CALMAC FERRIES LIMITED SC302282
STRATEGIC REPORT, DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

Contents

Strategic Report

CalMac Ferries Limited is the UK's largest ferry operator, running 35 vessels to over 50 destinations, across 200 miles of Scotland's west coast as at 31 March 2023. We provide an everyday lifeline service to west coast communities, and for tourism, we play a critical role in enabling its development, which is hugely important for the area's economy.

Our Purpose:

- To navigate the waters, ensuring life thrives, wherever we are

Our Values:

- People first - We help each other thrive
- Locality - We act in the best interest of the places we serve
- Bravery - We think and act with courage and conviction

Our Business goals:

- Safety - Retain safety at the heart of our organisation
- Value - Deliver a high-quality, cost-efficient operation
- Customer Service - Deliver brilliant customer journeys to a consistent standard
- People - Put people-first and be one CalMac
- Change - Set a strong platform for revenue growth
- Environment - Improve an environmentally sustainable service

The Company recorded a loss before tax of £6.0m (2022: loss before tax £2.4m), operating the Clyde and Hebrides Ferry Service (CHFS 2) contract.

The Company paid no dividend to the Shareholder during this financial year (2022: nil).

Operations during 2023 have been challenging due to service disruptions relating to the technical resilience of the fleet, increasing vessel resilience investment and rising costs relating to cost of living. On a positive note we are seeing a further increase in carryings against the prior year and new vessel commitments from the Scottish Government with 4 vessels currently under construction (2 in dockyards based in the UK and 2 in dockyards based in Turkey).

The principal risk that the Company faces remains the eight-yearly cycle of competitive tender processes conducted by the Scottish Government. The current contract ends on 30 September 2024 and at date of signing, the Transport Minister announced that Scottish Government will explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts Scotland Regulations 2015.

It is expected that the assessment will be complete summer 2024.

CalMac Performance Overview

During the financial year we have seen our vessel carryings continue to recover towards a pre pandemic level as we operate our services in line with the Clyde and Hebrides Ferry contract. Our operated sailings increased to a 3 year high with our contractual reliability and punctuality materially aligned to the prior year achievement, as highlighted below in graphical representation.

Fiscal Year	Passengers	Cars	Commercials	Coaches
FY 2018/19	5,605,077	1,439,619	78,878	10,804
FY 2019/20	5,533,751	1,450,325	79,612	10,876
FY 2020/21	2,059,331	755.602	69,868	1,223
FY 2021/22	4,289,322	1,351,272	80,574	3,347
FY 2022/23	5,020,637	1,441,649	80,768	7,469

<u>CHFS Reliability and Punctuality 2021 to 2023</u>

The CHFS contract stipulate the contractual reliability and performance definitions which exclude weather-related disruptions. We also report and monitor actual reliability and performance, which includes the impact of all disruption to services. The below illustration sets out our contractual and actual performance over the last 3 years.

Fiscal Year Name	Contractual Reliability %	Actual Reliability %	Contractual Punctuality %	Actual Punctuality %	Operated Sailings
FY 2020/21	99.63%	94.51%	99.91%	97.41%	117,039
FY 2021/22	98.90%	93.10%	99.61%	96.71%	152,275
FY 2022/23	98.67%	95.16%	99.57%	96.64%	169,929

During 2023, we delivered contractual reliability of 98.67% (2022: 98.90%) and performance of 99.57% (2022: 99.61%). An average of 3-4% of sailings each year are impacted by weather, and this is higher during the winter season.

We received our final Covid-19 funding during the year of £0.4m (2022 £11.7m) as a variation to our Clyde and Hebrides Ferry contract. We remain grateful for the public funding support provided during the pandemic which enabled us to protect jobs, provide staff isolation where required and to ensure the continuity of our services.

Service Resilience

There were a number of service resilience improvement initiatives delivered during 2023, which are included below:

MV Loch Frisa
MV Loch Frisa entered the fleet in June 2022, adding resilience and additional capacity.

CMAL Vessel Resilience Programme
During 2023, we continued to invest in the vessels and delivered a £7.5m programme on behalf of Transport Scotland via CMAL to address vessel upgrade and resilience. The programme included replacing equipment that was obsolete or at the end of economic life, and upgrades of equipment to improve environmental performance and reliability. In addition, this programme involved statutory upgrades where equipment replacement was required to support changes in certification requirements.

This programme of vessel resilience is important and extensive, with typical projects including navigation and communication equipment upgrades, engine control and monitoring system upgrades, fire detection system updates, emergency generator replacement, sewage tank replacements and small vessel ramp replacement.

We continue to develop data and insight to better understand technical risks and are investing in excess of the statutory and class minimum requirement to identify areas of risk and reduce the probability of in-service failure and overhaul overrun. We use continuous improvement techniques to identify trends and guide our preventative maintenance activity.

The long-term contract for the provision of annual vessel overhaul and breakdown support with our yard suppliers continues to provide benefit in terms of collaboration, planning and relationships which has been particularly helpful this season with several short notice changes being supported by the yards.

Condition Assessment Programme (CAP)
We have implemented a Condition Assessment Programme that has commenced a programme of additional surveys and inspections (over and above statutory requirements) to improve understanding of the condition of our vessels and ensure that risks are identified and, where possible, mitigated. As the data builds over the next two years this will be used to feed into and improve the preventative maintenance programme.

Global Supply Chain
Our technical supply chain is critical to the support of vessel resilience. There have been wide, well publicised impacts on global supply chains including the Covid pandemic, Brexit, reduction in semiconductor production and supply and high global and local inflationary pressures. Our supply chains are worldwide with many parts and service agents being provided from outside the UK, coupled with the increasing age and obsolescence of equipment this is resulting in high risks around technical supply chain. This is being reviewed with a number of initiatives being progressed to mitigate these risks over the next few years.

Workshop Relocation to Faulds Park
The workshops have now formally moved into the new facility at the workshop and logistics hub which supports the maintenance of spare assemblies and supply chain support for our vessels undergoing repairs and annual overhauls. The new facility provides off-vessel component maintenance, repair, and overhaul replacing the previous facility located at the Gourock based head office.

The new logistics hub has led to improvements in the control, management, and distribution of spare parts for all maintenance activity both in day-to-day operations and planning for annual overhauls with fleet wide 'preload' now being embedded and made ready for a proposal to bring this initiative into Business as Usual, in 2023-24. This initiative has improved supply chain support on vessel annual overhauls driving timely and on-site logistics support.

Operational Excellence
Our core challenge remains the average age of the fleet, and in 2023, we initiated an Operational Excellence Programme, taking into account best industry practise for managing our vessels. This has identified a number of 'quick wins' that have been implemented and a programme of improvement in management of change, data collection, analysis, visualisation and quality assurance. In addition, the organisational structure of how we manage the vessels has been reviewed and we will be implementing changes to this over the next year to ensure we embed quality in everything we do.

