SC022802

CALMAC FERRIES LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

Contents

Directors' Report

The Directors present their Directors' Report and financial statements for the year ended 31 March 2011.

Principal activity and business review

The Company holds the contract for the provision of the Clyde and Hebrides ferry services for the 6-year period ending September 2013.

The principal activity of the Company is the provision of lifeline ferry services under this contract with the Scottish Government. Under the terms of the contract, the Company receives grant support from the Scottish Government; the Company is also able to provide services outwith the contract provided these do not require grant support.

The Company made a profit for the year before tax of £1.9m (2010: £2.2m). A dividend of £1.5m (2010: £2.0m) was paid to the Company's sole shareholder during the year.

At the height of the Summer season 2010, MV Clansman experienced a major engine failure, which resulted in the vessel being out of service for a period of 6 weeks. Vessels were redeployed to limit the impact on customers by ensuring that an appropriate level of sailings were provided on all routes affected throughout this period, although there were inevitably some capacity constraints.

The Company achieved performance levels during the year of almost 100% and operated within the contract grant provision for the year. Following approval by the Scottish Government under the terms of the contract, a number of timetable enhancements were introduced from the commencement of the 2010/11 Winter season. These are primarily aimed at providing better integration with bus and rail services, as well as improving connectivity for customers.

We were pleased that the Company was named "Best Ferry Company" in The Guardian and Observer Awards 2010, as well as "Public Transport Operator of the Year" in the 2011 Scottish Transport Awards for the second consecutive year.

The principal risks and uncertainties facing the business relate to the financial impact of operating the Clyde and Hebrides ferry services under contract and the implications of the continuation on a pilot basis, under direction from the Scottish Government, of a road equivalent tariff scheme on a number of the routes operated by the Company. Through the development and maintenance of comprehensive business risk assessment procedures, the Company ensures that both the incidence and impact of identified risks are limited.

Key areas of the performance and development of the business include safety, reliability, punctuality and standard of service. Specific performance measures are defined within the terms of the Clyde and Hebrides ferry services contract and include reliability, punctuality, customer service undertakings and finance.

The Company is participating in the Scottish Ferries Review in its capacity as a ferry operator. The review was commissioned by the Scottish Government with the principal aim of developing a long-term plan for the provision of ferry services throughout Scotland. Publication and launch of the Scottish Ferries Plan is expected to take place later in 2011.

The Board examines, on an ongoing basis, existing practices with a view to identifying more efficient and cost effective ways of delivering and improving standards of service. In the opinion of the Directors, the state of affairs of the Company is satisfactory.

Political and charitable donations

The Company made no political or charitable donations during the year. However, the Company supports a range of local organisations through travel-related sponsorship and continues to be the main commercial supporter of the Royal National Mod.

Directors and their interests

The Directors who held office during the year and up to the date of this report were as follows:

P K Timms		
C A Robertson	-	appointed 21 July 2010
I Gillies	-	resigned 27 May 2011
A M Lynch		
L B MacLeod		
D C McGibbon	-	resigned 27 May 2011
P G Preston		
N L Quirk		
P Stark		
G A Taylor		
R Sinclair	-	resigned 31 December 2010
W L Sinclair	-	retired 30 June 2010

Dr Robert Sinclair resigned from office to pursue other interests; Mr Gillies and Mr McGibbon resigned as part of a corporate restructuring programme.

None of the Directors had any beneficial interest in the share capital of the Company at any time during the year.

The Company's sole Shareholder is David MacBrayne Ltd., which is wholly owned by the Scottish Ministers.

Employees

The Company has a policy of equal opportunities and non-discrimination in all aspects of employment.

The majority of employees are formally represented by Trade Unions recognised for collective bargaining purposes. A system of Consultative Committees is well established.

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

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

Policy of employment of people with disabilities

It is the Company's policy to consider applications for employment from people with disabilities 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 employees with disabilities. 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.

