as Managing Director in September 1997. For 14 years he has steered Caledonian MacBrayne through difficult and often unpredictable times and he will leave behind the legacy of a well founded Company on a stable base. We wish Colin and his family a very happy future and extend our grateful thanks to him for his outstanding efforts on the Company's behalf.

Finally, the Board wishes to record its gratitude and appreciation to all the Company's Employees for their enthusiasm, continued hard work and invaluable contribution to the success of the Company.

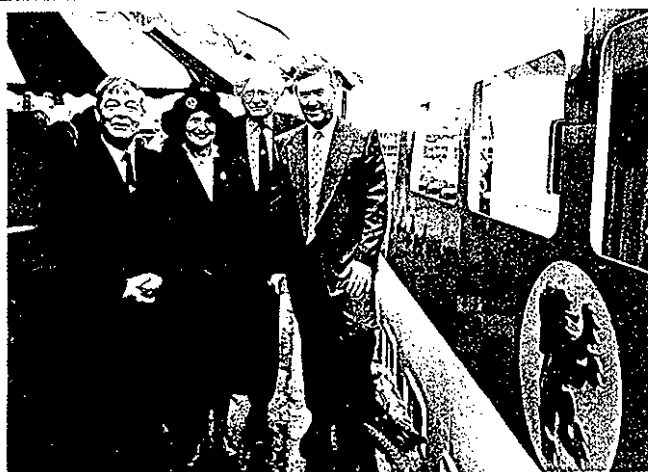
*N. E. Rankin*  
Chairman



*MV Loch Bhrusda in operation on the new  
Sound of Harris Service*



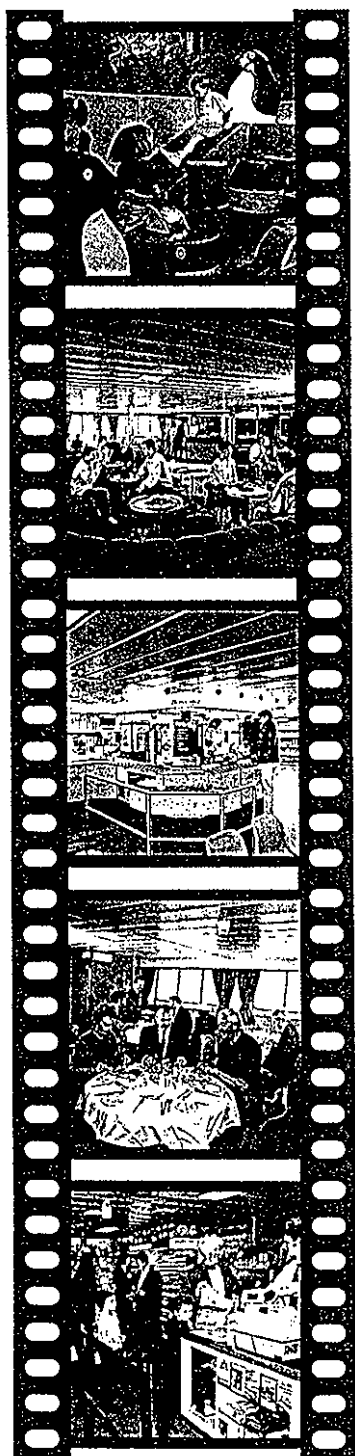
*MV Loch Aline under construction at  
Buckie Shipyard*



*Mrs. Jill Rankin undertook the naming ceremony for MV  
Loch Aline in April 1997. The vessel will operate on the  
Fishnish/Lochaline service.*



## *Review of Activities*



The carryings for the financial year 1996/97 compared with the previous year (excluding carryings on the Kyle-Kyleakin service for comparison purposes) were passengers 5,117,864 (+2.9%), cars 943,532 (+3.8%), commercial vehicles 84,176 (+0.2%) and coaches 11,605 (+9.0%). During the past ten years (excluding the Kyle-Kyleakin service) there has been an increase of 38% in passengers carried, 49% in cars, 30% in commercial vehicles and 166% in coaches.

The Company continues to work closely with the Transport Authorities and Tourist Bodies at both local and national level and to develop its policy of actively marketing the islands served to the benefit of the island communities and tourists alike.

The Company took delivery in June 1996 of the vessel MV Loch Bhrusda to operate the new Sound of Harris service, and in June 1997 of MV Loch Aline to replace the existing vessel on the Fishnish/Lochaline service, thereby allowing by cascade increased capacity on the Largs/Cumbrae and Sconser/Raasay services. In October 1996, an order was placed for the construction of a vessel to replace MV Iona, delivery of which is expected in April 1998.

In the first full year of operation of MV Isle of Lewis on the Ullapool-Stornoway service, passenger carryings increased by 21.5%, cars by 15.7% and commercial vehicles by 11.2% compared with the final year of operation with her predecessor, MV Suilven. This clearly demonstrates the social and economic benefits which accrue from investment in new tonnage.

The Company continued its programme of improvements to facilities on shore with the completion of the office building at Coll and the provision of a new pedestrian walkway at Tiree, as well as the necessary widening of the slipway at Fishnish to accommodate the new 24-car ferry. Improvements to the passenger facilities at both Ardrossan and Craginure funded jointly with the local enterprise and tourist bodies respectively, are planned for implementation during the coming financial year.

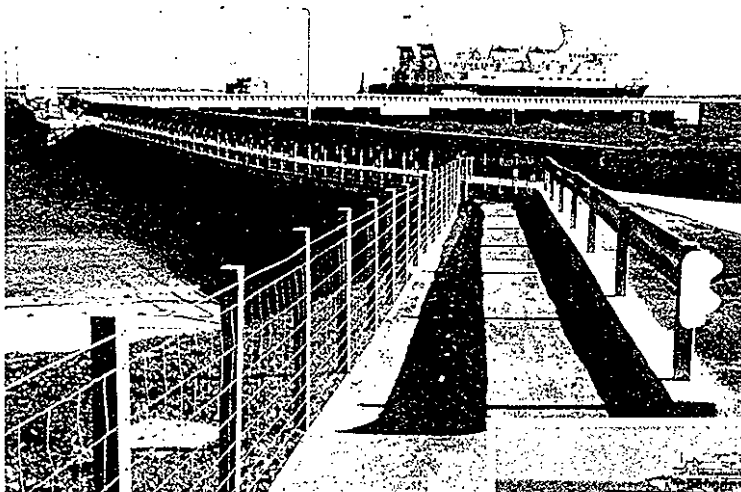
Further progress was made on the installation and development of the new 'Compass' computer system which deals with reservations, ticketing, accounting and traffic statistics, and the benefits of this are now being realised.