With the increasing average age of the fleet, it is important to look at modern and innovative ways to manage fleet resilience, upgrades, annual vessel overhauls and preventative maintenance. The Board has approved the investment project to procure a modern maritime engineering support software solution that will facilitate improvement in the way we manage our vessel assets. We have started work on the project to replace the current maintenance system to allow us to better track and ensure all aspects of fleet maintenance and parts management are scheduled efficiently.

During 2023 we completed a project to gather the asset data required to support this initiative de-risking delivery. This change in maintenance management system will take some time to fully embed (more than the next financial year) and will be closely linked to the new maintenance management system roll out but once both are in place this will improve maintenance management, data capture and analysis and allow significantly better understanding and driving of optimised maintenance for the vessels.

Fleet Key statistics (February 2023)

1. Oldest vessel is 46 years old (Isle of Cumbrae)
2. 13 vessels are over 30 years old (37% of the fleet)
3. 24 vessels are over 20 years old (69% of the fleet)
4. The average age of the fleet is 25 years old

Our People and Staff Engagement

We have continued to deliver our People Strategy in line with the Scottish Government Fair Work principles. Within CalMac Ferries Ltd, we recognise four trades unions (Nautilus International, RMT, Unite, TSSA). Each union has collective bargaining rights for certain employee groups, and we negotiate pay on a joint basis with all four unions. There is a regular schedule of meetings between management and trade union representatives through Port Committee meetings, the Small Ferries Committee, the Officer Liaison meeting and regular business review meetings with the CalMac CEO.

We have a well-established People Steering Group who meet monthly, this is chaired by the CalMac Operations Director, which further provides a forum and a voice for staff from across all areas of our business to provide input and feedback into what is happening in the business.

Employee Wellbeing

We support and value our colleagues and their wellbeing is of the utmost importance to us. We launched a new Employee Assistance Programme (EAP) in November 2021, designed to help improve health and wellbeing in both personal and professional life. We have teamed up with Health Assured to offer all colleagues this enhanced EAP, which includes access to the UK's leading wellbeing app, My Healthy Advantage. The app is a confidential resource designed to support the employees' overall wellbeing - with features including mood trackers, helpful videos, 24/7 support services, active challenges and a wellbeing calendar of events. Employees also have access to a wellbeing portal, where they can get telephone support and they can download an app.

Investment in workforce development

Since the award of the CHFS 2 contract, we have focused on continuously improving our approach to provide staff with access to the development they require to deliver their current and future roles. The Learning and Development team, which is part of the HR Department, provides an extensive range of learning and development which, together with our Union Learning partnership, helps ensure that that staff have equal access to the development required. This includes supporting managers to identify learning needs through the annual performance appraisal and development planning cycle. The Learning and Development Team focuses on providing training linked to our corporate goals; local priorities and objectives; retention and development of our key talent; and compliance with regulations and maritime standards.

Our Talent Management and Succession Planning processes allow us to tailor programmes and personal development plans to progress our top talent and address succession risks.

Our full time RMT Trade Union Learning representative has partnered with us to deliver a range of learning opportunities, including LGBTQ Inclusion and Awareness workshops, and mentoring training, to support trainees and unconscious bias training.

In partnership with the Scottish Trade Union Learning Fund, we trained more Mental Health First Aiders, growing our network to 65 staff, and continued to deliver our Mental Health Awareness Training for line managers.

Our strong commitment to early careers is evidenced through our industry leading apprenticeship programmes. We run modern apprenticeship programmes in Project Management, Deck, Engine and Maritime hospitality, typically taking on 20 apprentices each year from our Island communities, benefitting both CalMac and the Communities we serve. Since March 2018 we have recruited 107 modern apprentice positions, and we are immensely proud of each apprentice and their achievements over the period.

We continue to contribute to the Merchant Navy Training Board (MNTB) Apprenticeship Committee Group and provide influence, input and feedback to UK wide discussions.

We have a well-established cadet sponsorship programme in partnership with Clyde Marine Training based in Glasgow and currently sponsor 24 cadets.

We are active across our network communities promoting early careers at CalMac and the sector. We continue to launch campaigns during Scottish Apprenticeship Week, sending out our Early Careers Brochure to 70 schools across our communities and delivering a social media apprenticeship campaign.

We do not employee any staff under zero hours contracts. We are, and will continue to be, a Living Wage Employer.

We continue our commitment to equal pay for work of equal value across all areas of our organisation. However, our industry is traditionally male dominated and while we have a positive gender balance across our shore-based roles (and a Gender Pay Gap that is favourable to women), it remains a challenge to attract and retain more females into seafaring roles, particularly in the engineering disciplines. We have worked proactively with Equate Scotland and through our Early Careers Work to ensure that barriers are removed and that females are encouraged to consider roles in these disciplines. Our Gender Pay Gap across both our seagoing and shore-based workforce remains favourable compared with national and industry benchmarks.

We have a well-established "Inclusive CalMac" Steering Group which meets six times a year. The purpose of this group is to champion, encourage and develop a sustainable culture of inclusion.

Within the Inclusive CalMac framework, we have developed an "Inclusive Females" work stream. Some of this work includes:

- Focus groups with female colleagues to better understand our colleagues' experiences, any challenges of working in maritime and to understand how we can become more inclusive for all

- Targeted communications during Scottish Modern Apprenticeship Week and International Women's Day to promote CalMac as an inclusive employer and to inspire young females to see CalMac and maritime as a career choice

- Connecting with secondary schools to encourage underrepresented groups of people to apply to our Modern Apprenticeship Scheme

- Amending outdated job titles that are specific to male roles such as "motormen" and "nightwatchmen"

- Working with Equate Scotland (Napier University) to deliver Unconscious Bias and Positive Recruitment training to the full team involved in the recruitment of Modern Apprentices into Science, Technology, Engineering and Maths roles.

We have a 50:50 male-female gender balance in our Executive Management Team, creating positive role models and supporting our ability to attract greater gender balance in our organisation and promote opportunities for career progression.

Change and Continuous Improvement

Over the past year, we have made considerable progress on our strategic transformation journey. One major undertaking has been the preparations for the implementation of our largest-ever project - a new ticketing and reservation system. This significant upgrade, which replaced our legacy 26-year-old system and impacted nearly every aspect of the business, exemplifies our drive for modernisation and commitment to elevating customer service standards.

In our continued pursuit of operational efficiency, we have successfully integrated a new payroll system across the organisation, with further HR enhancements expected next year. This not only boosts administrative efficiency but also introduces self-service capabilities for employees and managers.

Simultaneously, we have made substantial advancements in the management of our vessels with a programme dedicated to improving our operational excellence in all aspects of vessel management. This includes the design of a new target operating model, which embeds quality at the heart of our operations, reflecting our commitment to providing exceptional service in all aspects of our work.

To further align our operations with industry standards, we have undertaken a comprehensive programme to capture and develop our asset management data and documentation. This proactive measure aligns us with industry-leading best practices and readies us for future advancements.