Adoption of going concern basis

On the basis of the information available to them, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to re-appoint KPMG LLP as auditors of all companies within the David MacBrayne Group will be put to the members at the David MacBrayne Ltd. Annual General Meeting.

On behalf of the Board

P G Preston
Director
27 June 2011

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors Report to the members of CalMac Ferries Limited

We have audited the financial statements of CalMac Ferries Limited for the year ended 31 March 2011 set out on pages 5 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

G Macrae

G Macrae (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

27 June 2011

Profit and Loss Account
for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Turnover	2	**115,173**	113,195
Cost of sales		**(106,145)**	(104,040)
Gross profit		**9,028**	9,155
Administrative expenditure		**(7,179)**	(7,016)
Operating profit		**1,849**	2,139
Interest receivable	3	**66**	11
Interest payable		**(2)**	-
Profit on ordinary activities before taxation	3	**1,913**	2,150
Tax on profit on ordinary activities	5	**(142)**	(139)
Profit for the financial year		**1,771**	2,011

There are no other recognised gains or losses for the year.

The accompanying notes are an integral part of these financial statements

Balance Sheet
as at 31 March 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	6	**18**	31
Investments	7	-	-
		18	31
Current assets			
Stocks of fuel, lubricants and consumables		**1,268**	1,036
Debtors and prepayments	8	**5,695**	5,637
Cash at bank and in hand		**11,660**	8,985
		18,623	15,658
Creditors			
Amounts falling due within one year	9	**(15,127)**	(12,446)
Net current assets		**3,496**	3,212
Net assets		**3,514**	3,243
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	**3,514**	3,243
Shareholder's funds		**3,514**	3,243

These financial statements were approved by the Board of Directors and signed on 27 June 2011 on its behalf by:

P K Timms, Chairman

A M Lynch, Director

The accompanying notes are an integral part of these financial statements

Notes on the financial statements

1. Accounting policies

(a) Basis of preparation
These financial statements have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(b) Tangible assets
Gross book values of all tangible assets are stated at cost. No depreciation is charged until the asset comes into use.

(c) Investments
Fixed asset investments are carried at cost.

(d) Depreciation
Depreciation is provided on tangible assets by equal annual instalments calculated to write off the cost (taking account of anticipated residual values) over their estimated useful lives as follows:

Equipment	-	4 years
Motor Vehicles	-	3 years

(e) Stock
Stock is valued at the lower of average invoiced cost and net realisable value.

(f) Maintenance and repair costs
Routine maintenance and repair costs, as well as vessel overhaul costs, are charged to the profit and loss account in the financial period in which the work is performed. Repairs to meet statutory or classification requirements are met by the vessel owners and recharged to the operator by increased charter hire charges. Where the Company provides ferry services under a fixed-term contract, at contract end, independent vessel surveys are carried out to establish any work required. The agreed dilapidation costs are charged to profit and loss account at the end of the contract period.

(g) Taxation
The Company is included within a Group election into tonnage tax effective from commencement of trading. However, certain activities within the Company are liable to corporation tax. Accordingly, the charge for taxation is based partly on ship tonnage and partly on the result for the period and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(h) Pensions
The Company is a participating employer in the CalMac Pension Fund, which is a defined benefit scheme operated by Caledonian Maritime Assets Ltd. Accordingly, for the purposes of FRS 17 : Retirement Benefits, pension contributions are accounted for as if the scheme was defined contribution.

(i) Receipts in advance
Receipts for advanced and multi-journey bookings are recognised with reference to time of travel. The deferred element of this income is shown under creditors.