The Company was pleased to record a surplus for the financial year 1996/97 of £0.2m against its financial target 'to break even in historic cost terms after receipt of grant.'

With the continuing heavy expenditure required to ensure compliance with safety regulations, the deficit grant for 1997/98 has been set at £10.5m.



*MV Isle of Lewis berthed at the new terminal at Stornoway, which was officially opened in May 1997.*

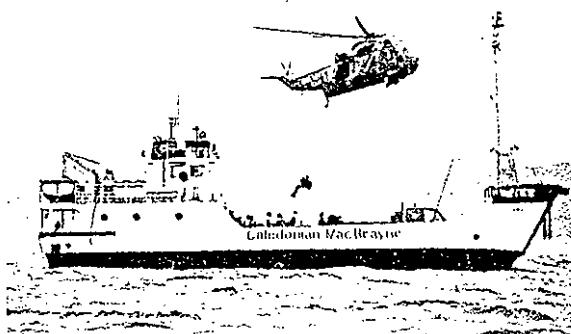


*The new passenger walkway at Tiree.*

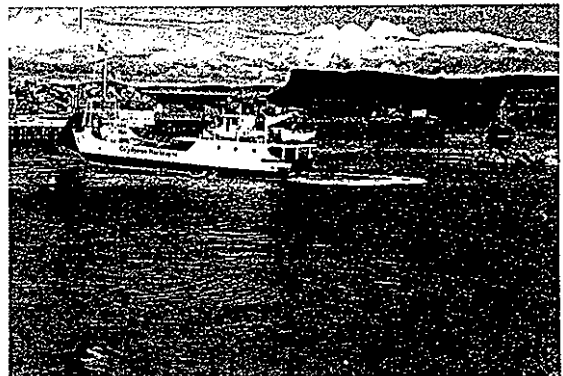


*The mobile exhibition unit is used to promote the Company's services at locations throughout the UK.*

*An emergency drill involving H.M. Coastguard.*



*An island class vessel operating the new service from Ballycastle to Rathlin Island.*





## List of Ships Owned

as at 31 March 1997

### Major Vehicle Ferries

	SUMMER DEPLOYMENT	WINTER DEPLOYMENT
MV Caledonian Isles	Arran	Arran
MV Claymore	Isle of Man/General relief	Islay/General relief
MV Hebridean Isles	Tarbert & Lochmaddy	Tarbert & Lochmaddy
MV Iona	Armadale Castlebay/Lochboisdale	Armadale, Islay, Mull/Colonsay, Coll/Tiree & Castlebay/Lochboisdale relief
MV Isle of Arran	Islay	Islay, Mull/Colonsay, Tarbert/Lochmaddy relief
MV Isle of Lewis	Stornoway	Stornoway
MV Isle of Mull	Mull/Colonsay	Mull/Colonsay and Stornoway relief
MV Juno	Dunoon & Rothesay	Dunoon & Rothesay
MV Jupiter	Dunoon & Rothesay	Dunoon & Rothesay
MV Lord of the Isles	Coll/Tiree & Castlebay/Lochboisdale	Coll/Tiree & Castlebay/Lochboisdale
MV Pioneer	Rothesay, Brodick	Clyde & Small Isles relief
MV Saturn	Dunoon & Rothesay	Dunoon & Rothesay

### Small Vehicle Ferries

MV Bruernish	MV Loch Buie	MV Loch Striven
MV Canna	MV Loch Dunvegan	MV Loch Tarbert
MV Coll	MV Loch Fyne	MV Raasay
MV Eigg	MV Loch Linnhe	MV Rhum
MV Isle of Cumbrae	MV Loch Ranza	
MV Loch Bhrosda	MV Loch Riddon	

### Passenger Ferries

MV Lochmor

### Ferry Boats

FB Ulva

### Under Construction

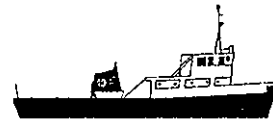
MV Loch Aline  
Yard No. AS174 (Appledore Shipbuilders)



MV Isle of Lewis. Length: 101m. Passengers: 968. Cars: 123.  
MV Caledonian Isles. Length: 93.5m. Passengers: 1000. Cars: 120.  
MV Isle of Mull. Length: 90m. Passengers: 1000. Cars: 80.



MV Lord of the Isles. Length: 84.5m. Passengers: 506. Cars: 56.



MV Lochmor. Length: 31m. Passengers: 130.



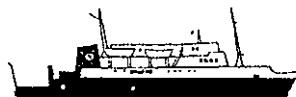
MV Hebridean Isles. Length: 85m. Passengers: 507. Cars: 68



MV Claymore. Length: 77m. Passengers: 500. Cars: 53.  
MV Pioneer. Length: 67m. Passengers: 356. Cars: 32.



MV Loch Linnhe, MV Loch Ranza, MV Loch Riddon,  
MV Loch Striven. Length: 30m. Passengers: 199. Cars: 12.  
MV Loch Buie. Length: 30m. Passengers: 250. Cars: 9.  
MV Loch Tarbert. Length: 30m. Passengers: 149. Cars: 18.  
MV Isle of Cumbrae. Length: 32m. Passengers: 160. Cars: 18.  
MV Loch Bhrosda. Length: 31m. Passengers: 150. Cars: 18.



MV Iona. Length: 74.5m. Passengers: 554. Cars: 43.



MV Isle of Arran. Length: 85m. Passengers: 800. Cars: 76.



MV Juno, MV Jupiter, MV Saturn.  
Length: 69m. Passengers: 531. Cars: 40.



