

CALMAC FERRIES LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

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Strategic Report

The Company recorded a profit before tax of £1.7m (2019: £4.9m), operating the CHFS 2 contract profitably, maximising allowable operator return. The principal risk that the group faces relates to the eight-yearly cycle of competitive tender processes conducted by the Scottish Government.

COVID crisis

Although it only impacted the last two weeks of the reporting period, the COVID crisis has undoubtedly had one of the biggest impacts of any event in the history of the Company.

In line with government guidelines in the middle of March, we began to reduce our island lifeline services along with our mainland-to-mainland routes, moving some less busy routes to an on demand only basis.

By 26 March, we had moved to a full essential lifeline services only timetable. This saw traffic across the network drop by 95%, an unprecedented level for us.

Our priority throughout this period was to keep island communities safe, while maintaining lifeline services.

Carrying figures

This year saw a slight drop in passengers carried from 5,605,092 to 5,533,762.

This was partly impacted by the COVID crisis lockdown at the end of March, but the biggest factor in the drop was the weather. Severe and persistent storms across January and February saw almost 15% of all sailings cancelled.

This was not reflected in vehicle traffic though, which was up marginally from 1,439,629 to 1,450,325, a 0.7% increase.

Both coach and commercial vehicle carryings remained static, with commercial vehicle (at 10,876 and 10,804) and coach (at 79,612 and 78,878) numbers comparing favourably to last year.

Scheduled sailings dropped slightly from 164,089 last year to 162,916 in 2019/20. This was entirely in relation to changes to the timetable, the COVID crisis and the bad weather, as outlined earlier.

However, when the summer season only is compared, the trend is upward growth with 4.4 million passengers carried compared to 4.3 million in 2018.

Contracted reliability and punctuality remain at industry leading levels at 99.58% for reliability and 99.69% for punctuality.

Public accessibility around our carrying figures took a huge leap forward, with the launch of the UK's first online tool that allows customers to access carrying data for individual routes at the touch of a button.

From our website, customers can simply select a time period, route and traffic type to generate their report. The tool allows customers to view the number of passengers and vehicles carried and allows them to compare these over different time periods. No other transport operator offers such transparency of its carrying data.

Moving to a learning culture approach to health and safety

To build on the foundations of our continuous improvement approach to Quality Management we are working towards developing a learning culture where we reflect on incidents and look for the leading indicators of future risks.

Over the coming year, we will introduce a new framework based on the experience of the airline industry. This will be a first step to improve trust and remove barriers to reporting, allowing us to predict issues and learn more effectively from incidents to ultimately improve the safety of staff and customers.

Biodiversity Duty Report

We continue to demonstrate our commitment to conserve biodiversity, while undertaking our operations, as detailed within the Nature Conservation (Scotland) Act 2004 and to fulfil the reporting requirements of the Wildlife and Natural Environment (Scotland) Act 2011 (WANE Act).

Biodiversity measures have increasingly been incorporated into our policies and procedures during the reporting period. We ensured that all environmental aspects and impacts from across the organisation were identified and controlled.

In late 2016, our first Procurement Strategy was released, which details how sustainability is to be embedded within all the products and services that CalMac procure. This strategy aligns with the Scottish Government's Model of Procurement, with a specific objective to protect and enhance biodiversity wherever possible.

CalMac has developed an Environmental Management Plan, which outlines the steps required to improve and monitor environmental performance. A key element of this plan is to manage any potential impacts on biodiversity and to enhance biodiversity wherever possible. The Environmental Management Plan supported the upgrading of the EMS to ISO 14001:2015 and has been shared internally with all employees via our intranet system, Gangway.

Strategic Report

During 2017, CalMac developed an Ecology Management Plan, which highlights the current understanding of biodiversity at managed sites and identifies potential positive and negative impacts on biodiversity. Within the Ecology Management Plan, we have protected and enhanced existing biodiversity across the network through sustainable management and adapting to change; and we continue to provide environmental services and benefits for the passengers and communities that it supports.

Our current report is available on the CalMac website and we are working on our new three-year report, which will be published in January 2021.

Protecting our sailing environment

We made great progress on delivering the objectives of our Environmental Strategy this year.

We replaced the bins in our ports and vessels with recycling stations, so passengers can fully segregate their waste at each location. Recycling rates are now running at 46%. We started food waste segregation on board our Islay vessels and have successfully procured nine new waste contracts across the network with specialist waste companies, who we are working closely with to further increase our recycling rates and divert waste from landfill.

Over the reporting period, we reduced our vessel fuel consumption by 1.3%, which saved 1,691 tonnes of CO₂ being produced - equivalent to the annual output of 368 cars. We also reduced our relative carbon footprint by a total of 2.5% on a 2018/19 benchmark.

To support our environmental awareness work, we worked with several community groups, such as Field Studies Council Millport, on several anti-litter projects. We also took part in 27 marine mammal and 12 marine bird surveys, all undertaken by volunteer citizen scientists, under the supervision of our team Wildlife Officer.

Environmental Strategy in action: ORCA promotes marine environment

One of the biggest successes of CalMac's Environmental Strategy has been the Marine Awareness Programme, raising the profile of the biodiversity of wildlife across the west coast.

Since 2015, we have been working with marine mammal charity ORCA on Oceanwatch, a mammal survey to understand mammal populations in European waters. We will also be expanding and building on this work over the next few years, to educate passengers about the fantastic biodiversity contained in our waters.

This programme has been developed through a partnership of 14 organisations, including Marine Scotland and Scottish Natural Heritage, to help passengers get the most from the environment they are travelling through.

"Last summer, volunteers on our ferries spotted more than 500 marine mammals across the west coast. A team of more than 60 wildlife enthusiasts compiled the survey results that tracked different species on different routes as part of the programme." said CalMac's Environmental Manager, Klare Chamberlain.

They were supervised by resident ORCA Wildlife Officer, Andy Gilbert, who was taken on to increase understanding of the wealth of biodiversity that exists in our area of operations.

