302282

CALMAC FERRIES LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

CalMac Ferries Limited/Company Number SC302282/31 March 2012

Contents

Directors' Report

The Directors present their Directors' Report and financial statements for the year ended 31 March 2012.

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. It is anticipated that the tender process to be conducted by the Scottish Government relating to the provision of these ferry services for the period from 1 October 2013 will commence before the end of 2012.

The Company made a profit for the year before tax of £2.2m (2011: £1.9m). A dividend of £1.7m (2011: £1.5m) was paid to the Company's sole shareholder during the year.

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 2011/12 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 for the second consecutive year and also named "Public Transport Operator of the year" in the Scottish Transport Awards for the second consecutive year.

The principal risks and uncertainties facing the business relate to the 6-yearly cycle of competitive tendering in respect of the services currently operated by the Company and the implications of the extension, 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 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.

Financial instruments

The Company enters into no complex financial instruments.

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		
M Dorchester	-	appointed 11 May 2012
R L Drummond	-	appointed 18 April 2012
I Gillies	-	resigned 27 May 2011
A M Lynch	-	retired 18 April 2012
L B MacLeod		
D C McGibbon	-	resigned 27 May 2011
P G Preston	-	resigned 11 November 2011
N L Quirk		
P J D Stark		
G A Taylor		

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 identify where 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 Auditor

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 auditor is 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 auditor is aware of that information.

Auditor

A resolution to re-appoint KPMG LLP as auditor of the Company will be put to the members at the Annual General Meeting.

On behalf of the Board

C A Robertson
Director
25 July 2012

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 Auditor's Report to the members of CalMac Ferries Limited

We have audited the financial statements of CalMac Ferries Limited for the year ended 31 March 2012 set out on pages 5 to 13. 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 auditor's 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 2012 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.

M Ross (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

191 West George Street
Glasgow
G2 2LJ

25 July 2012

Profit and Loss Account
for the year ended 31 March 2012

	Note	**2012 £000**	2011 £000
Turnover	2	**127,980**	115,173
Cost of sales		**(118,531)**	(106,145)
Gross profit		**9,449**	9,028
Administrative expenditure		**(7,372)**	(7,179)
Operating profit		**2,077**	1,849
Interest receivable	3	**117**	66
Interest payable	3	**(1)**	(2)
Profit on ordinary activities before taxation	3	**2,193**	1,913
Tax on profit on ordinary activities	5	**(278)**	(142)
Profit for the financial year		**1,915**	1,771

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 2012

	Note	2012 £000	2011 £000
Fixed assets			
Tangible assets	6	**8**	18
Investments	7	-	-
		8	18
Current assets			
Stocks	8	**1,387**	1,268
Debtors and prepayments	9	**4,431**	5,695
Cash at bank and in hand		**12,074**	11,660
		17,892	18,623
Creditors			
Amounts falling due within one year	10	**(14,160)**	(15,127)
Net current assets		**3,732**	3,496
Total assets less current liabilities		**3,740**	3,514
Provisions for liabilities	11	**(11)**	-
		3,729	3,514
Capital and reserves			
Called up share capital	12	**-**	-
Profit and loss account	13	**3,729**	3,514
Shareholder's funds		**3,729**	3,514

These financial statements were approved by the Board of Directors and signed on 25 July 2012 on its behalf by:

P K Timms, Chairman

R L Drummond, 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
Retail stock is stated at the lower of cost and net realisable value. Stock in relation to fuels, lubricants and consumable stores is stated at cost. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the relevant stock and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

(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) Leases
The Group leases ships, shore terminal infrastructure and office accommodation. All of these leases are considered to be operating leases since a significant portion of the risks and rewards of ownership of the leased assets are retained by the lessor. Lease charges incurred under these operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(h) Revenue
Government grants are recognised in the financial year in which the associated operating deficits are incurred.

(i) 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, where appropriate, takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(j) 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.

(k) 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.

(l) Dividend to Shareholder
Where circumstances permit, a dividend is payable annually to the holding company David MacBrayne Limited. The quantum of the dividend is dependent on the estimated profit which is expected to be achieved for the financial year and the Company's cash position.

2. Turnover

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

	2012 £000	2011 £000
Fares and other income	**57,582**	55,752
Management fees	**1,085**	1,308
Grant receivable from the Scottish Government	**72,383**	58,988
Grant Clawback	**(3,070)**	(875)
	127,980	115,173

Grant clawback is a reduction in contracted grant payable by Transport Scotland. It represents Transport Scotland's share of efficiencies made by the Group in excess of the allowable operator return.