To bolster our operational capabilities, we have also prioritised the upskilling of our teams, with specific emphasis on root cause analysis and continuous improvement techniques. This initiative, central to our vision of nurturing a culture of proactive problem-solving, has played a significant role in driving performance across the business.

Throughout this transformation, our commitment to Change Management has remained unwavering and has become the centrepiece of key strategic initiatives. This approach ensures wide-ranging involvement across the organisation, fostering a culture of adaptability and resilience, vital to navigating the demanding and ever-evolving landscape of our industry.

Customers

Developing our knowledge of what our customers think, and how they feel about their journey with Caledonian MacBrayne, is a continuing focus for the business. Over the last year, we have invested in research, technology, and our brand to continue to not only understand, but to improve their experience at each touchpoint.

Customer Digital Experience
A new ticketing platform was implemented in Spring 2023, which provides our customers with a greater choice to purchase and manage their tickets. The platform is designed to improve their overall booking and ticketing experience with Caledonian MacBrayne, and all customers are now able to pre purchase tickets online in advance of travel. This new digital channel offers an alternative way for customers to purchase tickets, in addition to still being able to purchase via the telephone, port offices and vessel staff, where relevant. Customers can: have an eTicket delivered to their device to use for travel; book multiple vehicles on a single reservation and purchase selected concession fares online for the first time. The platform is used by several travel operators across the world, and its launch followed an in-depth training programme for colleagues across the network, to promote a positive transition for customers, business users, and all who use our lifeline services.

Following this, our new website and app will be implemented in 2024. The project has benefitted from an in-depth period of discovery, design, customer focused development and user testing. When complete, it will deliver a best-in-class experience for customers through a fully re-imagined website, which supports a channel shift to digital self-service and improved customer satisfaction. The accompanying app will offer support to customers through service updates, push notifications for disruptions and online timetables and offline timetable details for saved routes.

As we progress towards implementation of the new site, we are carrying out extensive customer and accessibility testing to harness improvements for all users. The site will also carry a refreshed design, and a fully refreshed suite of content. As the programme of work progresses, we've successfully completed the Digital Scotland Service Standards alpha assessment and we are now progressing through the beta assessment stage, focusing on product, technical and user needs. This process will help to ensure we meet and exceed standards of user needs, accessibility, ongoing research, feedback, analysis, and continuous improvement.

Network Improvement Project (WIFI)
As part of our Network Improvement Project, we have upgraded the equipment on all vessels, providing enhanced connectivity for our customers and staff. The upgrade of our network infrastructure at our ports and unmanned slipways is also complete, in support of our new ticketing and reservations system. These upgrades will enable both customers and staff to have an improved and seamless experience. Following completion, our focus will turn to enhancing the resilience of the network infrastructure.

Branded Customer Experience
Our activities to bring the Caledonian MacBrayne brand to life across the customer journey have continued. The brand imagery has been introduced in certain vessels and ports as well as across our digital and social channels. We are also working to ensure that the customer experience is aligned with our employee experience, through engagement sessions with local teams and the development of a company-wide customer experience training programme.

Review of disruption handling
Disruption, be it because of weather or technical or operational reasons, is a challenge for our customers, the communities we serve and on our own staff. We continue to work to improve our disruption management, in particular how we communicate with our customers to provide timely and accurate information. We have made several improvements including a streamlined internal and external communications process and clearer internal status reporting. We continue to improve the Disruption Communications Toolkit, in response to feedback from customers and staff and are providing support tools and guidance to our front-line colleagues to help them in their roles during times of disruption.

Customer Journey Mapping
A key part of being able to understand our customers is the ability to map the end-to-end customer experience. This could be from a local level to network wide, or scenario specific. Journey mapping is core to supporting delivery of our customer experience by identifying key pain points and working collaboratively to implement improvements. We will continue to work with internal stakeholders to ensure our customer journey is mapped at every level. Teams should expect to see us out on the network to map face-to-face at local ports and vessels. Forthcoming mapping includes reviewing our commercial customers journeys.

Customer Standards
To provide a consistent approach to how we manage our customers network-wide, we developed a series of dedicated 'Customer Standards' for our frontline staff. These were created in conjunction with our frontline teams directly. We have standards for many other areas of the business and with a focus on customer, it was imperative to us that we also have Customer Standards also. The Standards align with the new behavioural framework and will be a facilitation tool to be used in parallel with the Customer Service training. Last year, we completed our Standards Pilot and used our learnings to facilitate key changes for network wide rollout.

Pet management
Pet management has been a long-standing issue across our network. By working closely with frontline teams and listening to our customers, we've taken significant steps to generate positive change. These changes include introducing pet tickets and 'pet rules'; Pet 'hydration stations'; Introduction of a 'pet fouling fine' to combat the issue of fouling onboard; Development of new collateral to support both customers and colleagues before, during and after their journey; A new 'pet ticket checker' introduced online whilst we are unable to support online bookings via COMPASS, with the view to facilitate a smoother transition into eBooking. Working to improve pet management is an emotional and contentious subject at times, but one we will continue to enhance the further we progress.

Customer Communications
Our customer communications are focused on a strategy of 'truth well told' - and include the key components of customer focus, transparency, empathy, understanding and meeting needs of multiple audiences and alignment of customer, stakeholder and colleague communications.

We continue to regularly review and enhance the design, delivery and effect of our customer communications. This has included a review of our process to manage any customer facing communication – with a fully integrated process in place which ensures communications with key audiences are integrated and aligned across channels.

We have also completed a review of how we manage and enhance customer communications on disruptions – focusing on delivering certainty and transparency. A toolkit is now in place guiding the multiple communication leads who will be involved in such communications and decision making, ensuring timely, accurate and transparent outputs, ensuring customers understand the 'why' as well as the 'how' and 'when'.

ICIA Consultations
In the past, we have always engaged with our community stakeholders on key improvements. We have now developed, a formal consultation process which follows best practise, and our communities can fully support. In Summer 2022, we conducted the first consultation using a process which aligns directly with the Scottish Governments 'Islands Community Impact Assessment' (ICIA) criteria. With this new method of consultation, we have now successfully completed two consultations (the first being on 'updated ticketing terms and conditions' and the second on 'Advance Standby'). This ensured the voice of our communities was heard and their feedback directly influenced the result of what we are now implementing. This method of consultation is key in improving our customer experience to the level that our customers deserve and expect.

Retail strategy
We have carried out an in-depth analysis of retail offered across our vessels to understand what customers would like and combined this with feedback from crew. A key part of our learning is the growth in island products that are naturally sourced and manufactured on the islands. We are building more partnerships with local suppliers in the supply of products such as sea salt, vegetables, soaps, and textiles. We will be inviting our suppliers onboard to promote their products and to share the fascinating stories behind them. To further support our island suppliers, we will be updating retail areas during the 2023/24 drydock overhauls, giving customers a modern, fresh and appealing experience on board. We are also constantly revising our menus and have introduced Special Menus which are specific to routes and include local produce . We will continue to conduct customer feedback.