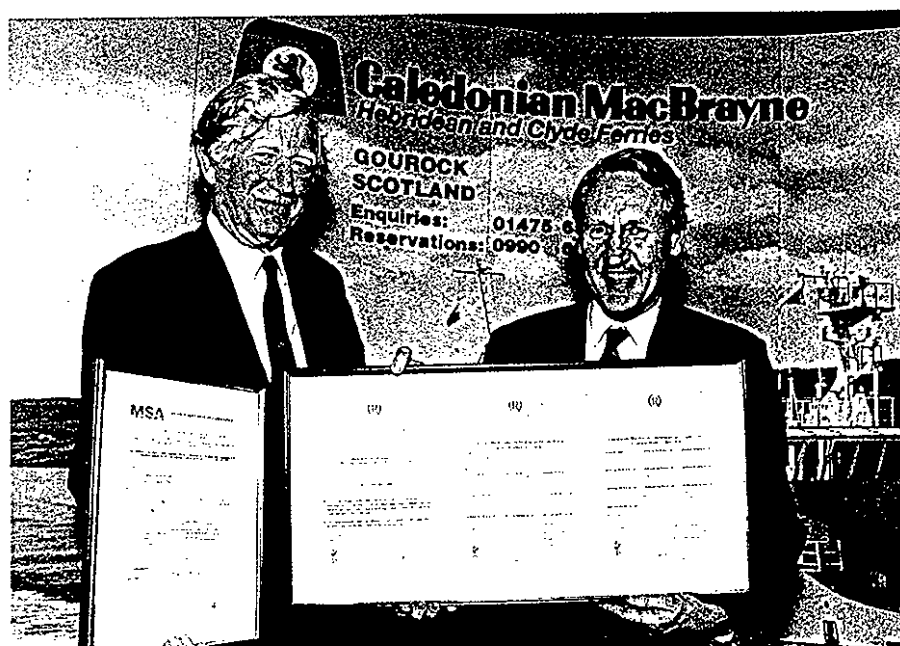
MV Bruernish, MV Canna, MV Coll, MV Eigg,  
MV Raasay, MV Rhum.  
Length: 22.5m. Passengers: 164. Cars: 6.





## — Results Analysed by Area of Operation —

	1997		1996	
	£000	£000	£000	£000
Operating Deficit/(Surplus):				
Upper Clyde		2,661		1,585
Outer Isles		1,969		1,407
Islay/Gigha		854		968
Mull/Colonsay		(132)		47
Skye and Small Isles		1,226		612
Arran/Kintyre		(888)		(935)
		<u>5,690</u>		<u>3,684</u>
Net deficit/(surplus) on other activities		<u>41</u>		<u>(73)</u>
		<u>5,731</u>		<u>3,611</u>
Depreciation (net of Capital Grants)	4,064		3020	
Profit on sale of fixed assets	(20)		(1,013)	
Reserve fleet costs	1,024		1,171	
Interest payable	1,033		1,159	
Interest receivable	(354)		(322)	
		<u>5,747</u>		<u>4,015</u>
OPERATING DEFICIT BEFORE REVENUE GRANT		11,478		7,626
Revenue grant from Secretary of State for Scotland		11,674		8,282
PROFIT BEFORE TAXATION		<u>196</u>		<u>656</u>



Lord James Douglas-Hamilton carried out the official ceremony to mark the Company's achievement in obtaining ISM and ISO9002 accreditation.



## Five Year Summary of Statistics

	1992	1993	1994/95	1995/96	1996/97
<b>TRAFFIC CARRYINGS (000s)</b>					
(Kyle-Kyleakin service carryings shown in brackets)					
Passengers	6,214 (1,475)	6,200 (1,524)	6,223 (1,496)	6,221 (1,202)	5,118 (-)
Cars	1,296 (441)	1,296 (443)	1,305 (441)	1,270 (361)	944 (-)
Commercial vehicles	111 (32)	111 (33)	115 (34)	102 (18)	84 (-)
Buses and coaches	16 (9)	20 (10)	19 (9)	18 (7)	12 (-)
<b>PERCENTAGE OF SCHEDULED SERVICES COMPLETED ON TIME</b>					
Summer	96.2	97.1	97.2	97.0	95.6
Winter	95.9	95.1	96.0	96.4	94.4
<b>PERCENTAGE OF SCHEDULED SERVICES NOT OPERATED</b>					
Summer	0.6	0.5	0.4	0.3	0.9
Winter	0.9	1.7	0.7	1.0	2.3
<b>REVENUE SUBSIDY PER PASSENGER (£)</b>					
Actual	0.97	1.16	1.08	1.33	2.28
Real terms (Base: 1996/97)	1.07	1.27	1.15	1.36	2.28
<b>OPERATING COSTS PER PASSENGER (£)</b>					
Actual	5.45	5.89	6.21	6.60	8.90
Real terms (Base: 1996/97)	6.02	6.42	6.59	6.74	8.90
<b>REVENUE SUBSIDY AS PERCENTAGE OF TURNOVER</b>					
	17.5	19.3	17.2	19.5	25.1
<b>REVENUE EARNED PER EMPLOYEE (£000)</b>					
Actual	33.3	34.0	36.0	38.1	38.6
Real terms (Base: 1996/97)	36.8	37.1	38.2	38.9	38.6



The boardroom: Left to right (standing) T.C. McNeill (Technical Director), K.M. Duerden (Operations Director), S. Grier (Non-executive Director), R.J. McKay (Finance Director), A.M. Gold (Non-executive Director), G.W. McKenzie (Company Secretary). Left to right (seated) P.A. Ritchie (Non-executive Director), C.S. Paterson (Managing Director), Rear Admiral N.E. Rankin (Chairman), G.V. MacLeod (Non-executive Director), Sir Robert Easton (Non-executive Director).



## Report of the Directors

The Directors have pleasure in submitting their Report and Accounts for the year ended 31 March 1997.

### *Results:*

The Company made a profit of £0.2m after tax. No dividends have been paid or are proposed, which leaves a profit of £0.2m to be transferred to reserves.

### *Review of the Business and Future Developments:*

During the year the Company, under contract with the Secretary of State for Scotland, maintained approved services by sea in both the Clyde and Western Isles areas and in addition, operated services outside the Undertaking with the Secretary of State for Scotland.

Turnover for the year compared with the previous year increased by 9.0% to £46.4m whilst operating costs increased by 10.9% to £45.6m. In the opinion of the Directors, the state of affairs of the Company is satisfactory.