2. Turnover

Turnover represents gross revenue stated net of value added tax and is made up as follows:

	2011	2010
	£000	£000
Fares and other income	**55,752**	54,655
Management fees	**1,308**	1,202
Grant receivable from the Scottish Government	**58,113**	57,338
	115,173	113,195

Notes on the financial statements continued

3. Profit on ordinary activities before tax

The Profit is stated after charging/(crediting):		2011 £000	Restated 2010 £000
Auditors' remuneration	- audit of these financial statements	**26**	31
	- other services relating to taxation	**13**	12
	- other services	**-**	-
Depreciation of tangible fixed assets		**13**	16
Amortisation of intangible fixed assets		**-**	286
Agency staff costs		**34,508**	34,819
Operating lease costs	- land and buildings	**2,015**	1,933
	- ships and motor vehicles	**16,334**	15,683
Interest receivable	- bank	**(66)**	(11)
Interest payable	- bank	**2**	-

4. Employee information

Staff costs (including Directors)

	2011 £000	2010 £000
Wages and salaries	**8,397**	8,122
Social security costs	**768**	749
Other pension costs	**1,329**	1,197
	10,494	10,068

Directors' remuneration

	2011 £000	2010 £000
Directors' emoluments, including performance payments and benefits in kind	**115**	115
Company contributions to a defined benefit pension scheme	**26**	25
Highest paid Director		
- emoluments, including performance payment and benefits in kind	**115**	115
- Company contributions to defined benefit pension scheme	**26**	25
- accrued pension at 31 March	**28**	26

Retirement benefits are accruing to 1 Director (2010: 1 Director) under a defined benefit pension scheme.

Employee numbers

The average number of people employed by the Company, including Directors, during the year was 366 (2010: 354).

Notes on the financial statements continued

5. Taxation

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

	2011 **£000**	2010 £000
UK corporation tax on profit for the year	**11**	170
Adjustments in respect of prior year	-	(6)
	11	164
Deferred tax:		
Adjustments in respect of prior year	-	(5)
Origination of timing differences	**131**	(20)
	131	(25)
Tax on profit on ordinary activities	**142**	139

The tax assessed for the year differs from the standard rate of corporation tax of 28%. The differences are explained below:

	2011 **£000**	2010 £000
Profit on ordinary activities before tax	**1,913**	2,150
UK corporation tax at 28%	**536**	602
Effects of:		
Tonnage tax	**(447)**	(505)
Items not allowed for tax purposes	**53**	53
Deferred tax	**(131)**	20
Adjustment in respect of prior year	-	(6)
Corporation tax for the year	**11**	164

The Company is included within a Group election into tonnage tax. However, certain activities within the Company are liable to corporation tax. Tonnage tax is levied wholly on the net tonnage of certain vessels operated by the Company. Accordingly, the amount of tonnage tax payable is not affected by the amount of accounting profits or losses related to the associated activities.

The Company has a deferred tax asset of £169,000 (2010: £300,000) which is considered recoverable. It is included within debtors (note 8) and comprises:

	2011 **£000**	2010 £000
Decelerated capital allowances	**162**	218
Other timing differences	**7**	82
	169	300
Balance at beginning of year	**300**	275
Movement during the year	**(131)**	25
Balance at end of year	**169**	300

Notes on the financial statements continued

6. Tangible assets

	Equipment £000	Motor Vehicles £000	Total £000
Cost			
At 1 April 2010	35	14	49
Additions during the year	-	-	-
At 31 March 2011	**35**	**14**	**49**
Depreciation			
At 1 April 2010	11	7	18
Charge for the year	8	5	13
At 31 March 2011	**19**	**12**	**31**
Net book value at 31 March 2011	**16**	**2**	**18**
Net book value at 31 March 2010	24	7	31

7. Investments

	£000
At beginning and end of year	-

The Company owns the whole of the issued share capital of Caledonian MacBrayne Crewing (Guernsey) Ltd., which is registered in Guernsey, and undertakes the offshore crewing arrangements.