Customer Experience Measurement
As part of our work to collate actionable insights to improve the customer experience, we have developed an 'always on' method of gathering customer data. This is thanks to our introduction of an industry leading Customer Experience Measurement solution, which uses sophisticated technology to monitor, analyse and deep dive into customer sentiment. We are capturing feedback from all customer touchpoints, giving us a holistic view of the entire customer journey. Using this data, we are delivering customer insight driven change, making us more responsive through faster and more focused action planning.

Communities

We have continued to ensure positive engagement with the communities we serve. Vessel reliability and fleet availability have proved challenging, and this has played a difficult part in our relationships within communities. At times this has been particularly challenging as we have been faced with difficult decisions on how to deploy a remaining fleet to maintain a breadth of lifeline service. This has often meant we have had to spread the impact of disruptions over a larger number of communities. Despite this we have maintained generally positive interactions with our communities throughout this year.

Our people have worked hard at ensuring we remain at all times focused on delivering the best service within the options available to them. Throughout this very challenging period it has remained important to maintain strong communication and we are grateful for the efforts our people have played in delivering tough and difficult messages to their communities.

Improvements this year have also been made through the help of our communications team in ensuring our communications on disruptions are completed in an honest and timely way. Whilst this remains challenging at times of disruption, our efforts here have seen improvements in our messaging.

We have continued to commit our time and efforts to support over 25 Ferry Committees and other community group meetings across the network. By ensuring our focus and attention to these group meetings we have seen positive improvements, particularly with regards to open, honest and transparent discussions.

Ferry stakeholder group meetings have continued twice-yearly with representation at each of the three geographical Scottish Government meetings where we have worked closely with Transport Scotland, CMAL, Hitrans and relevant local councils.

The Ferries Community Board has continued to provide a very valuable link across the network. Through the Community Board we have been able to seek opinion and viewpoints on matters impacting our contract and our service. The board have played an influential part in helping us to shape our business. An example being the Community Board involvement on the introduction of our new ticketing system.

This year, we have also taken part in several commercial haulier group meetings. The meetings have allowed our commercial customers to give their view on our service and to highlight concerns they have regarding the impact over fleet deployment. They have further allowed our commercial customers an opportunity to highlight future growth potential.

Environment

Our vision is to provide a resilient and environmentally sustainable service in a changing climate to support the economic growth of our communities.

To deliver our vision, our Environmental Strategy has focussed on four core priorities (i) to operate an optimally efficient ferry service that has lower greenhouse gas emissions; (ii) to provide a reliable ferry and port operation that is resilient to climate change; (iii) to generate minimal waste and sustainably use materials; and (iv) to protect biodiversity on land and in our seas. The core priorities of the Strategy are embedded throughout the business, with defined targets set and progress closely monitored.

This year our (Green House Gases) GHG emissions have increased overall by 6% from 2021/22. Comparative analysis of Scope 1 and 2 emissions suggests an approximate 6% increase in GHG emissions since the previous year and a 1% increase in emissions arising since the 2019/20 base year. The scope of the GHG inventory report has expanded this year to include the additional Scope 3 well-to-tank emissions from electricity generation, transmission and distribution and business travel.

The intensity ratio of kg CO2e per passenger km (vessel emissions) has reduced by 33% in comparison with the previous year and by 32% compared to the 2019/20 base year. The intensity ratio of kg CO2e per passenger km (whole organisation emissions) have decreased by 34% in comparison with the previous year and by 16% compared to the 2019/20 base year.

Total waste arisings have remained the same as last year although passenger numbers have increased, recycling rate has marginally decreased by 1 percentage point to 58% and landfill rate decreased by 2 percentage points to 36%.

This year we developed and delivered several sustainability initiatives, the highlights are:

To reduce emissions, we appointed a full-time Fuel Efficiency Manager to support improvements in the energy efficiency of our vessels and as part of a Consortium, we have received government funding for a 4-year project to demonstrate retrofitting of emission control solutions on existing ships.

To minimise waste, we have phased out single-use plastic items used in our retail outlets that were introduced during the COVID-19 pandemic and our Supplier Relationship Management programme has expanded to 26 suppliers where supplier sustainability objectives are monitored through a score carding process. We also donated 70 redundant IT devices to charities and community groups around the network.

To protect biodiversity, we continued our partnership with the conservation charity ORCA and two Wildlife Officers were appointed to engage with passengers and facilitate the monitoring of marine mammal populations on five routes. Overall, 18 marine mammal surveys were completed by ORCA volunteers, and 728 individual animals recorded. This year a programme of mini cruises was trialled on eight routes across the network giving passengers a chance to observe and learn more about local wildlife from our Wildlife Officers. The Volunteer Seabirds at Sea (VSAS) citizen science scheme also completed 13 seabird surveys across two routes.

Perth Harbour

Perth Harbour Operating Contract

CFL operated Perth Harbour on behalf of Perth and Kinross Council between 3 July 2018 and 30 September 2023.

During the contract tenure Perth Harbour operations faced an ongoing challenge owing to silting of the basin at the harbour entrance. This silting has required a draught restriction to be imposed on vessels using the harbour to ensure they can do so safely. Although a licence was obtained to complete part of the dredging works Perth & Kinross Council performed a review of the harbours viability as a Council asset at which point a decision was reached to close Perth Harbour as a commercial port.

In the last period of the contract CFL continued to work closely with shipping agents and stakeholders to drive business and welcomed the largest vessel at Perth in 15 years.

NASH Maritime completed the Port Marine Safety Code Audit and noted an increased score from "Fair" to "Satisfactory". In 2021 the Perth Harbour Community Fund was launched and since its launch The Fund has awarded some fourteen groups a total of £17,411. In 2023, CFL commissioned Social Value Business (SVB) to measure the social value (community benefit) of The Fund, this evidenced a social value created of £104,723.

CMAL Harbour

CMAL Harbour Operating Contract

Our harbour operations continue to thrive following the removal of pandemic restrictions in 2023. During 2023, CFL engaged with cruise agents which saw the number of ships rise back up to 140. By working closely & collaboratively with industry partners to promote the harbours, supporting growth for both commercial cargos including alternative methods of shipping timber, and cruise activity, this ensures local island communities and businesses continue to be supported. In 2024 the forecast is to receive 385 ships which is an impressive increase when compared year on year, including against pre-pandemic data.

During the reporting period our Harbour Operations function was audited by CMAL in line with the Port Marine Safety Code requirement, including five ports visits. The outputs of the audits found no nonconformities against CFL, but identified minor observations relating to housekeeping and process, evidencing CFLs strong commitment to deliver successful, safe, operating functions for our client in line with legislation, but also best industry practices identified by the auditor and shared with other ports. 2024 will see the Designated Person visit another five ports as part of the programme, with our commitment to reduce observations by 3%.