The Board continues to examine carefully existing practices in order to find more efficient and cost effective ways of delivering and improving standards of service. The Company took delivery in June 1996 of the vessel MV Loch Bhruisda to operate the new Sound of Harris service, and in June 1997 of MV Loch Aline to replace the existing vessel on the Fishnish/Lochaline service, thereby allowing by cascade increased capacity on the Largs/Cumbræ and Sconser/Raasay services. In October 1996, an order was placed for the construction of a vessel to replace MV Iona, delivery of which is expected in April 1998.

Upgrading and improvements to terminal facilities continued with the completion of the new office at Coll and a new pedestrian walkway at Tiree as well as the widening of Fishnish Slipway to accommodate the new vessel.

### *Political and Charitable Donations:*

There were no political or charitable donations made during the year.

### *Directors and their Interests:*

The following present Directors served throughout the year:

Mr C S Paterson CBE  
Mr R J McKay

The following present Directors, who served throughout the year, were appointed to hold office until the date shown:

Mr T C McNeill	— 31 December 1997
Mr K M Duerden	— 31 October 1998
Mr G V MacLeod	— 31 March 1999
Mrs P A Ritchie	— 31 March 1999

The following present Director was appointed on 1 August 1996 to hold office until the date shown:  
Rear Admiral N E Rankin CB, CBE — 31 July 1999

The following present Director was appointed on 4 September 1996 to hold office until the date shown:

Mr S Grier OBE — 31 March 2000

The following present Director was appointed on 1 April 1997 to hold office until the date shown:

Mr A M Gold — 31 March 2000

The following present Director was appointed on 13 June 1997 to hold office until the date shown:

Sir Robert Easton CBE — 31 March 2000

The following Directors, who served throughout the year, retired on 31 March 1997:

Mr A Gilchrist OBE  
Mr D Martin

The Secretary of State for Scotland was a Shadow Director of the Company under Section 741 of the Companies Act 1985 throughout the year and continues to be so.

None of the Directors had any beneficial interest in the share capital of the Company at any time during the year. The Company is wholly owned by the Secretary of State for Scotland.

### *Employees:*

For some years, the vast majority of employees have been formally represented by Trade Unions recognised for collective bargaining purposes; in addition a system of Employee Participation and Consultative Committees has been well established.

Through either the formal negotiating or consultative process, or a mixture of both, employees at all levels, through their representatives, have been provided with information on matters concerning them and are encouraged to be involved in the activities of the Company.

All of these measures are constantly under review to ascertain whether or not improvements can be made.

### *Policy of Employment of Disabled Persons:*

It is the Company's policy to consider applications for employment from disabled persons on the same basis as other potential employees subject to the nature and extent of disability and the degree of physical fitness demanded of the position. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all disabled employees. If any employee becomes disabled during the period of employment, the Company will, if possible, retain the employee for duties commensurate with the employee's abilities following the disablement.

### *Auditors:*

A resolution to re-appoint KPMG as Auditors will be put to the members at the Annual General Meeting.

By Order of the Board

G W McKenzie  
Secretary  
25 June 1997



## *Statement of Directors' Responsibilities* *in respect of the Accounts*

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## *Report of the Auditors* TO THE MEMBERS OF *Caledonian MacBrayne Limited*



We have audited the Accounts on pages 11 to 19.

### **Respective responsibilities of directors and auditors**

As described above the company's directors are responsible for the preparation of Accounts. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

### **Opinion**

In our opinion the Accounts give a true and fair view of the state of the company's affairs as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

We have also examined the abridged current cost information on pages 20 and 21 which, in our opinion, has been properly prepared in accordance with the current cost principles, accounting policies and methods described on page 20.

*KPMG*  
KPMG

Chartered Accountants

Registered Auditors

24 Blythswood Square

GLASGOW

G2 4QS

25 June 1997



# *Profit and Loss Account*

for the year ended 31 March 1997

	Note	1997		1996	
		£000	£000	£000	£000
TURNOVER	2		<u>46,427</u>		<u>42,577</u>
OPERATING EXPENDITURE					
Fuel, Power and Lubricants		3,407		2,780	
Maintenance Materials, Supplies and Services		<u>6,636</u>		<u>6,044</u>	
			10,043		8,824
Staff Costs:					
Wages and Salaries		18,059		17,486	
Social Security Costs		<u>1,518</u>		<u>1,470</u>	
Other Pension Costs		<u>1,107</u>		<u>1,036</u>	
			20,684		19,992
Depreciation		5,758		4,471	
Less: Credit for Capital Grants		<u>(1,694)</u>		<u>(1,451)</u>	
			4,064		3,020
Other Operating Charges			<u>10,761</u>		<u>9,248</u>
TOTAL OPERATING EXPENDITURE			<u>45,552</u>		<u>41,084</u>
OPERATING PROFIT			875		1,493
Interest Receivable		354		322	
Interest Payable	3	<u>(1,033)</u>		<u>(1,159)</u>	
			(679)		(837)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3		<u>196</u>		<u>656</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	4		<u>—</u>		<u>—</u>
PROFIT FOR THE FINANCIAL YEAR			196		656
RETAINED PROFITS BROUGHT FORWARD			<u>7,280</u>		<u>6,624</u>
RETAINED PROFITS CARRIED FORWARD			<u><u>7,476</u></u>		<u><u>7,280</u></u>

There were no recognised gains or losses in either financial year other than those reported above.



# Balance Sheet

as at 31 March 1997

	Note	1997		1996	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Tangible Assets	6		71,525		73,797
Investment in Subsidiary Undertaking	7		—		—
			<u>71,525</u>		<u>73,797</u>
<b>CURRENT ASSETS</b>					
Stocks of fuel lubricants and consumables		634		714	
Debtors	8	7,053		5,592	
Cash at bank and in hand		<u>3,419</u>		<u>2,102</u>	
		11,106		8,408	
<b>CREDITORS</b>					
Amounts falling due within one year	9	<u>(9,395)</u>		<u>(8,190)</u>	
<b>NET CURRENT ASSETS</b>			1,711		218
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>73,236</u>		<u>74,015</u>
<b>CREDITORS</b>					
Amounts falling due after more than one year	10	(10,265)		(11,897)	
<b>ACCRUALS AND DEFERRED INCOME</b>					
Capital Grants	11	<u>(37,195)</u>		<u>(36,538)</u>	
			(47,460)		(48,435)
<b>NET ASSETS</b>			<u>25,776</u>		<u>25,580</u>
<b>CAPITAL AND RESERVES</b>					
Called up Share Capital	13		15,000		15,000
Capital Reserve	14		<u>3,300</u>		<u>3,300</u>
Profit and Loss Account			<u>7,476</u>		<u>7,280</u>
<b>SHAREHOLDERS' FUNDS – ALL EQUITY</b>			<u>25,776</u>		<u>25,580</u>