Continued commitment to training

Our commitment to creating high quality training opportunities continued to deliver over the course of the year.

Last year saw us recruit our 100th Modern Apprentice (MA). We recruit across deck, engine, retail and harbour MAs and 85% of all of the apprentices we have recruited live within the communities we support.

We now have a well-established industry leading pipeline for producing the next generation of seafarers.

All MAs combine classroom study with time at sea and will achieve appropriate Scottish Qualification Authority qualifications.

In addition to MAs, we sponsored 10 officer cadets over the past year, bringing the total number currently in training for a career at sea to 21.

Training recognition: Excellence Award for CalMac's commitment to training

CalMac picked up a prestigious hospitality award for its innovative Modern Apprenticeship partnership, with City of Glasgow College winning the top prize in the Training and Employee Retention category at the Catering International and Services (CIS) Excellence Awards.

The awards recognise creativity, innovation and excellence in the Scottish hospitality, catering and tourism sectors. This category specifically rewards companies who prioritise the training, engagement and retention of staff, and who regard continuous professional development as the mainstay of a successful business.

Strategic Report

CalMac's Director of Human Resources, Christine Roberts, said, "Our partnership with City of Glasgow College continues to go from strength to strength, producing a pipeline of recruits keen to spend a long career with the Company. This award is recognition of the value we place on our staff. CalMac is all about providing first class customer service and I'm delighted that the efforts we make, ensuring staff are continuously developed and our high standards maintained, have been rewarded."

Customer care innovation

Through our Ar Turas (our journey) project, we remain committed to delivering a modern booking, ticketing and travel experience for our customers.

Project planning progressed over the year and we have now entered a formal procurement process for new booking and ticketing software.

We were delighted to open a new customer service centre in Stornoway, bringing six new jobs to the town. This shows that we are starting to deliver on our pledge, to look at ways of spreading support function staff more evenly around our area of operations.

Our customer service staff continue to deliver industry-beating standards, achieving the highest level of accreditation from the Contact Centre Association (CCA) for the quality of their customer care and was awarded "Team of the Year" in competition with large global company's in recognition of their response time in communicating disruption to customers and their innovative use of social media.

The team also now offer a bi-lingual English and Gaelic service. Previously, assistance from a Gaelic speaker was only available to Gaelic-speaking customers telephoning or visiting port offices in Gaelic-speaking areas. Now, anyone who would like to make an enquiry in Gaelic can be transferred to a native speaker to deal with their booking.

We are also working towards transforming our social media channels into a bi-lingual offering.

Our customer service team handles more than 300,000 calls and 44,000 emails every year. Their professionalism and customer centred attitude earned them the accolade of 'Team of the Year', at the Contact Centre Association Awards.

Over the course of last year, we also improved the functionality of our online reservations system.

Customers can now save payment details and make changes to reservations online. Although a small step in our overall ticketing transformation, it was one we were able to deliver quickly in response to customer demand.

Perth Port

Since taking over the management of Perth Port in 2018, we have increased traffic at the facility by 200% and increased harbour fee income for our client, Perth and Kinross Council, by 485%.

When we took over this contract, we wanted to breathe new life into the harbour. We saw it as a much underused income generation stream for the council and wanted to see it developed as a valuable resource for the city. We are clearly delivering on this and, in doing so, contributing to the economic regeneration of the city.

Types of cargo handled in the past year include timber, aggregates, the mineral barite and fishmeal.

Managing the Fleet

We are now investing record amounts and introducing real service innovation to improve the resilience of our fleet.

Increased passenger volumes, combined with the higher number of sailings that we have been tasked with carrying out, is placing more and more pressure on our services.

To mitigate this, we successfully delivered a complex £8m programme of vessel upgrade and resilience improvements, funded by Caledonian Maritime Assets Limited, during last year's winter maintenance programme.

This is in addition to the annual planned maintenance expenditure, to ensure every vessel is ready for another year of supporting communities across the west coast.

On top of the regular cyclical planned maintenance, we carried out more than 90 major projects involving the fleet. This included new engines on the MV Loch Striven and Loch Tarbert, replacement pitch control systems on the MV Clansman and Isle of Lewis, a new bow thruster on the MV Hebridean Isles, replacement ramps and new generators on various vessels.

The sheer scale and complexity of our overhaul programme makes it a huge undertaking. Our new CCTV networks alone required more than 18km of electrical cable to be fitted.

We also introduced a new Mobile Maintenance Team to further boost fleet resilience.

Strategic Report

The seven strong team comprises electrical and mechanical engineers, along with hydraulic specialists.

The team is tasked with carrying out planned maintenance to vessels in-service, as well as being a flexible resource that can be deployed immediately to support on-board engineers with any technical issues.

With our vessels setting sail around 360 times every day, this new team has the mobility required to complete planned maintenance when and where it is needed on the network, minimising disruption to service due to technical issues.

Community Board

Our independent Community Board was set up to help guide our strategic thinking in delivering services that suit our islands' needs. It comprises 14 members from across our area of operations. Over the course of the reporting period, it has successfully worked to influence the Scottish Government in securing funds for a new ticketing system and additional funding to allow better management of our dry docking schedule. It has been instrumental in the promotion and uptake of our Community Fund, along with the successful creation and implementation of the Strengthening Communities Initiative. This involved island business owners delivering workshops on board vessels, targeting individuals considering starting a new business on an island.

The Board also worked closely with us and Caledonian Maritime Assets Ltd - the owners of the majority of the ports we work from - to install better facilities at remote ports.

They have also been campaigning hard for cheaper ticket prices for young people travelling to sport and recreational activities.

To increase our commitment to transparency and openness with stakeholders, we toured David MacBrayne Board meetings around the network, ensuring local access to key decision makers within the Company.

During the reporting period, we also made an appearance at the Scottish Parliament's Rural Economy and Connectivity Committee, where we highlighted the on-going risk to the resilience of our services of an ageing fleet. At the same session, the Community Board also made the case for increased long term investment in the fleet and the need for a higher level of community consultation on the nature and design of new tonnage.