2023 also saw our 26 CFL operated ports undergo an environmental quality audit by Keep Scotland Beautiful (www.keepscotlandbeautiful.org), achieving 'Silver' accreditation which evidences continuous improvement from the 2017 & 2019 audits. The Ports and Harbours Environmental Award accolade, adapted from the criteria for the *National Award for Environmental Excellence*, recognises the achievements of both organisations across a variety of areas, including building maintenance, cleanliness, waste management and engagement with the local communities. Our objective for 2024 is to increase our score by 5%, achieving 'Gold' standard, linking our policies and practice to ISO accreditations & our environmental strategy goals.

Our strive for operational excellence & continuous improvement remains at the forefront, promoting existing locations and facilities, ensuring that port & harbour developments incorporate the needs of our customers and local communities for a prosperous and sustainable future within a challenging, but continuously developing industry.

Section 172 Statement

In line with the requirements of S172 of the Companies Act 2006, the Directors present details of their duty to promote the success of the Group for the benefit of stakeholders. We have identified our key stakeholders, the issues that matter most to them and the engagement activities conducted during the year.

A summary of key discussions and decisions taken by the Board, with examples of how stakeholder considerations have been reflected, are included between pages 8-11.

Customers

<u>Key Issues</u>
Regular and reliable ferry service
With minimal disruption to support island residents, and customers' business and leisure travel expectations.

Communication
Timely communication during periods of disruption to ensure customers are informed of service changes.

Community Engagement
Regular engagement with communities, providing the opportunity to contribute directly on priority issues relating to service provision.

<u>Engagement in 2023</u>
Customer Steering Group
We hold regular Customer Steering Group meetings for our colleagues and customers to collaborate on key customer focused issues and improve where possible. Meetings focus on core operational issues/impacts, to seek feedback and identify ways to improve our service.

Communication
We continually review our customer communications, and regularly assess the impact of these communications to identify where we can improve. Our primary focus this year has been disruption management and how we can better support our customers via our 'truth well told' approach. Through cross departmental collaboration and actions driven via customer led insight, our teams aim to provide timely, accurate and quality information that aligns with our customers and colleagues needs.

Community Engagement
Due to the level of service disruption, this year has been challenging for our customers. We have held consultations, face-to-face community drop-in sessions and attend key community forums. Inviting our customers to contribute directly on priority issues has allowed for more meaningful engagement and understanding of the challenges our customers face.

eBooking
On 16 May 2023, we launched our new modern ticketing platform eBooking, which allows customers to book travel across the network online. This technology replaces our legacy ticketing system which was c30 years old.

Client (Transport Scotland)

Key Issues

Transport Scotland's vision is for a sustainable, inclusive, safe, and accessible transport system helping deliver a healthier, fairer and more prosperous Scotland. The key issues in relation to the CHFS contract are;

Resilience: the technical resilience of the current fleet to deliver reliable services.
Community Engagement: effective community engagement.
Infrastructure strategy: the development of a long-term strategy for vessels and ports.

Engagement in 2023

We attend monthly contract meetings where detailed KPIs and performance are reviewed. We are an active participant in the Ferry Division's monthly Network Strategy Group and Project Steering Committees, to support the client make procurement choices and build the long-term strategy. We also support the client in community engagement either on their behalf or in collaboration.

We are working collaboratively with Transport Scotland, aligning ourselves to the principles set out in the Miller Heiman, Large Account Management Process, to build our relationship as a strategic partner.

Suppliers

Key Issues

Brexit

We have continued to work closely with our suppliers during the period to mitigate post-Brexit issues, to ensure continuity of supply for the business and negotiate effectively to limit cost increases.

Russia/Ukraine War

Since February 2022, we have worked closely with our key suppliers to determine the impact of this conflict on our supply chain. We have continued to engage regularly, and risks have been highlighted, including price increases and potential issues impacting continuity of supply , which we have been effectively managing.

Prompt payment

Suppliers expect to be paid promptly after goods or services have been provided. We adopt processes in line with Scottish Government Prompt Payment policy, with 93% of suppliers paid on time and within 30 days during the period.

Engagement in 2023

Supplier Relationship Management (SRM)

We continue to develop and improve our SRM programme. Processes and procedures have been continuously improved to enable this work stream, which supports the delivery of high-quality goods and services.

Supplier Score-carding

This has successfully been implemented for an identified range of critical suppliers. This includes scoring suppliers across essential criteria for quality, cost, sustainability, and service. This initiative continues to be an established part of our business-as-usual processes, with buy in from our internal stakeholders and supply chain.

Where appropriate, the Competitive Procedure with Negotiation (CPN) continues to be used as the route to market. In our regulated procurement environment, this continues to support engagement with suppliers during the procurement process to enable the award of robust, commercially viable contracts that have delivered high quality goods and services.

Employees

Key Issues

Staff welfare and wellbeing

In support of ongoing staff wellbeing, we have further embedded our Wellbeing and Inclusive CalMac Groups, with representatives from across our network. An inclusive females' sub-group has been established to identify and address any barriers and challenges faced by our female workforce. In addition to our Occupational Health service, the use of our enhanced Employee Assistance Programme via access to a wellbeing app has increased from 40% in 2022 to 69% in 2023.

Pay and conditions

A one year pay deal with our four recognised trade unions was negotiated in 2023, covering the period up to 30 September 2024.

Career development and training

We have continued to invest heavily in the development of our staff. This included statutory training, to ensure our staff maintained their professional certification, as well as developmental training and a leadership programme for our Top Talent as identified through our Talent Management and Succession Planning process.

Engagement in 2023

Our People Steering Group is now well established, providing a forum for colleagues from across all areas of our business to discuss and provide feedback on issues impacting our people. An Executive Staff Engagement Group meets monthly to monitor progress against our targets and to drive engagement initiatives. Progress is measured via twice yearly pulse surveys. Our latest survey results show that 71% of our staff trust their line manager, and 69% feel supported by their line manager. 67% of our staff would recommend CalMac as a great place to work. This is below our target of 75% and is reflective of the many pressures faced by our frontline staff in delivering a service in challenging circumstances over the last year.

Local Communities

Key Issues
Recruitment
We continue to support modern apprenticeship across the network with 100% of our modern apprentices this year recruited from communities and areas we serve around the network. Our efforts to ensure our people are recruited from all around the network continue. This has seen several senior manager posts co-located around the network. Operations Director, Head of Operations, Area operations managers, and Head of Marine, all being posts that are now network based. Lessons learned from the pandemic have allowed us to apply greater flexibility on work location. Incorporation of Microsoft Teams has enabled a number of people to operate successfully from port locations around the network. This has been a positive development for our staff and local employment in our communities.

Training opportunities
Discussions are underway with the University of the Highlands and Islands to explore partnerships on the delivery of local training. Utilising the UHI satellite campus arrangements would allow us to ensure training can be delivered to peoples home and work locations. it is hoped that further partnership can be delivered in the coming year.

Environment

Key Issues
Climate Change
The effect of a changing climate presents a range of challenges to our operations. This year 4,152 sailings were cancelled due to adverse weather conditions and extreme tides. Caledonian Maritime Assets Limited (CMAL) have installed webcams and weather and tide monitoring equipment at sixteen ports providing live information to our vessels to assist with weather-routing.