These Accounts were approved by the Board of Directors on 25 June 1997 and signed on its behalf by:

N. E. RANKIN

CHAIRMAN

R. J. MCKAY

FINANCE DIRECTOR

The Notes on pages 14 to 19 form part of these Accounts



# Cash Flow Statement

for the year ended 31 March 1997

	Note	1997		Restated 1996	
		£000	£000	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18(a)		5,379		3,737
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		354		339	
Interest paid		(1,076)		(1,082)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(722)		(743)
CAPITAL EXPENDITURE					
Payments to acquire tangible fixed assets		(3,528)		(7,499)	
Receipts from sales of tangible fixed assets		62		1,035	
Capital grants received		2021		4,586	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE			(1,445)		(1,878)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING			3,212		1,116
MANAGEMENT OF LIQUID RESOURCES	18(b)		(1,056)		(595)
FINANCING					
Loans received		709		4,083	
Loans repaid		(2,543)		(2,806)	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING			(1,834)		1,277
INCREASE IN CASH			322		1,798

The Notes on pages 14 to 19 form part of these Accounts



## Notes on the Accounts

### 1. Accounting Policies

#### (a) Accounting Convention

These accounts have been prepared under the historical cost convention and in accordance with all applicable accounting standards.

#### (b) Consolidation

The subsidiary undertaking did not trade during the year and therefore consolidated accounts have not been prepared as there is no material difference between Group and Company accounts.

#### (c) Tangible Assets

Gross book values of all tangible assets are stated at cost.

Ships and other assets including linkspans under construction are recorded at cost on the basis of payments to account. No depreciation is charged until the asset comes into use.

#### (d) Depreciation

No depreciation is provided on freehold land. Depreciation is provided on other tangible assets by equal annual instalments calculated to write off the gross book values over their estimated useful lives as follows:

Buildings (Freehold)	40 years
Buildings (Leasehold)	The shorter of the term of the lease and 40 years
Piers Slipways and Linkspan facilities	40 years
Ships	20 years
Vehicles	Between 4 and 5 years
Plant and equipment	Between 3 and 10 years

#### (e) Capital Grants

Capital grants are deferred and taken to the Profit and Loss Account over the anticipated lives of the relevant assets.

#### (f) Stock

Stock is valued at the lower of invoiced cost and net realisable value.

#### (g) Annual Overhauls

The Company's policy is that in each accounting period the accounts shall bear the cost of one annual overhaul for each vessel.

For vessels delivered after 1976, any overhaul costs incurred in the winter before the year end are carried forward as a prepayment and the total cost of the overhaul written off in the following year.

For vessels delivered up to 1976, the first annual overhaul carried out was charged to the accounting year in which the overhaul took place. Depending on the timing of subsequent overhauls, prepayments or accrual adjustments are made in order to ensure that each year bears the cost of one overhaul.

#### (h) Deferred Taxation

Provision is made for deferred taxation only insofar as a liability is expected to arise within the foreseeable future.

#### (i) Pensions

The Company operates a defined benefit scheme. Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Company.

#### (j) Cash Flow Statement

Changes in presentation in the Cash Flow Statement have been made consequent upon the adoption of the Financial Reporting Statement No. 1 - Cash Flow Statements. Where appropriate, comparative figures have been restated.

### 2. Turnover

Turnover represents gross revenue stated net of value added tax and includes the following:

Subsidy from the Secretary of State for Scotland

Grants arising from Section 151 of the Local Government (Scotland) Act 1973

1997	1996
£000	£000
11,674	8,282
70	95

Turnover for the year includes traffic pier dues collected on behalf of other pier authorities. The amounts so collected are paid over to the appropriate pier authorities and are treated as an expense which is included under Other Operating Charges.





## Notes on the Accounts

### 3. Profit on Ordinary Activities before Tax

The Profit is stated:

After charging/(crediting):	
Auditors' remuneration – audit services	
– non audit services	
Depreciation on Fixed Assets	
Exceptional depreciation on vessels awaiting disposal	
Interest payable on bank loans and overdrafts	
Operating lease costs	
Release of capital grants	
Net gain on disposal of tangible assets	

1997 £000	1996 £000
17	16
14	5
4,758	4,471
1,000	–
1,033	1,159
94	97
(1,694)	(1,451)
(20)	(1,013)

### 4. Taxation on Profit on Ordinary Activities

The tax charge for the year is made up as follows:

Corporation Tax

1997 £000	1996 £000
–	–

The tax charge for the year is £Nil (1996: £Nil) due to the utilisation of tax losses.

### 5. Employees

The average number of employees was made up as follows:

Ship Operating  
Shore Terminal  
Administrative

1997 No.	1996 No.
583	588
229	225
88	87
900	900

#### Directors' Remuneration

Emoluments in respect of services as a Director  
Emoluments in respect of management of the Company's affairs  
Pension contributions

£000	£000
56	39
278	267
33	27
367	333
31	18

Emoluments of the Chairman

Note: During the year to 31 March 1997, two Directors held the office of Chairman. The emoluments of each Director attributable to their respective periods of Chairmanship were £6,144 and £24,576.