Community Fund success

Our Community Fund, introduced last year as one of our new Corporate Social Responsibility initiatives, continues to go from strength to strength.

Demand from west coast youth groups has been so strong, we took the decision to expand it.

We have now supported a total of 76 projects up and down the west coast, which will increase opportunities for local young people.

The fund enables groups to set up projects that will help break down barriers faced in island and coastal communities.

It is open to any non-profit youth organisation registered in a mainland port or island we serve.

Over the course of the year, projects supported have been as diverse as woman's football in the Outer Hebrides, to the Campbeltown Sea Cadets, a Gaelic youth club on Skye and a community radio station in Millport Primary School.

Otters welcome Dolphins for CalMac Challenge

Young swimmers from Islay and Jura joined local swimmers in Oban for the 'CalMac Swim Challenge'. All in all, 57 swimmers from the Islay and Jura Dolphins and the Oban Otters swim clubs took part in the meet at the Atlantis Leisure Centre.

Miranda Barkham, Vice-chair, Oban Otters Amateur Swimming, said, "The visit from the Islay and Jura Dolphins allowed our local swimmers to see the sociable side of being involved in sport. We also invited any keen swimmers from Oban's 'Learn to Swim' programme to take part."

The day was made possible through the support of CalMac's Community Fund.

Last year, the fund was designed to create new opportunities for young people, by supporting non-profit youth organisations based in a mainland port or island the Company serves. Organisations applied for an award between £500 to £2,000.

So far, the fund has supported 76 projects from woman's football in the Outer Hebrides, to the Campbeltown Sea Cadets and a Gaelic youth club on Skye.

Each application was judged by a screening panel of young people recruited from across the company's network, in partnership with Young Scot.

Strategic Report

"A key part of the Community Fund's aims is to open up opportunities for island and coastal young people to which they would not have access. Bringing together these swim clubs, to help improve their swimming technique and meet young people with similar interests from other communities, is exactly what the fund is for, creating new opportunities to help young people in our communities broaden their horizons." said CalMac's Corporate Social Responsibility Manager, Gordon McKillop.

Section 172 statement

The issues identified in this strategic report, and the decisions taken around them by directors, reflect closely those raised by our stakeholders.

All directors understand how these issues impact on the communities we support through feedback gained from our Stakeholder Engagement Strategy.

Directors' principal decision making is guided by this Strategy. CalMac aims to inform, engage and involve its key stakeholders through an agreed and formalised engagement structure.

The core groups have been identified as follows:

- Ministers / Government / MSPs and MPs
- Transport Scotland & Caledonian Maritime Assets Ltd as primary contractual clients
- CalMac Community Board
- Local Authorities and local councillors
- Key commercial customers & stakeholders
- Community Groups (including Ferry groups)
- Media
- Other agencies within 'Scotland plc.' Such as VisitScotland, Highlands and Islands Enterprise and Marine Scotland
- MCA, Lloyds and other regulatory bodies
- Trades Unions

These groups are engaged with via a multichannel approach of

- Direct specific stakeholder Group meetings, when relevant
- One-to-One meetings
- Informal briefings
- Phone and video conferencing
- Round table discussions
- Attendance at external events/ conferences
- CalMac hosted events
- Direct e-mail from CalMac
- Generic marketing – CFL website, Facebook, Twitter, e- newsletters
- Generic marketing – Flyer/poster – ports, vessels – sales distribution channels
- Generic marketing – Newspapers – local and national
- Generic marketing – specific media titles – such as Holyrood FfleeMagazine

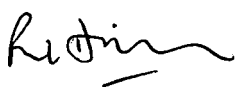
The CalMac Ferries Ltd also conducts additional engagement such as network specific business breakfasts and parliamentary receptions. These events are tailored to either route specific, regional, or network wide community/political stakeholders. All engagement is carried out in line with our company, goals, values and objectives.

There are also route specific, operational issues, specific to each area. These issues are managed at a local level through local Ferry Committees. The CalMac Area Operations Team liaises with the local committee and reports key findings for escalation if required.

This is also the case for regional specific issues, dealt with via the Ferry Stakeholder Groups (FSGs), and network wide, strategic issues where the operational team engages with the CalMac Community Board.

The Community Board is an independent board consisting of representatives from across our network with the aim of having strategic community input into our decision making process.

On behalf of the Board



R Drummond
Director
28 October 2020

Directors' Report

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:

D C McGibbon
R L Drummond
D Mackison
S Hagan
S Browell
M Comerford
J Stirling
A Tait

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 Limited, 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 Company is committed to equality of opportunity for all its employees and customers, and to treating every member of staff and every customer with dignity and respect.

It is the Company's policy to ensure that all staff are able to work in an environment free from discrimination, harassment and bullying.

As a Company owned by the Scottish Ministers of the Scottish Government, we fully subscribe to the Government's Race Equality Scheme, Disability Scheme and the Gender Equality Scheme. As a Company, we continue to develop structures and systems to ensure that equal opportunities becomes an integral part of our thinking and behaviour.

All of these measures are kept under regular review with a view to identifying where improvements can be made.

Employee consultation

The Company is committed to effective employee communications, which it maintains through all staff notices, the staff newsletter and briefing sessions.

The Company also provides further engagement through active participation with our Trade Unions. 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 combination 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 Group.

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 his/her period of employment, the Company will, where 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, with the continued support of Transport Scotland, 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.

Directors' Report

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

A handwritten signature in black ink, appearing to read 'R Drummond', with a horizontal line underneath.

R Drummond
Director
28 October 2020

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

The directors are responsible for preparing the Strategic Report, 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), including FRS 101 *Reduced Disclosure Framework*.