3. Profit on ordinary activities before tax

The Profit is stated after charging/(crediting):		2012 £000	2011 £000
Auditor's remuneration	- audit of these financial statements	**26**	26
	- other services relating to taxation	**7**	13
	- advisory	**1**	-
	- all other services	**2**	-
Depreciation of tangible fixed assets		**10**	13
Amortisation of intangible fixed assets		**-**	-
Agency staff costs		**37,138**	34,508
Operating lease costs	- land and buildings	**2,089**	2,015
	- ships and motor vehicles	**18,047**	16,334
Interest receivable	- bank	**(117)**	(66)
Interest payable	- bank	**1**	2

4. Employee information

Staff costs (including Directors)

	2012 £000	2011 £000
Wages and salaries	**8,518**	8,397
Social security costs	**795**	768
Other pension costs	**1,332**	1,329
	10,645	10,494

Directors' remuneration

	2012 £000	2011 £000
Directors' emoluments, including performance payments and benefits in kind	**171**	115
Company contributions to a defined benefit pension scheme	**30**	26
Highest paid Director		
- emoluments, including performance payment and benefits in kind	**171**	115
- Company contributions to defined benefit pension scheme	**30**	26
- accrued pension at 31 March	**31**	28

Retirement benefits are accruing to 1 Director (2011: 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 358 (2011: 366).

Notes on the financial statements continued

5. Taxation

The tax on profit on ordinary activities is made up as follows:

	2012	2011
	£000	£000
UK corporation tax on profit for the year	**103**	11
Adjustments in respect of prior year	**(5)**	-
	98	11
Deferred tax:		
Adjustments in respect of prior year	**150**	-
Origination of timing differences	**28**	131
Reduction in tax rate	**2**	-
	180	131
Tax on profit on ordinary activities	**278**	142

The tax charge for the year differs from the application of the standard rate of corporation tax in the UK to the profit on ordinary activities before tax. The differences are explained below:

	2012	2011
	£000	£000
Profit on ordinary activities before tax	**2,193**	1,913
UK corporation tax at 26% (2011: 28%)	**570**	536
Effects of:		
Tonnage tax	**(481)**	(447)
Items not allowed for tax purposes	**42**	53
Deferred tax	**(28)**	(131)
Adjustment in respect of prior year	**(5)**	-
Tax charge for the year	**98**	11

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 liability of £11,000 (2011: asset of £169,000). In the previous year, the balance was included within debtors (note 9). The balance comprises:

	2012	2011
	£000	£000
Capital allowances timing differences	**(19)**	162
Other timing differences	**8**	7
	(11)	169
Balance at beginning of year	**169**	300
Movement during the year	**(180)**	(131)
Balance at end of year	**(11)**	169

Notes on the financial statements continued

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011 and further reductions to 24% (also effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012, respectively. This will reduce the Company's future current tax charge and further reduce the deferred tax balances accordingly, the latter having been calculated based on the rate of 24% substantively enacted by the balance sheet date.

6. Tangible assets

	Equipment £000	Motor Vehicles £000	Total £000
Cost			
At 1 April 2011	35	14	49
Additions during the year	-	-	-
At 31 March 2012	**35**	**14**	**49**
Depreciation			
At 1 April 2011	19	12	31
Charge for the year	9	1	10
At 31 March 2012	**28**	**13**	**41**
Net book value at 31 March 2012	**7**	**1**	**8**
Net book value at 31 March 2011	16	2	18

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 Company's offshore crewing arrangements.

8. Stocks

	2012 £000	2011 £000
Fuels and lubricants	**813**	675
Consumable stores	**331**	383
Retail stock	**243**	210
	1,387	1,268

9. Debtors and prepayments

	2012 £000	2011 £000
Trade debtors	**1,965**	2,315
Other debtors	**500**	1,030
Prepayments and accrued income	**1,213**	1,414
Corporation tax	-	36
Deferred tax (note 5)	-	169
Amounts due from fellow group undertakings	**753**	731
	4,431	5,695

Notes on the financial statements continued

10. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**1,208**	1,989
Other creditors and accruals	**9,756**	10,055
Deferred income	**2,864**	2,909
Corporation tax	**35**	-
Amounts due to fellow group undertakings	**297**	174
	14,160	15,127

11. Provision for liabilities

	2012 £000	2011 £000
Deferred tax (note 5)	**(11)**	-

12. Share capital

	2012 £000	2011 £000
Authorised		
100 Ordinary Shares of £1 each	-	-
Allotted issued and fully paid		
1 Ordinary Share of £1 each	-	-

13. Profit and loss account

	2012 £000	2011 £000
Balance at beginning of year	**3,514**	3,243
Retained profit for the year	**1,915**	1,771
Dividend paid during the year	**(1,700)**	(1,500)
Balance at end of year	**3,729**	3,514

14. Reconciliation of movements in shareholder's funds

	2012 £000	2011 £000
Opening shareholder's funds	**3,514**	3,243
Profit for the financial year	**1,915**	1,771
Dividend paid during the year	**(1,700)**	(1,500)
Closing shareholder's funds	**3,729**	3,514