Emoluments of the highest paid Director:

Salary  
Performance-related pay  
Benefits in kind

66	65
17	14
6	5
89	84
10	10
99	94

Pension contributions

The emoluments (excluding pension contributions) of all Directors fell within the following range:

£NIL to £5,000  
£5,001 to £10,000  
£10,001 to £15,000  
£15,001 to £20,000  
£20,001 to £25,000  
£25,001 to £30,000  
£30,001 to £35,000  
£35,001 to £40,000  
£40,001 to £45,000  
£45,001 to £50,000  
£50,001 to £55,000  
£55,001 to £60,000  
£60,001 to £65,000  
£65,001 to £70,000  
£70,001 to £75,000  
£75,001 to £80,000  
£80,001 to £85,000  
£85,001 to £90,000

No.	No.
1	–
4	4
–	–
–	1
1	1
–	1
–	–
–	–
–	–
1	2
2	–
–	1
1	–



## Notes on the Accounts

### 6. Tangible Assets

#### (a) Movements during year:

	Assets in course of construction	Land and Buildings	Ships	Vehicles	Plant and Equipment	Total
	£000	£000	£000	£000	£000	£000
<b>At Cost:</b>						
At 1 April 1996	2,769	28,598	74,310	583	1,989	108,249
Additions	3,161	153	—	214	—	3,528
Transfers	(2,310)	109	2,201	—	—	—
Disposals	—	(8)	(14)	(127)	—	(149)
<b>At 31 March 1997</b>	<b>3,620</b>	<b>28,852</b>	<b>76,497</b>	<b>670</b>	<b>1,989</b>	<b>111,628</b>
<b>Aggregate Depreciation:</b>						
At 1 April 1996	—	6,283	26,676	368	1,125	34,452
Charge for the year	—	708	4,594	108	348	5,758
Disposals	—	(4)	(14)	(89)	—	(107)
<b>At 31 March 1997</b>	<b>—</b>	<b>6,987</b>	<b>31,256</b>	<b>387</b>	<b>1,473</b>	<b>40,103</b>
<b>Net Book Value at 31 March 1997</b>	<b>3,620</b>	<b>21,865</b>	<b>45,241</b>	<b>283</b>	<b>516</b>	<b>71,525</b>
Net Book Value at 31 March 1996	2,769	22,315	47,634	215	864	73,797

Land and Buildings is made up as follows:

	Land	Buildings			Piers Slipways and Linkspan Facilities	Total
		Freehold	Long Lease	Short Lease		
	£000	£000	£000	£000	£000	£000
<b>At Cost:</b>						
At 1 April 1996	356	2,247	139	1,166	24,690	28,598
Additions	—	3	—	—	150	153
Transfers	—	109	—	—	—	109
Disposals	—	(8)	—	—	—	(8)
<b>At 31 March 1997</b>	<b>356</b>	<b>2,351</b>	<b>139</b>	<b>1,166</b>	<b>24,840</b>	<b>28,852</b>
<b>Aggregate Depreciation:</b>						
At 1 April 1996	—	710	25	870	4,678	6,283
Charge for the year	—	63	3	18	624	708
Disposals	—	(4)	—	—	—	(4)
<b>At 31 March 1997</b>	<b>—</b>	<b>769</b>	<b>28</b>	<b>888</b>	<b>5,302</b>	<b>6,987</b>
<b>Net Book Value at 31 March 1997</b>	<b>356</b>	<b>1,582</b>	<b>111</b>	<b>278</b>	<b>19,538</b>	<b>21,865</b>
Net Book Value at 31 March 1996	356	1,537	114	296	20,012	22,315

Piers, slipways and linkspan facilities comprise properties which are erected partially on freehold land and partially on seabed leased from the Crown Estate Commissioners. Because of the integral nature of these assets, it is not possible or meaningful to allocate their costs between those parts erected on freehold land and those on leased seabed. The Company may come under liability, as tenants, for removal of the assets at termination of the leases. The extent to which any such liability may arise cannot be determined and no provision or security has been provided.

#### (b) Capital Commitments

No provision has been made in these Accounts for outstanding

Capital Commitments contracted for of

Capital Grants receivable in respect of these commitments amount to

Capital Expenditure authorised by the Directors but not contracted for amounts to

Capital Grants receivable in respect of these commitments amount to

1997 £000	1996 £000
14,758	2,513
11,073	949
15,600	—
11,700	—



## Notes on the Accounts

### 7. Investment in Subsidiary Undertaking

The Company owns the whole of the issued Ordinary Share Capital of Caledonian MacBrayne Holdings Limited, a non-trading company which is registered in Scotland. Details of the balance shown are as follows:

	1997 £000	1996 £000
Investment in Subsidiary Undertaking	74	74
Long term indebtedness	(74)	(74)
	<u>—</u>	<u>—</u>

### 8. Debtors

	1997 £000	1996 £000
Trade debtors	1,561	1,429
Capital grants receivable	374	44
Other debtors	686	588
Annual overhaul prepayments	3,678	2,691
Prepayments and accrued income	754	840
	<u>7,053</u>	<u>5,592</u>
Amount included within other debtors which is not receivable within the next twelve months	<u>7</u>	<u>12</u>

### 9. Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank overdraft	241	302
Loans (note 10)	2,350	2,552
Trade creditors	4,309	2,727
Tax and social security payments	547	494
Other creditors	390	386
Maintenance provisions	11	42
Accruals and receipts in advance	<u>1,547</u>	<u>1,687</u>
	<u>9,395</u>	<u>8,190</u>

### 10. Creditors: amounts falling due after more than one year

	1997 £000	1996 £000
7½% secured loans wholly repayable within five years, repayable in half-yearly instalments	8,115	4,252
7½% secured loans not wholly repayable within five years, repayable in half-yearly instalments	—	6,209
8½% unsecured loans not wholly repayable within five years, repayable in half-yearly instalments	3,527	3,717
8½% unsecured loans not wholly repayable within five years, repayable in half-yearly instalments	264	271
7¾% unsecured loans not wholly repayable within five years, repayable in half-yearly instalments	709	—
	<u>12,615</u>	<u>14,449</u>
Less: Repayable within twelve months (note 9)	<u>2,350</u>	<u>2,552</u>
	<u>10,265</u>	<u>11,897</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	2,055	2,333
between two and five years	4,889	5,565
after five years	3,321	3,999
	<u>10,265</u>	<u>11,897</u>

The secured loans are secured by mortgages on the individual vessels on which the loans have been granted.

### 11. Capital Grants

	£000
Balance at 1 April 1996	36,538
Grants receivable	2,351
Less: released to Profit and Loss Account	(1,694)
Balance at 31 March 1997	<u>37,195</u>



## Notes on the Accounts

### 12. Deferred Taxation

No provision has been made in these accounts for any estimated Deferred Taxation liability since it is probable that no liability will arise as a result of the reversal of timing differences for the foreseeable future. The potential liability arising in respect of timing differences which has been calculated at an effective rate of tax of 33% is as follows:

	1997 £000	1996 £000
Capital allowances in advance of depreciation	6,650	7,500
Less: unutilised trading losses	(600)	(1,500)
	<u>6,050</u>	<u>6,000</u>

The movement in unutilised trading losses is due to a disclaimer of capital allowances relating to the previous year.