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 judgements 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of CalMac Ferries Limited ("the company") for the year ended 31 March 2020 which comprise the Profit and Loss Account, Balance Sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Michael Wilkie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

29 October 2020

**Profit and Loss Account
for the year ended 31 March 2020**

| | Note | 2020 £000 | 2019 £000 |
|--------------------------------------|------|------------------|--------------|
| Turnover | 2 | 224,990 | 208,138 |
| Cost of sales | | (190,376) | (180,103) |
| Gross profit | | 34,614 | 28,035 |
| Administrative expenditure | | (31,477) | (23,154) |
| Operating Profit | | 3,137 | 4,881 |
| Interest receivable | 3 | 360 | 39 |
| Interest payable | 3 | (1,966) | - |
| Investment income | | 200 | - |
| Profit before taxation | 3 | 1,731 | 4,920 |
| Tax on Profit | 5 | (489) | 23 |
| Profit for the financial year | | 1,242 | 4,943 |

All results are derived from continuing operations.

**Statement of Comprehensive Income
for the year ended 31 March 2020**

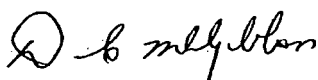
| | | 2020 £000 | 2019 £000 |
|--|----|-----------------|--------------|
| Profit for the year | | 1,242 | 4,943 |
| Other comprehensive income, net of tax | | | |
| Change in value of cash flow hedge recognised | 15 | (11,738) | 2,227 |
| Change in Tax relating to cash flow hedge | 5 | 784 | (379) |
| Total comprehensive income attributable to equity holders of the parent | | (9,712) | 6,791 |

The accompanying notes are an integral part of these financial statements.

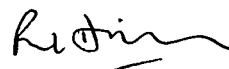
**Balance Sheet
as at 31 March 2020**

| | Note | 2020 £000 | 2019 £000 |
|--|------|----------------------------|---------------|
| Fixed assets | | | |
| Tangible assets | 6 | 76,424 | 105 |
| Other financial assets | 7 | - | 4,612 |
| | | <u>76,424</u> | <u>4,717</u> |
| Current assets | | | |
| Stock | 9 | 1,791 | 1,264 |
| Contract assets | 2 | 8,520 | 15,240 |
| Debtors and prepayments | 10 | 8,029 | 10,151 |
| Cash at bank and in hand | | 23,163 | 10,963 |
| | | <u>41,503</u> | <u>37,618</u> |
| Creditors | | | |
| Contract liabilities | 2 | (4,081) | (5,358) |
| Amounts falling due within one year | 11 | (17,984) | (15,726) |
| Derivative financial instruments liability | 7 | (3,173) | - |
| Lease liability | 13 | (14,742) | - |
| | | <u>Net current assets</u> | <u>16,534</u> |
| | | 1,523 | |
| Creditors: Amounts falling due after more than one year | | | |
| Lease liability | 13 | (63,078) | - |
| Derivative financial instruments liability | 7 | (3,953) | - |
| Deferred Tax | 12 | 489 | (134) |
| | | <u>Net assets</u> | <u>21,117</u> |
| | | 11,405 | |
| Capital and reserves | | | |
| Called up share capital | 14 | - | - |
| Hedge reserve | 15 | (7,126) | 3,828 |
| Profit and loss account | | 18,531 | 17,289 |
| | | <u>Shareholder's funds</u> | <u>21,117</u> |
| | | 11,405 | |

These financial statements were approved by the Board of Directors and signed on 28 October 2020 on its behalf by:



D C McGibbon, Chairman



R L Drummond, Director

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

| | Called Up Share Capital £000 | Hedge Reserve £000 | Profit and Loss Account £000 | Total Equity £000 |
|--|---|-----------------------------------|---|----------------------------------|
| Balance at 1 April 2018 | - | 1,980 | 12,412 | 14,392 |
| Total comprehensive income for the year | | | | |
| Impact of transition to IFRS 9 | - | - | (66) | (66) |
| Profit for the year | - | - | 4,943 | 4,943 |
| Other comprehensive income | - | 1,848 | - | 1,848 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total comprehensive income for the year | - | 1,848 | 4,877 | 6,725 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2019 | - | 3,828 | 17,289 | 21,117 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | Called Up Share Capital £000 | Hedge Reserve £000 | Profit and Loss Account £000 | Total Equity £000 |
| Balance at 1 April 2019 | - | 3,828 | 17,289 | 21,117 |
| Total comprehensive income for the year | | | | |
| Profit for the year | - | - | 1,242 | 1,242 |
| Other comprehensive income | - | (10,954) | - | (10,954) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total comprehensive income for the year | - | (10,954) | 1,242 | (9,712) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2020 | - | (7,126) | 18,531 | 11,405 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The accompanying notes are an integral part of these financial statements.

Notes on the financial statements

1. Accounting policies

CalMac Ferries Limited is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:-

- a Cash Flow Statement and related notes
- comparative period reconciliations for tangible fixed assets
- disclosures in respect of transactions with wholly owned subsidiaries
- disclosure in respect of capital management
- the effects of new but not yet effective IFRSs
- an additional balance sheet for the beginning of the earliest comparative period
- disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of David MacBrayne Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:-

- the disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided.

Change in significant accounting policies

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 April 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition, the Company has reassessed all contracts to assess whether they contain a lease based upon this definition.

As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases

Leases classified as operating leases under IAS 17

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, (see note 13).

Right-of-use assets were measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these were:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets

Notes on the financial statements

1. Accounting policies (continued)

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements for the year ending 31 March 2020.

| | Impact of adoption of IFRS 16 | | Balances without adoption of IFRS 16 |
|-------------------------------------|-------------------------------|-------------|--------------------------------------|
| | As reported | Adjustments | |
| | £000 | £000 | £000 |
| Balance sheet | | | |
| Vehicles and equipment | 676 | 676 | - |
| Property | 2,048 | 2,048 | - |
| Ships | 90,473 | 90,473 | - |
| Depreciation vehicles and equipment | (149) | (149) | - |
| Depreciation property | (396) | (396) | - |
| Depreciation ships | (16,449) | (16,449) | - |
| Current lease liability | (14,742) | (14,742) | - |
| Non current lease liability | (63,076) | (63,076) | - |
| Interest Expense | 1,965 | 1,965 | - |
| Administrative Expense | (350) | (350) | - |

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019.