15. Pension arrangements

A large number of the Company's employees are members of the CalMac Pension Fund which is a multi-employer defined benefit scheme (the 'Scheme' or the 'CalMac Scheme'). The Company is a participating employer in the CalMac Scheme, which is operated by Caledonian Maritime Assets Ltd ('CMAL'), a company also wholly owned by Scottish Ministers. As the Trustees of the CalMac Scheme are unable to identify the Company's share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company is accounting for the Scheme in its financial statements as if the Scheme was a defined contribution scheme. Although CMAL is responsible for the financial arrangements to meet past deficits in the CalMac Scheme, the Company also has continuing obligations to fund such deficit repair contributions as are agreed from time to time between CMAL, the Scheme trustees and the participating employers.

The latest full triennial actuarial valuation of the CalMac Scheme as at 6 April 2009, carried out by an independent actuary, showed that the scheme had liabilities of £72.5m, assets of £44.5m and, consequently, a deficit of £28.0m. Whilst the results of the next full actuarial valuation, which will be performed as at 6 April 2012, are not expected to be available until late 2012, the Scheme actuaries have performed periodic funding updates on behalf of the Trustees, the latest of which indicates that the Scheme deficit position identified as at 6 April 2009 is likely to have increased significantly since that date.

Notes on the financial statements continued

Although it is not possible for the Directors to anticipate the results of the actuarial valuation of the CalMac Scheme to be performed as at 6 April 2012 and, hence, to assess the financial implications on the Company, the Directors consider that any liability the Company has in relation to the CalMac Scheme will ultimately be funded by Scottish Ministers.

A number of the Company's employees participate in one of the Merchant Navy Pension Funds which are industry-wide defined contribution schemes. Contributions to these schemes are therefore accounted for on a defined contribution basis.

The Merchant Navy Officers' Pension Fund (MNOPF) is closed to new members and the actuarial valuation carried out at 31 March 2009 showed a gross deficit of £740m at the valuation date and that the market value of the assets of £1,547m covered 68% of the value of the liabilities. The latest valuation update provided by MNOPF actuary as at 31 March 2011 showed a gross deficit of £331m as at that date and a market value of the assets of £2,051m which covered 86% of the value of the liabilities.

As the Trustees of the MNOPF are unable to identify the Company's share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company, which is a participating employer in the MNOPF, is accounting for the Scheme in its financial statements as if the Scheme was a defined contributions scheme.

The Directors also consider that any liability the Company has in relation to MNOPF will ultimately be funded by Scottish Ministers.

The amounts charged to the income statement in respect of employer contributions to Pension Schemes is:

	2012 £000	2011 £000
CalMac Pension Fund	**1,299**	1,230
MNOPF	**33**	32
Other schemes	**-**	67
	1,332	1,329
Contributions to be paid to pension schemes included in creditors	**136**	134

16. 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.

17. 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:

	2012 £000	2011 £000
Buildings		
Leases which expire:		
within one year	**17**	16
between two and five years	**2,144**	2,083
	2,161	2,099
Ships and motor vehicles		
Leases which expire:		
within one year	**632**	695
between two and five years	**18,115**	17,155
	18,747	17,850

Notes on the financial statements continued

18. 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:

	2012 £000	2011 £000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- grant	**69,313**	58,113
Caledonian Maritime Assets Ltd.		
- vessel leasing charges	**(15,680)**	(13,669)
- *harbour services*	**(2,068)**	(1,966)
- vessel new build, modification and other costs	**1,153**	1,117
- staff costs	**214**	296
- ferry travel costs	**9**	6
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- grant	**(3,354)**	**(4,323)**
Caledonian Maritime Assets Ltd.		
- vessel new build, modification and other costs	**831**	248
- harbour services	**(3)**	1
- ferry travel costs	**1**	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.

19. Ultimate parent company

The Company is a wholly owned subsidiary of David MacBrayne Ltd., which is wholly owned by the Scottish Ministers. The Group in which the Company's results are consolidated is that headed by David MacBrayne Ltd., which is incorporated in the United Kingdom. No other Group financial statements include the Company's results.

The consolidated financial statements are available to the public and copies may be obtained from the parent company's registered office at the Ferry Terminal, Gourock, PA19 1QP and are also available on the parent company's website.

Corporate information

Registered office	The Ferry Terminal Gourock PA19 1QP
Auditors	KPMG LLP
Solicitors	Pinsent Masons
Bankers	The Royal Bank of Scotland plc Santander UK plc
Principal insurers	The North of England Protecting & Indemnity Association
Website	Parent company: www.david-macbrayne.co.uk Company: www.calmac.co.uk