Greenhouse Gas Emission
Our most significant environmental issue is the emission of greenhouse gases (GHG) from the direct combustion of fuel by our vessels. Vessel fleet fuel consumption was responsible for 80% of annual total GHG emissions in 2022/23. In September we appointed a full-time Fuel Efficiency Manager to support improvements in the operational energy efficiency of our vessels and as part of a Consortium, we have received government funding for a 4-year project to demonstrate retrofitting of emission control solutions on existing ships.

Waste
This year we generated 2,200 tonnes of waste across the network with 58% of this being sent for recycling and 36% sent to landfill. At twenty-seven of our ports, we continue to rely on local authorities for the disposal of our general and mixed recycling waste who, with the exception of Highland Council, continue to landfill all collected general waste. We continue to explore opportunities to recycle more of our waste, through expansion of recycling collections and new recycling contracts.

Engagement in 2023

We continue to engage with Transport Scotland and Caledonian Maritime Assets Limited to decarbonise the vessel fleet and ports and ensure new vessels and port upgrades are resilient to the effects of climate change. We engage with our suppliers through our Supplier Relationship Management Programme to minimise waste and with staff, passengers, port owners, local authorities and our waste collection contractors to maximise recycling.

Shareholder

Key Issues
Company Financial Performance, including the strength of our Balance Sheet.
Understanding and supporting delivery of the Company strategy and operations.
Strong relationships, with open communication channels to the Board.

Engagement in 2023

Annual Report
The Annual report provides details of the Company financial performance, as well as progress against key priorities, with clear and transparent messaging.

DML Board meetings are held throughout the year with our Sponsor (Shareholder representative) in attendance. Shareholder engagement meetings were held throughout the year to discuss the Company growth and operational strategy.

Board Decisions taken during 2023, where stakeholder views were considered and informed the decision.

Asset Management Technology
This programme has been designed to enable our operation and the management of our assets to become more reliable, resilient and fit for the future. The business has undertaken a review of the way we manage our assets, including lessons learned and cost impacts from previous incidents. The conclusion was that a newly aligned operating model would make the biggest positive impact in addressing the challenges we face around how we manage our assets. As a result, a new Target Operating Model has been designed and built around the support required to manage the vessels most effectively and puts quality at the heart of what we do. The target operating model is focused on different time horizons, enabling us to not only manage day to day but also position ourselves for the long term, putting us in a positive position for the upcoming CHFS3 tender.

Finance & Procurement System
Our Finance Team is focused on delivering visible service improvements to the business through having the right talent, robust controls across the business, highly efficient processes, and the ability to provide timely financial performance information and business insight. A critical component of this is bringing in modern Finance & Supply Chain technology as the existing system was implemented circa 20 years ago. A modern Finance & Supply Chain system is also integral to the implementation of our new Asset Management Technology maritime software, which will allow us to ensure that all aspects of fleet maintenance and parts management are carried out efficiently.

Financial Planning
Financial Planning, funding allocation and dividend policy decisions.
In line with our agreed policies this year's plan was approved by the Board following a comprehensive review of our strategic priorities and risks. We regularly review how we are performing against plan and report monthly and year to date financial results compared with the Board approved plan. This is in addition to reviewing the financial forecast outlook for the year. There is a process in place to assess this performance and the opportunity to take decisions to ensure that funding is allocated appropriately and to address any emerging risks, e.g., fleet maintenance driven by the increasing average age of vessels.

During the annual planning process and as part of our regular strategy reviews, we look at our funding requirements. This ensures that our financial planning supports our strategy with consideration to invest in the capability, scale of the Group, and meet shareholder expectations by paying dividends when appropriate. Our strategy is ambitious but will position DML well for our long-term prospects and growth ambitions, while honouring commitments to our stakeholders.

TV Documentary Programme
The board approved a TV company making a documentary about the CalMac ferry services covering our people, our customers and the communities we serve. We hope that this will allow more people to see the work that we do, the effort that our people put in to help our customers through good times and bad, and the many and varied reasons for which the communities we serve use our ferry services.

On behalf of the Board

R L Drummond
Chief Executive Officer
22 March 2024

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.

Directors and their interests

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

E Østergaard	
R L Drummond	
D Mackison	Resigned 16 September 2022
S Browell	Resigned 30 November 2022
M Comerford	Resigned 30 November 2022
T Ingram	
G Macrae	
S O'Connor	
D Beaton	Appointed 19 June 2023
K Ryan	Appointed 1 December 2023

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 we fully subscribe to the Government's Race Equality Scheme, Disability Scheme, Gender Equality Scheme and the Modern Slavery Statement. As a Company, we continue to develop structures and systems to ensure that equal opportunities become an integral part of our thinking and behaviour. Our Modern Slavery Statement is reviewed annually by the Board and published on our website.

Our policy for pay and conditions for our employees is to continue to provide a fair and appropriate employment package to all employees regardless of age, hours of work or type of employment contract. We are an accredited living wage employer and do not use zero hours contracts. Our salary packages are enhanced by wider pay and benefits which exceed statutory minimums, including generous pension schemes, maternity and sickness pay, holiday entitlement and an employee bonus scheme. This provides our workforce with an overall employment package that helps to ensure a good work-life balance, supports the Scottish Government's social drivers, enables us to recruit and retain staff in a competitive labour market and supports the welfare of our people.

We publish our Gender Pay Gap annually and work proactively to encourage increased diversity in what is traditionally a very male dominated workforce.

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. Most 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 Company.

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 Group will, where possible, retain the employee for duties commensurate with the employee's abilities following the disablement.

Employment Recruitment

Recruitment campaigns undertaken by the Company were carried out based on fair and open competition and selection on merit. The companies' recruitment/selection records are subject to regular scrutiny by internal auditors. We are signed up to the Good Recruitment Charter and Partnership for Change.

Investing in Developing Our People

We are committed to continually developing our people to ensure they have the skills they need to be effective in their current and future roles. Our training portfolio delivers mandatory training to all staff as required, as well as developmental training. In addition to our officer cadet sponsorship programme, we continue to be a leading employer of maritime modern apprenticeships in deck, engine, and hospitality.

Whilst we have always prioritised Health and Safety learning and development for our staff, we have continued this year to place a particular focus on wellbeing and mental health training. In partnership with RMT and Scottish Trade Union Learning, we have continued to provide training to support our 60 staff from across the organisation in their role as Mental Health First Aiders. We have also delivered Diversity and Inclusion training and various health and wellbeing programmes (e.g., menopause, prostate cancer awareness, health & nutrition).

We have continued to invest in our leadership development programme for both shore-based staff and our crews to ensure they have the soft skills required to lead and support their teams effectively. In total, 219 leaders from all areas of the organisation have been enrolled in our Developing Leaders Programme. This is a significant investment of more than £350,000 in our population of 340+ leaders.