Change in significant accounting policies

As a lessor

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 March 2019 in the Company's financial statements and the lease liabilities recognised at 1 April 2019:

| | 2019 |
|--|---------------|
| | £000 |
| Operating lease commitments at 31 March 2019 as disclosed under IAS 17 | 105,824 |
| Discounted using the incremental borrowing rate at 1 April 2019 | (6,469) |
| Extension options reasonably certain to be exercised | 7,532 |
| Lease agreements newly in scope at 1 April 2019 | (13,690) |
| Revision of lease terms | |
| Lease liabilities recognised as at 1 April 2019 | 93,197 |

(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.

Going concern

The Directors have prepared the financial statements on a going concern basis, which they consider to be appropriate for the following reasons.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report and Directors' Report on pages 1 to 7.

A key source of income for the Company is the CHFS 2 contract subsidy from Transport Scotland and, during the COVID-19 pandemic additional payments have been received by the Company from Transport Scotland in recognition of the reduced levels of fare revenue resulting from government imposed restrictions on the public including the use of public transport. The Company has recorded a profit after tax in the current financial year and the company's balance sheet shows that it has net current assets of £1.8 million as at 31 March 2020.

Notes on the financial statements

1. Accounting policies (continued)

For the purposes of the directors' assessment of the Company's going concern position and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a cash flow forecast for a period of 12 months from the date of approval of these financial statements that reflect various plausible scenarios as a result of COVID-19 and its impact on the Company. Specifically they have considered a severe, but plausible downside scenario including in a sustained decrease in fare revenue in line with that which was experienced during the initial lockdown period. In the initial period of lockdown and to date, additional funding was received under contract variation from Transport Scotland. While the Directors expect that this will continue it is subject to ongoing approval by Transport Scotland. In the severe but plausible downside the Directors assume continued restrictions on travel and social distancing for a period, and that further contract variations will continue through to March 2021 and that thereafter such variations and associated additional payments are not received.

The cash flow forecasts indicate that, after taking account of this severe but plausible downsides as result of the impact of the COVID-19 pandemic, the Company's existing resources are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(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) 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 |
| Ships | 30 years |

(d) Leases (policy applicable from 1 April 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

The lease liability is measured at amortised cost using the effective interest method

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes on the financial statements

1. Accounting policies (continued)

Leases (policy applicable prior to 1 April 2019)

The Company 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.

(e) Investments

Fixed asset investments are carried at cost.

(f) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets

(ii) Classification and subsequent measurement

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in joint ventures and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held with the bank.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes on the financial statements

1. Accounting policies (continued)

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied - see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised in the income statement immediately.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Notes on the financial statements

1. Accounting policies (continued)

Hedge effectiveness

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement on a yearly basis in respect of commodity hedging relationships. Hedge effectiveness is achieved where the correlation between the changes in value of the hedging instrument and the hedged item is between 80% and 125%.

Discontinuing hedge accounting

The Company discontinues prospectively hedge accounting when the hedge instrument expires or is sold, terminated or exercised, when the hedge relationship no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedging, any gain or loss that has been recognised in equity until that time remains separately recognised in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains and losses which have been previously deferred in equity are recognised in the income statement.

Valuation of financial instruments

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the Company's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market.

(iv) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as twelve-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date, or a shorter period if the expected life of the instrument is less than twelve months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive.) ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Notes on the financial statements

1. Accounting policies (continued)

(g) Inventories

Retail inventories are stated at the lower of cost and net realisable value. Inventories in relation to fuels, lubricants and consumable stores are 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.

(h) 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. 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.

(i) Revenue

The accounting policy for revenue is described in note 2.

(j) 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.

(k) Pensions

The Company is a participating employer in the CalMac Pension Fund, which is a defined benefit scheme operated by Caledonian Maritime Assets Limited. As set out in note 14, for the purposes of FRS 101, pension contributions are accounted for as if the scheme was defined contribution.

2. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a product or service to a customer.

Nature of goods and services

The following is a description of principal activities from which the Company generates its revenues.

Revenue from passengers comprises ticket sales for individuals, and vehicle ferry passage and associated retail operation.

The Company operates the Clyde and Hebrides ferry service contract on behalf of the Scottish Government, for which it receives subsidy revenue. The CHFS 2 contract was awarded to the Group with a start date of 1 October 2016 and runs for eight years. CalMac Ferries Limited will continue to operate Clyde and Hebrides ferry services. The contract provides the Company with revenue to subsidise the life-line services provided.

| Products and Services | Nature, timing of satisfaction of performance obligations and significant payment terms. |
|---------------------------|--|
| Fares | The Company recognises revenue when the sailing associated with the ticket sold occurs. The amount is equal to the value of the ticket price. Receipts for advanced tickets are recognised with reference to the time of travel with the deferred element maintained on the balance sheet within contract liabilities. |
| Contracts with Government | The CHFS 2 contract is paid on a straight line basis, monthly in arrears over the contract year. The Company recognises revenue as the services under the contract are provided. This is deemed to be over time over the length of each contract year and is based on a cost plus method. If the Company has recognised revenue for which payment has not been received, the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional. Where there is variable consideration, and other constraints to the assessment of the transaction price, the total forecast value is restricted to that amount to which a subsequent reversal is not highly probable. This includes performance deductions and profit sharing arrangements. |

Notes on the financial statements

2. Revenue (continued)

Disaggregation of revenue

In the following table, revenue is disaggregated by service line and timing of revenue recognition.

| | 2020 £000 | 2019 £000 |
|-------------------------------------|----------------|----------------|
| Fares and other associated services | 75,601 | 73,367 |
| Government – transferred over time | 148,814 | 134,123 |
| Inter Group – management fees | 575 | 648 |
| Total | 224,990 | 208,138 |

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

| | 2020 £000 | 2019 £000 |
|----------------------|--------------|--------------|
| Contract assets | 8,520 | 15,240 |
| Contract liabilities | (4,081) | (5,358) |
| Trade receivables | 2,769 | 2,813 |

The contract assets primarily relate to the Company's rights to consideration for services delivered but not billed at 31 March on the CHFS 2 contract. The contract liabilities primarily relate to the revenue associated with advance tickets purchased by customers for future sailings.