### 13. Share Capital

	1997 £000	1996 £000
Authorised allotted issued and fully paid – 1.5 million ordinary shares of £10 each	<u>15,000</u>	<u>15,000</u>

### 14. Capital Reserve

	£000
Balance at 1 April 1996	3,300
Movement during the period	—
Balance at 31 March 1997	<u>3,300</u>

### 15. Reconciliation of Shareholders Funds

	1997 £000	1996 £000
Opening balance	25,580	24,924
Profit after taxation for the year	<u>196</u>	<u>656</u>
Closing balance	<u>25,776</u>	<u>25,580</u>

### 16. Pension Commitments

The Company operates a contributory pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company and are under the control of the Trustees of the scheme who have appointed professional investment managers to invest the assets of the scheme. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial valuation was undertaken at 6 April 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and to the rate of increase in salaries and pensions. It was assumed that the investment returns would be 2% per annum higher than the growth in pensionable pay and that present and future pensions would increase at the rate of 6.5% per annum.

The valuation showed that the market value of the scheme's assets was £13.2m and that the actuarial value of those assets represented 106.9% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The present contribution rate, including employees contributions, of 19.0% of pensionable payroll is considered adequate.

A number of employees are not in the Company pension scheme. Most of them participate in the Merchant Navy Officers Pension Fund, the Merchant Navy Ratings Pension Funds or Pension Funds operated by British Rail Pensions Management all of which are defined benefit schemes. The assets of these schemes are invested independently of the Company and the funds are administered by independent Trustees.

The amount charged to profit and loss account in respect of contributions to Pension Schemes is:

Company scheme  
Other schemes

	1997 £000	1996 £000
Company scheme	704	624
Other schemes	<u>403</u>	<u>412</u>
	<u>1,107</u>	<u>1,036</u>

The following amount which represents contributions to be paid to Pension Schemes is included in Creditors:

	1997 £000	1996 £000
	<u>157</u>	<u>139</u>



## Notes on the Accounts

### 17. Other Financial Commitments

The Company has a significant number of leases in respect of land and buildings and the period of the lease unexpired in most cases is in excess of 5 years; where less than 5 years remains, the Company will negotiate a renewal of the lease at expiry date. The annual amount payable in respect of these leases is:

1997	1996
£000	£000
94	97

### 18. Notes to the Cash Flow Statement

#### (a) Reconciliation of operating profit to net cash inflow from operating activities

	1997	1996
	£000	£000
Operating profit	875	1,493
Depreciation charge (net of capital grants)	4,064	3,020
Gain on disposal of tangible assets	(20)	(1,013)
Decrease/(Increase) in stocks	80	(141)
Increase in debtors	(1,131)	(340)
Increase in creditors	1,511	718
Net cash inflow from operating activities	5,379	3,737

#### (b) Management of liquid resources

	£000	£000
Payments into term deposits of less than one year	(1,056)	(595)

#### (c) Reconciliation of net cash flow to movement in net debt

	£000	£000
Increase in cash in the period	322	1,798
Cash outflow from increase in short term deposits	1,056	595
Net movement on loans	1,834	(1,277)
Movement in net debt in the period	3,212	1,116
Net debt at 1 April	(12,649)	(13,765)
Net debt at 31 March	(9,437)	(12,649)

#### (d) Analysis of net debt

	As at 1 April 1996	Cash Flow	As at 31 March 1997
	£000	£000	£000
Cash at bank and in hand	989	261	1,250
Term deposits	1,113	1,056	2,169
Bank overdraft	(302)	61	(241)
	1,800	1,378	3,178
Loans			
Due within one year	(2,552)	202	(2,350)
Due after one year	(11,897)	1,632	(10,265)
	(14,449)	1,834	(12,615)
Total	(12,649)	3,212	(9,437)

### 19. Post Balance Sheet Event

Subsequent to the year end, the Company disposed of MV Claymore to Sea Containers Ferries Scotland Ltd; the consideration received was in excess of the amount at which the vessel is being carried in the Company's accounts at 31 March 1997. As part of the Memorandum of Agreement for the sale of the vessel, the Company has given an undertaking whereby until 31 October 1997 Sea Containers Ferries Scotland Ltd can require the Company to buy back the vessel at a price of £530,000.



## *Current Cost Information*

The following summarised current cost information reflects the restatement of the Company's fixed assets at their net replacement cost and the resultant restatement of the capital grants. The estimated useful lives of fixed assets used in the historical cost accounts have been used in compiling the current cost information. Replacement costs have been calculated on the following bases:

Land and Buildings	independent open market valuations were carried out as at 31 December 1990. Appropriate indices have been applied to arrive at valuations as at 31 March 1997.
Piers, slipways and linkspan facilities	independent replacement cost valuations were carried out as at 31 December 1990. Appropriate indices have been applied to arrive at valuations as at 31 March 1997.
Ships	independent replacement cost valuations were carried out as at 31 December 1990. One quarter of the fleet was independently valued on a replacement cost basis as at 31 March 1997. The level of increase in gross replacement cost arising on these vessels during the year to 31 March 1997 has been applied to the gross replacement cost at 31 March 1996 of those vessels which were not specifically valued as at March 1997 to arrive at an estimate of their gross replacement cost as at 31 March 1997.
Vehicles, plant and machinery	indexation of historical costs using appropriate indices.
Capital grants	at the rate at which grants are currently available to the Company and calculated on the relevant asset's gross replacement cost.

No gearing adjustment has been made as the Company is owned by the Secretary of State for Scotland and no adjustment has been made in respect of monetary working capital as it would have no material effect.