8. Debtors and prepayments

	2011 £000	2010 £000
Trade debtors	**2,315**	2,182
Other debtors	**1,030**	1,236
Prepayments and accrued income	**1,414**	1,250
Corporation tax	**36**	-
Deferred tax (note 5)	**169**	300
Amounts due from parent company, subsidiaries and fellow subsidiaries	**731**	669
	5,695	5,637

9. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**1,989**	1,796
Other creditors and accruals	**10,055**	6,167
Deferred income	**2,909**	2,370
Corporation tax	-	170
Amounts due to subsidiaries and fellow subsidiaries	**174**	1,943
	15,127	12,446

10. Share capital

	2011 £000	2010 £000
Authorised		
100 Ordinary Shares of £1 each	-	-
Allotted issued and fully paid		
1 Ordinary Share of £1 each	-	-

Notes on the financial statements continued

11. Profit and loss account

	2011 £000	2010 £000
Balance at beginning of year	**3,243**	3,232
Retained profit for the year	**1,771**	2,011
Dividend paid during the year	**(1,500)**	(2,000)
Balance at end of year	**3,514**	3,243

12. Pension arrangements

A large number of employees are members of the CalMac Pension Fund which is a defined benefit scheme. The Company is a participating employer in this scheme which is operated by Caledonian Maritime Assets Ltd., a company wholly owned by Scottish Ministers. On this basis, pension contributions are accounted for as if the scheme were defined contribution. Caledonian Maritime Assets Ltd. is responsible for the financial arrangements to meet past deficits in the CalMac Pension Fund.

A number of other employees participate in one of the Merchant Navy Pension Funds. As these pension schemes are all industry-wide, contributions are accounted for on a defined contribution basis.

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

	2011 £000	2010 £000
CalMac Pension Fund	**1,230**	1,174
Other schemes	**99**	23
	1,329	1,197
Contributions to be paid to pension schemes included in creditors	**134**	126

13. Cash flow statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary and the parent undertaking includes the Company in its published consolidated financial statements.

14. Other financial commitments

The Company has a number of operating leases in respect of buildings and motor vehicles. The annual commitments in respect of these leases are as follows:

	2011 £000	Restated 2010 £000
Buildings		
Leases which expire:		
within one year	**16**	16
between two and five years	**2,083**	1,999
	2,099	2,015
Ships and motor vehicles		
Leases which expire:		
within one year	**695**	189
between two and five years	**17,155**	14,636
	17,850	14,825

Notes on the financial statements continued

15. Related party transactions

Under FRS 8, the Company is exempt from the requirement to disclose related party transactions with Group undertakings as it is a wholly owned subsidiary of a parent undertaking which prepares and publishes consolidated financial statements.

Details of transactions with other related parties are as follows:

	2011	2010
	£000	£000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- grant	**58,113**	57,338
Caledonian Maritime Assets Ltd.		
- vessel leasing charges	**(13,669)**	(13,004)
- harbour, property and equipment access charges	**(1,992)**	(1,905)
- vessel modification and other costs	**1,058**	800
- vessel new build costs	**59**	37
- harbour management and maintenance	**26**	863
- staff costs	**296**	295
- ferry travel costs	**6**	6
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- grant	**(4,323)**	(813)
Caledonian Maritime Assets Ltd.		
- vessel new build costs	**-**	6
- vessel modification costs receivable	**248**	807
- harbour management and maintenance	**1**	10
- staff costs	**-**	2
- ferry travel costs	**1**	-

During the year, the Company acted as agent for Caledonian Maritime Assets Ltd. in relation to certain elements of new vessel builds. The associated funds were paid to third parties and recovered from Caledonian Maritime Assets Ltd.

16. Ultimate parent company

The Company is a wholly owned subsidiary of David MacBrayne Ltd., which is wholly owned by Scottish Ministers. The group in which the results of the Company are consolidated is that headed by David MacBrayne Ltd., incorporated in the United Kingdom.

No other group financial statements include the results of the Company. The consolidated financial statements are available to the public and may be obtained from the registered address shown in the Directors' report or on the parent Company's website.

Corporate information

Registered office	The Ferry Terminal Gourock PA19 1QP
Auditors	KPMG LLP
Solicitors	McGrigors
Bankers	The Royal Bank of Scotland plc Santander UK plc
Principal insurers	The North of England Protecting & Indemnity Association
Website	www.calmac.co.uk