Significant changes in the contract assets and contract liabilities balances during the year are as follows

| | 2020 Contract assets £000 | 2019 Contract assets £000 | 2020 Contract liabilities £000 | 2019 Contract liabilities £000 |
|---|------------------------------------|------------------------------------|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the year | - | - | 5,358 | 4,359 |
| Increases due to cash received, excluding amounts recognised as revenue during the period | - | - | (4,081) | (5,358) |
| Increases as a result of changes in the measure of progress | 8,520 | 15,240 | - | - |

Transaction price allocated to the remaining performance obligations

The Company applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

3. Profit before tax

The profit is stated after charging/(crediting):

| | 2020 £000 | 2019 £000 |
|---------------------------------------|--------------|--------------|
| Auditor's remuneration | | |
| - audit of these financial statements | 45 | 42 |
| - other services relating to taxation | 14 | 9 |
| - all other services | 126 | 41 |
| Depreciation of tangible fixed assets | 17,091 | (90) |
| Harbour access charges | | |
| - Caledonian Maritime Assets Limited | 17,235 | 17,309 |
| - other | 16,515 | 14,813 |
| Agency staff costs | 69,436 | 66,379 |
| Operating lease costs | | |
| - land and buildings | - | 380 |
| - ships and motor vehicles | - | 17,552 |
| Finance lease costs | | |
| - land and buildings | 511 | - |
| - ships and motor vehicles | 16,835 | - |
| Interest receivable | (360) | (39) |
| Finance interest expense | 1,966 | - |
| Bank facility | 66 | 93 |

Notes on the financial statements

4. Employee information

Staff costs (including Directors)

| | 2020 £000 | 2019 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 21,728 | 20,145 |
| Social security costs | 2,255 | 2,068 |
| Other pension costs | 8,829 | 3,847 |
| | <hr/> | <hr/> |
| | 32,812 | 26,060 |
| | <hr/> | <hr/> |

Directors' remuneration

| | 2020 £000 | 2019 £000 |
|---------------------------------|--------------|--------------|
| Directors' Remuneration | 456 | 310 |
| Employer's Pension Contribution | 40 | 38 |
| | <hr/> | <hr/> |

The aggregate of remuneration of the highest paid Director was £191,000 (2019: £165,000). All Directors of the company had their remuneration paid by another company within the David MacBrayne Limited group in both the current and previous year.

Number of Directors

| | 2020 | 2019 |
|--|-------|-------|
| Retirement benefits are accruing to the following number of Directors under: | | |
| Defined benefit schemes | 1 | 1 |
| | <hr/> | <hr/> |

Employee numbers

The average number of people employed by the Company, including Directors, during the year was 668 (2019: 636).

| Category | 2020 £000 | 2019 £000 |
|-------------|--------------|--------------|
| Head Office | 294 | 266 |
| Port | 358 | 360 |
| Vessel | 16 | 10 |
| | <hr/> | <hr/> |
| | 668 | 636 |
| | <hr/> | <hr/> |

The increase in employee numbers in the year is driven by enhancing in house maintenance and reducing day rate contractors.

5. Taxation

| Current tax | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| UK corporation tax profit for the period | 26 | 6 |
| Adjustments in respect of prior periods | 194 | - |
| Consortium relief | 108 | - |
| | <hr/> | <hr/> |
| Total current tax charge | 328 | 6 |
| | <hr/> | <hr/> |
| Deferred tax | | |
| Impact of tax rate change | (58) | - |
| Adjustment in respect of prior periods | 152 | (39) |
| Origination and reversal of temporary differences | 67 | 10 |
| | <hr/> | <hr/> |
| | 161 | (29) |
| | <hr/> | <hr/> |
| Total tax charge/(credit) | 489 | (23) |
| | <hr/> | <hr/> |

Notes on the financial statements

5. Taxation (continued)

Income tax recognised in other comprehensive income

| | 2020 £000 | 2019 £000 |
|---------------------------------|--------------|--------------|
| Tax relating to cash flow hedge | (784) | 379 |

The tax charge on profit for the year varied from the standard rate of UK corporation tax as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Profit/(loss) for the period before tax | 1,731 | 4,920 |
| UK corporation tax rate of 19% (2019: 19%) | 328 | 935 |
| Tonnage tax | (167) | (1,201) |
| Non taxable income | (38) | - |
| Adjustments in respect of prior periods | 347 | (39) |
| Impact of rate change | (58) | - |
| Non deductible expenses | 77 | 81 |
| Deferred tax asset not recognised | - | 201 |
| Total tax charge/(credit) | 489 | (23) |

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred liability at 31 March 2020 has been calculated at 19% (2019: 17%).

No deferred tax asset has been recognised in relation of financial instruments, given the uncertainty on the timing of taxable profits arising.