### SUMMARISED CURRENT COST PROFIT AND LOSS ACCOUNT for the year ended 31 March 1997

	1997 £000	1996 £000
HISTORICAL COST PROFIT BEFORE TAXATION	196	656
Adjustment in respect of depreciation	(2,513)	(3,334)
Adjustment in respect of capital grants	3,466	3,962
CURRENT COST PROFIT BEFORE TAXATION	1,149	1,284
Taxation	—	—
CURRENT COST PROFIT FOR THE FINANCIAL PERIOD	1,149	1,284
Deficit brought forward	(13,077)	(14,361)
DEFICIT CARRIED FORWARD	(11,928)	(13,077)



## Current Cost Information

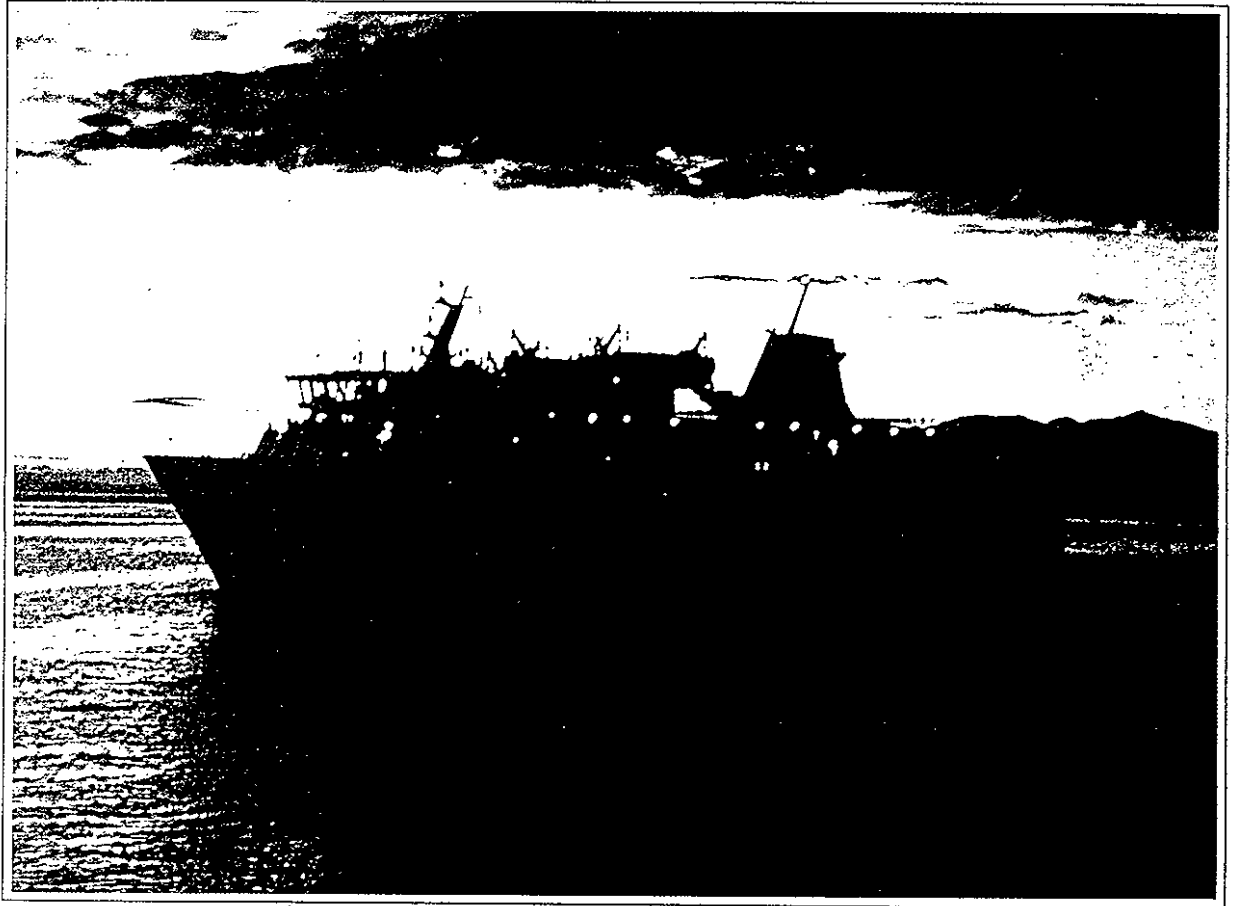
### CURRENT COST BALANCE SHEET as at 31 March 1997

	1997		1996	
	£000	£000	£000	£000
<b>FIXED ASSETS</b>				
Land and buildings		28,712		28,629
Ships		73,875		75,201
Vehicles		238		187
Plant and machinery		579		943
		<u>103,404</u>		<u>104,960</u>
<b>CURRENT ASSETS</b>				
Stocks of fuel lubricants and consumables	634		714	
Debtors	7,053		5,592	
Cash at bank and in hand	3,419		2,102	
	<u>11,106</u>		<u>8,408</u>	
<b>CREDITORS: amounts falling due within one year</b>	<u>(9,395)</u>		<u>(8,190)</u>	
<b>NET CURRENT ASSETS</b>		<u>1,711</u>		<u>218</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>105,115</u>		<u>105,178</u>
<b>CREDITORS: amounts falling due after more than one year</b>	<u>(10,265)</u>		<u>(11,897)</u>	
<b>ACCRUALS AND DEFERRED INCOME</b>				
Capital grants	<u>(76,378)</u>		<u>(77,358)</u>	
		<u>(86,643)</u>		<u>(89,255)</u>
<b>CAPITAL AND RESERVES</b>		<u>18,472</u>		<u>15,923</u>
Called up share capital		15,000		15,000
Profit and loss account		(11,928)		(13,077)
Current cost reserve		12,100		10,700
Capital reserve		3,300		3,300
		<u>18,472</u>		<u>15,923</u>

### CURRENT COST RESERVE

	1997		1996	
	£000	£000	£000	£000
Opening Balance		10,700		10,894
Current cost movements during the period:				
Fixed assets	3,230		3,085	
Capital grants	(1,830)		(3,279)	
	<u>12,100</u>		<u>10,700</u>	
Closing Balance		<u>12,100</u>		<u>10,700</u>
of which: realised		19,403		20,357
unrealised		(7,303)		(9,657)
		<u>12,100</u>		<u>10,700</u>

The realised element represents the net cumulative total of the current cost adjustments which have been passed through the profit and loss account. Thus it represents the difference between historical cost profits and current cost losses since 1 January 1990 when current cost accounts were first prepared



## **Caledonian MacBrayne Limited**

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