6. Fixed Assets

| | Buildings £000 | Ships £000 | Vehicles & Equipment £000 | Total £000 |
|--|-------------------|---------------|---------------------------------|---------------|
| Cost | | | | |
| At 1 April 2019 | - | - | 110 | 110 |
| Recognition of right of use assets | 2,048 | 90,473 | 676 | 93,197 |
| Additions in the year | - | - | 213 | 213 |
| Disposals in the year | - | - | - | - |
| At March 2020 | 2,048 | 90,473 | 999 | 93,520 |
| Depreciation and impairment | | | | |
| At 1 April 2019 | - | - | 5 | 5 |
| Charge for the year | 396 | 16,449 | 246 | 17,091 |
| Disposals in the year | - | - | - | - |
| At March 2020 | 396 | 16,449 | 251 | 17,096 |
| Net book value at 31 March 2020 | 1,652 | 74,024 | 748 | 76,424 |
| Net book value at 31 March 2019 | - | - | 105 | 105 |

Notes on the financial statements

6. Fixed Assets (continued)

Right of use assets

| | Buildings £000 | Ships £000 | Vehicles & Equipment £000 | Total £000 |
|--|-------------------|---------------|---------------------------------|---------------|
| Cost | | | | |
| At 1 April 2019 | - | - | - | - |
| On transition to IFRS 16 on 1 April 2019 | 2,048 | 90,473 | 676 | 93,197 |
| Disposals in the year | - | - | - | - |
| At March 2020 | 2,048 | 90,473 | 676 | 93,197 |
| Depreciation and impairment | | | | |
| At 1 April 2019 | - | - | - | - |
| Charge for the year | 396 | 16,449 | 149 | 16,994 |
| Disposals in the year | - | - | - | - |
| At March 2020 | 396 | 16,449 | 149 | 16,994 |
| Net book value at 31 March 2020 | 1,652 | 74,024 | 527 | 76,203 |
| Net book value at 31 March 2019 | - | - | - | - |

7. Derivative financial Instruments

| | 2020 | | | | 2019 | | | |
|---------------------|---------|-------------|-------------|-------------|---------|-------------|-------------|-------------|
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | Current | Non-Current | Current | Non-Current | Current | Non-Current | Current | Non-Current |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Hedging derivatives | | | | | | | | |
| Cash flow hedge | | | | | | | | |
| Fuel hedge | - | - | (3,173) | (3,953) | - | 4,612 | - | - |

8. Investments

| | £000 |
|--|----------|
| At 1 April 2019 and 31 March 2020 | - |

The Company owns the whole of the issued share capital of Caledonian MacBrayne Crewing (Guernsey) Limited, which is registered in Guernsey, and undertakes the Company's offshore crewing arrangements. Registered office address: PO Box 287, 4th Floor, West Wing, Trafalgar Court, Admiral Park, St. Peter Port, Guernsey, GY1 3RL.

9. Stock

| | 2020 £000 | 2019 £000 |
|------------------------|--------------|--------------|
| Fuels and lubricants | 502 | 475 |
| Consumable inventories | 1,038 | 535 |
| Retail inventories | 251 | 254 |
| | 1,791 | 1,264 |

Charge to profit and loss £21.9m (2019: £20.9m)

Notes on the financial statements

10. Debtors and prepayments

| | 2020 £000 | 2019 £000 |
|-----------------------------------|--------------|---------------|
| Trade receivables | 2,769 | 2,811 |
| Other receivables | 1,272 | 1,810 |
| Prepayments and accrued income | 3,701 | 5,014 |
| Amounts due by group undertakings | 287 | 516 |
| | 8,029 | 10,151 |

11. Creditors: amounts falling due within one year

| | 2020 £000 | 2019 £000 |
|-------------------------------------|---------------|---------------|
| Trade payables | 6,906 | 5,349 |
| Other payables and accruals | 10,071 | 9,974 |
| Corporation tax | 328 | - |
| Amounts due by group undertakings | 679 | 403 |
| Fuel hedge | 3,173 | - |
| Deferred tax liability (see note 5) | - | - |
| | 21,157 | 15,726 |

Terms and debt repayment schedule

| | Currency | Nominal Interest Rate | Year of Maturity | Face Value 2020 £000 | Carrying Amount 2020 £000 | Face Value 2019 £000 | Carrying Amount 2019 £000 |
|----------------|----------|-----------------------------|---------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|
| Loan from bank | GBP | Libor + 1.5% | 31 Oct. 2022 | - | - | - | - |

This is a revolving credit facility with no fixed repayment prior to maturity.

12. Deferred tax assets and liabilities

The main components of deferred tax at 19% (2019: 17%) are:

| | Assets 2020 £000 | Liabilities 2020 £000 | Assets 2019 £000 | Liabilities 2019 £000 | Net 2020 £000 | Net 2019 £000 |
|-----------------------|------------------------|-----------------------------|------------------------|-----------------------------|---------------------|---------------------|
| Tangible fixed assets | 459 | - | 634 | - | 459 | 634 |
| Financial assets | - | - | - | (784) | - | (784) |
| Other | 30 | - | 16 | - | 30 | 16 |
| | 489 | - | 650 | (784) | 489 | (134) |

Movement in deferred tax during the year

| | 1 April 2019 £000 | Recognised in income £000 | 31 March 2020 £000 |
|-----------------------|-------------------------|---------------------------------|--------------------------|
| Tangible fixed assets | 634 | (175) | 459 |
| Financial assets | (784) | 784 | - |
| Other | 16 | 14 | 30 |
| | (134) | 623 | 489 |

Notes on the financial statements

12. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the previous year

| | 1 April 2018 £000 | Recognised in income £000 | 31 March 2018 £000 |
|-----------------------|-------------------------|---------------------------------|--------------------------|
| Tangible fixed assets | 575 | 59 | 634 |
| Financial assets | (405) | (379) | (784) |
| Other | 46 | (30) | 16 |
| | <u>216</u> | <u>(350)</u> | <u>(134)</u> |

13. Leases

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 6).

| | Buildings £000 | Vehicles & Equipment £000 | Ships £000 | Total £000 |
|------------------------------------|---------------------|---------------------------------|----------------------|----------------------|
| Balance at 1 April 2019 | - | - | - | - |
| Recognition of right of use assets | 2,048 | 676 | 90,473 | 93,197 |
| Depreciation charge for the year | (396) | (149) | (16,449) | (16,994) |
| Balance at 31 March 2020 | <u>1,652</u> | <u>527</u> | <u>74,024</u> | <u>76,203</u> |

Amounts recognised in statement of cash flows

| | |
|-------------------------------|----------------------|
| | 2020 £000 |
| Total cash outflow for leases | 15,378 |

| | Vessels £000 | Property £000 | Vehicles & plant £000 |
|---------------------------------|-----------------|------------------|-----------------------------|
| IFRS16 – lease liability | | | |
| Within 1 year | 14,223 | 373 | 146 |
| 1 - 2 years | 15,033 | 355 | 142 |
| 2 - 3 years | 15,882 | 372 | 132 |
| 3 - 4 years | 16,781 | 389 | 63 |
| 4 - 5 years | 13,680 | 199 | 50 |
| | <u>75,599</u> | <u>1,688</u> | <u>533</u> |

Operating lease disclosure under IAS 17

Future aggregate minimum rentals payable under non-cancellable operating leases are as follows:

| | Ships & Motor Vehicles | Buildings/ harbour access | Total |
|------------------------------|------------------------------|---------------------------------|----------------|
| | 2019 £000 | 2019 £000 | 2019 £000 |
| Within one year | 17,897 | 374 | 18,271 |
| In the second to fifth years | 56,351 | 1,364 | 57,715 |
| Plus fifth year | 29,672 | 166 | 29,838 |
| | <u>103,920</u> | <u>1,904</u> | <u>105,824</u> |

Notes on the financial statements

14. Share capital

| | 2020 £000 | 2019 £000 |
|---------------------------------------|--------------|--------------|
| Allotted issued and fully paid | | |
| 1 Ordinary Share of £1 each | - | - |

15. Analysis of movements in equity attributable to equity holders of CalMac Ferries Limited

| | Commodity derivatives £000 | Tax effect £000 | Total £000 |
|---|----------------------------------|--------------------|---------------|
| Cash flow hedges | | | |
| At 1 April 2019 | 4,612 | (784) | 3,828 |
| Effective portion of changes in fair value of cash flow hedges | (9,738) | - | (9,738) |
| Tax relating to cash flow hedge | - | 784 | 784 |
| Net charge in fair value of cash flow hedges reclassified to profit or loss | (2,000) | - | (2,000) |
| At 31 March 2020 | (7,126) | - | (7,126) |

The fuel hedge relates to CHFS2 contract and is placed in line with agreement with Transport Scotland.

16. 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 Limited ('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, and as CMAL is legally considered to be the sponsoring employer for the Scheme, and is responsible for any deficit repair obligations in relation to the Scheme, the Company is accounting for the Scheme in its financial statements as if the Scheme was a defined contribution scheme.

The latest full triennial actuarial valuation of the CalMac Scheme as at 6 April 2018, carried out by an independent actuary, showed that the scheme had liabilities of £224.7m, assets of £196.6m and, consequently, a deficit of £28.1m.

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 (MNOFF) is closed to new members and the actuarial valuation carried out at 31 March 2018 showed a gross deficit of £73m at the valuation date and that the market value of the assets of £3,278m covered 98% of the value of the liabilities. The Company could still be required to make contributions against any deficit.

As the Trustees of the MNOFF 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 MNOFF, is accounting for the Scheme in its financial statements as if the Scheme was a defined contributions scheme. Future contributions are expected to continue at a rate of 20%.

In March 2016, the MNOFF Scheme closed to future accrual. Employees who were members of the scheme transferred to the Ensign Retirement Plan, an industry-wide defined contribution scheme.

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

Under the Government's Pension Auto Enrolment legislation, employers must automatically enrol into a 'qualifying pension scheme' all qualifying employees not already in a pension scheme as well as all new starters. The legislation also dictates that those who have opted out must be reviewed and enrolled again every three years.

The Peoples Pension is the provider for a stakeholder pension scheme for auto enrolment purposes. New employees can still choose to opt out of this new scheme and enrol in the existing final salary scheme at appropriate times during the year. Employees can only be in one scheme at any given time.

Notes on the financial statements

16. Pension arrangements (continued)

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

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| CalMac Pension Fund | 8,556 | 3,589 |
| Ensign | 12 | 11 |
| Other schemes | 271 | 247 |
| | <hr/> | <hr/> |
| | 8,839 | 3,847 |
| | <hr/> | <hr/> |
| Contributions to be paid to pension schemes included in creditors | 424 | 396 |
| | <hr/> | <hr/> |

CalMac Pension Fund includes a contribution of £4.6m paid in the year.

17. Related party transactions

Under FRS 101, 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:

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Transactions during the year – receivable/(payable): | | |
| Scottish Ministers | | |
| - subsidy | 144,168 | 134,123 |
| - subsidy – pension contribution | 4,646 | - |
| - recharge of consultancy agreements | 1,463 | 1,277 |
| Caledonian Maritime Assets Limited | | |
| - vessel leasing charges | (16,508) | (17,418) |
| - harbour services | (17,711) | (17,427) |
| - vessel new build, modifications and other costs | 6,725 | 3,534 |
| - staff costs | - | (14) |
| - ferry travel costs | 9 | 13 |
| Solent Gateway Limited | | |
| - consortium relief | (108) | - |
| - management recharge | 619 | 310 |
| | <hr/> | <hr/> |
| Amounts due at end of year – receivable/(payable): | | |
| Scottish Ministers | | |
| - subsidy | 8,520 | 15,240 |
| - recharge of consultancy agreements | 360 | 1,277 |
| Caledonian Maritime Assets Limited | | |
| - vessel leasing charges | - | (322) |
| - harbour services | (1,037) | (473) |
| - staff costs | - | - |
| - vessel new build, modifications and other costs | 1,168 | 204 |
| - ferry travel costs | 1 | - |
| Solent Gateway Limited | | |
| - consortium relief | (108) | - |
| - management recharge | 1,796 | 1,796 |
| | <hr/> | <hr/> |

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

Solent Gateway Limited is a joint venture company between David MacBrayne Limited and GBA (Holdings) Limited. It is owned and controlled 50% by David MacBrayne Limited and 50% by GBA (Holdings) Limited.

Notes on the financial statements

18. Ultimate parent company and related undertakings

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

The Company's other related undertaking is its subsidiary as disclosed in note 8.

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

Auditor

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