The programme was delivered in partnership with Stirling-based training provider The Leadership Factory and focuses on the following: -

formal workshops covering the role of leaders, leading through change, high performing culture, high performing teams, coaching and personal development planning,
personal coaching,
personality profiling.

Our training delivery model has continued to evolve to digital solutions (e.g. e-learning, webinars) and has been well received by staff given the greater flexibility, reduction in travel and supports our environmental strategy.

Performance Management

Our performance management framework consists of a cycle of objective setting, personal development planning, mid-year reviews and end of year appraisals. Objectives are set to support achievement of our business plan. A key part of the process is to discuss behaviours and ensure that our staff are operating in accordance with our core competencies and values. Managers are trained in how to manage performance effectively as part of our Management and Leadership Academy Framework, with further support provided through online guidance notes, toolkits and coaching.

Attendance Management

The Group accepts that employees will be prevented from attending work due to illness or injury from time to time. Although the Group recognises that employees need to be properly supported during absences, our priority is to meet our operational objectives. As a result, we take distinct steps to balance the needs of the individual with the needs of the Group and to manage sickness absence effectively. To achieve this balance, we take a positive and pro-active approach to attendance management including: -

- advising all employees and line managers of their roles and responsibilities through appropriate training, guidance, and support,
- consistent application of our Attendance Management Policy, agreed with the support of our trade union partners,
- early intervention and return to work support from a third-party Occupational Health provider in cases of longer-term sickness absence,
- a confidential, third-party Employee Assistance Programme.

The policy provides support for employees via our Occupational Health provider to facilitate a safe and timely return to work. Equally, the policy sets out a series of triggers, warnings, and formal monitoring procedures to manage employees with frequent absences in a fair and consistent manner.

Adoption of going concern basis

The principal contract for the Group is the delivery of the Clyde and Hebrides Ferry Services (CHFS) Contract by its subsidiary CalMac Ferries, for which a contract subsidy is received from Transport Scotland via a Public Service Contract, and to ensure the ongoing delivery and resilience of ferry services. The existing CHFS contract ends on 30 September 2024. At date of signing, the Transport Minister announced that Scottish Government will explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts Scotland Regulations 2015.

The Directors have assessed that these accounts are prepared on a going concern basis, however highlighting the material uncertainty, due to the timing of the due diligence process and the expected decision due summer 2024.

Under the contract, Transport Scotland hold the risk for increases in inflation and fuel prices which are currently significant areas of cost increase. Fuel price increases were mitigated by entering into a 2-year fuel hedge as agreed with Transport Scotland. This hedge ended 30th September 2022 and due to volatile fuel prices no additional hedge has been entered into during this financial year. CalMac Ferries will continue to engage with Transport Scotland to agree the timing of a further hedge if this is required. Fuel price risk is funded under the CHFS2 contract, so there is not considered to be a risk to CalMac Ferries or the Group.

CalMac Ferries Ltd hold the risk on all other expenditure including fleet maintenance and delivery of services. The increasing average age of the fleet, the volume and quantum of technical issues, is driving significant increases in vessel maintenance costs is resulting in the level of contractual income being insufficient to cover the costs to deliver CHFS services. CalMac Ferries Ltd therefore is forecasting financial losses to end of Contract Year 8.

For the purposes of the Directors' assessment of the Group and Company's going concern position, the Directors have prepared Group and Company cash flow forecasts for a period of 18 months from the date of approval of these financial statements that reflect the current assumptions with respect of the main trading entity CalMac Ferries, limited passenger carrying growth, a continuance of high inflation on the cost of living, all of which are impacting demand. Cashflows also include the increasing cost of vessel maintenance over the 18 months. Due to the seasonal revenues, delivery of the overhaul programme during the winter months, and the expiry of a former £15m working capital facility in autumn 2022, CalMac Ferries has agreed with Transport Scotland, a seasonal phased contract income profile from October 2023 which enables it to more closely match the CHFS contract income with the costs of delivery.

Transport Scotland have also confirmed the availability of additional funding of up to £11.1m to support emergent vessel resilience and obsolescence costs.

Taking these factors into consideration, the Directors have assessed that CalMac Ferries Ltd will have sufficient funds to meet all their liabilities until the end of the current contract on 30 September 2024.

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

R L Drummond
Chief Executive Officer
22 March 2024

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, relevant and reliable;
- 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 2023 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 2023 and of its loss 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.

Material uncertainty related to going concern
We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the continuation of the CHFS contract with Transport Scotland beyond its current expiry in September 2024. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation
The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of CFHS2 revenue, the Company's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unrelated accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or loss of legal ability to operate. We identified the following areas as those most likely to have such an effect: health and safety, employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 15, 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

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

22 March 2024

Profit and Loss Account
for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Turnover	2	**251,156**	227,466
Cost of sales		**(224,680)**	(199,964)
Gross profit		**26,476**	27,502
Administrative expenditure		**(31,642)**	(28,670)
Operating (Loss)/Profit		**(5,166)**	(1,168)
Interest receivable	3	**83**	61
Interest payable	3	**(934)**	(1,246)
(Loss)/Profit before taxation		**(6,017)**	(2,353)
Tax on (Loss)/Profit	5	**374**	(1,347)
(Loss)/Profit for the financial year		**(5,643)**	(3,700)

All results are derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 March 2023

		2023 £000	2022 £000
(Loss)/Profit for the year		**(5,643)**	(3,700)
Other comprehensive income, net of tax			
Change in fair value of cash flow hedge recognised	15	**(8,527)**	7,229
Change in Tax relating to cash flow hedge	5	**1,374**	(1,374)
Total comprehensive income attributable to equity holders of the company		**(12,796)**	2,155

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

Balance Sheet
as at 31 March 2023

	Note	2023 £000	2022 £000
Fixed assets			
Tangible assets	6	**27,568**	43,495
Derivative financial instruments	7	**-**	-
Deferred Tax	12	**683**	-
		28,251	43,495
Current assets			
Stock	9	**3,352**	2,103
Contract assets	2	**10,948**	27,810
Debtors and prepayments	10	**10,552**	16,504
Derivative financial instruments	7	**-**	8,527
Cash at bank and in hand		**21,736**	8,288
		46,588	63,232
Creditors			
Contract liabilities	2	**(7,122)**	(7,339)
Amounts falling due within one year	11	**(22,295)**	(24,336)
Short term lease liability	13	**(17,335)**	(16,410)
Net current assets		**(164)**	15,147
Creditors: Amounts falling due after more than one year			
Long term lease liability	13	**(14,994)**	(31,739)
Deferred Tax	12	**-**	(1,014)
Net assets		**13,093**	25,889
Capital and reserves			
Called up share capital	14	**-**	-
Hedge reserve	15	**-**	8,527
Profit and loss account		**13,093**	17,362
Shareholder's funds		**13,093**	25,889

These financial statements were approved by the Board of Directors 07 February 2024 and signed on 22 March 2024 on its behalf by:

E Østergaard, Chairman

R L Drummond, Chief Executive Officer

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 2021	-	1,298	21,062	22,360
Total comprehensive income for the year				
Profit for the year	-	-	(3,700)	(3,700)
Other comprehensive income	-	7,229	-	7,229
Total comprehensive income for the year	-	7,229	(3,700)	3,529
Balance at 31 March 2022	**-**	**8.527**	**17,362**	**25,889**

	Called Up Share Capital £000	Hedge Reserve £000	Profit and Loss Account £000	Total Equity £000
Balance at 1 April 2022	-	8,527	17,362	25,889
Total comprehensive income for the year				
Loss for the year	-	-	(5,643)	(5,643)
Other comprehensive income	-	(8,527)	1,374	(7,153)
Total comprehensive income for the year	-	(8,527)	(4,269)	(12,796)
Balance at 31 March 2023	**-**	**-**	**13,093**	**13,093**

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 IFRS") 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 of David MacBrayne Limited
- disclosure in respect of capital management
- the effects of new but not yet effective IFRS
- 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.

(a) Basis of preparation

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 accounting standards in conformity with the requirements of the Companies Act 2006 [("Adopted IFRS"), 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.

Going concern

The Directors have prepared the financial statements on a going concern basis and consider this appropriate for the following reasons.

The directors have prepared cash flow forecasts to March 2025 which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements (the going concern assessment period).

The principal activity of the company is the delivery of the Clyde and Hebrides Ferry Services (CHFS) contract for which a contract subsidy is received from Transport Scotland via a Public Service Contract to ensure the ongoing delivery and resilience of ferry services. The existing CHFS contract ends on 30 September 2024. At the date of the approval of the financial statements the Transport Minister has announced that the Scottish Government will explore awarding the next contract to operate the CHFS directly to the company. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts (Scotland) Regulations 2015. The final decision on the contract award is due in the Summer of 2024.

Under the CHFS contract, Transport Scotland bears the risk of increases in inflation and fuel prices which are currently significant areas of cost increase. The company bears the risk on all other expenditure including fleet maintenance and the delivery of services. The increasing average age of the fleet and the resulting increase in the volume of technical issues, is driving significant increases in vessel maintenance costs. This has resulted in the level of contractual income being insufficient to cover the costs of delivering CHFS services. The company is consequently forecasting financial losses to the end of the current CHFS contract on 30 September 2024.

The directors' cash flow forecasts reflect current assumptions with respect to passenger demand and cost pressures, including the increasing cost of vessel maintenance. Due to the seasonality of revenues, the delivery of the overhaul programme during the winter months, and the expiry of a former £15m working capital facility in autumn 2022, the company agreed with Transport Scotland, a seasonal phased contract income profile from October 2023 which enables it to more closely match the CHFS contract income with the costs of delivery.

Transport Scotland has also confirmed an additional grant of up to £11.1m to be received during 2023/24 to support emergent vessel resilience and obsolescence costs.

Notes on the financial statements

1. Accounting policies (continued)

In preparing their assessment of going concern, the directors have considered severe but plausible downside scenarios which could affect the forecasts. These include reduced fare and retail income, increased vessel maintenance and crewing costs, fuel efficiency shortfalls and performance penalties. The directors' forecasts are also based on the assumption that the CHFS contract will be awarded directly to the company from 1 October 2024. While the directors are confident that the contract will be extended or renewed under a direct award, this is outwith their control. Should the contract not be renewed then the company's core trading activity would cease.

Taking these factors into consideration the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the renewal of the CHFS contract represents a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities for a period of at least 12 months from the date of approval of the financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Taking these factors into consideration, the Directors have assessed that CalMac Ferries Ltd will have sufficient funds to meet all their liabilities until the end of the current contract on 30 September 2024.

(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
Vessels	30 years

(d) Leases
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 in exchange for consideration.

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.

(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.

Notes on the financial statements

1. Accounting policies (continued)

Financial assets

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.

(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.

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

Notes on the financial statements

1. Accounting policies (continued)

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.

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.

Notes on the financial statements

1. Accounting policies (continued)

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.

(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, considers 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 16, 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.

2. Revenue (continued)

Revenue from passengers comprises ticket sales for individuals, 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.

Disaggregation of revenue

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

	2023	2022
	£000	£000
Fares and other associated services	**80,112**	70,161
Government contract – transferred over time	**170,493**	156,772
Inter Group – management fees	**551**	533
Total	**251,156**	227,466

Contract balances

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

	2023	2022
	£000	£000
Contract assets	**10,948**	27,810
Contract liabilities	**(7,122)**	(7,339)
Trade receivables	**3,930**	5,092

The contract assets 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

	2023 Contract assets £000	2022 Contract assets £000	**2023 Contract liabilities £000**	2022 Contract liabilities £000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**-**	-	**7,339**	(3,661)
Increases due to cash received, excluding amounts recognised as revenue during the period	**-**	-	**(7,122)**	(7,339)
Increases as a result of changes in the measure of progress	**10,948**	27,810	**-**	-

Transaction price allocated to the remaining performance obligations.

Notes on the financial statements

3. Profit before tax
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.

The profit is stated after charging/(crediting):			**2023 £000**	2022 £000
Auditor's remuneration	-	audit of these financial statements	**102**	53
	-	other services relating to taxation	**17**	19
	-	all other services	**-**	11
Depreciation of tangible fixed assets			**17,342**	17,269
Harbour access charges	-	Caledonian Maritime Assets Limited	**28,059**	16,379
	-	other	**8,169**	16,852
Agency staff costs			**83,617**	73,221
Finance lease costs	-	land and buildings	**576**	598
	-	ships and motor vehicles	**16,612**	16,054
Interest receivable	-	bank	**(83)**	(61)
Interest payable	-	bank	**5**	-
Finance interest expense			**934**	1,246
Bank facility			**-**	60

4. Employee information

Staff costs (including Directors)

	2023 £000	2022 £000
Wages and salaries	**27,559**	24,276
Social security costs	**3,052**	2,564
Other pension costs	**5,274**	4,813
	35,885	31,653

Amounts claimed and received by the company under the Job Retention Scheme, having met the conditions for payment, are Government grants which are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. In 2023 NIL (2022: £0.2m) of job retention scheme grants are shown net of wages and salaries.

Directors' remuneration

	2023 £000	2022 £000
Directors' Remuneration	**361**	457
Employer's Pension Contribution	**45**	43

The aggregated remuneration of the highest paid Director was £171,000 (2022: £190,000). All Directors had their remuneration paid by another company within the David MacBrayne Limited group in both the current and prior year.

Number of Directors

	2023	2022
Retirement benefits are accruing to the following number of Directors under:		
Defined benefit schemes	1	1

Employee numbers
The average number of people employed by the Company, including Directors, during the year was 722 (2022: 688).

Category	**2023**	2022
Head Office	346	316
Port	370	366
Vessel	6	6
	722	688

Notes on the financial statements

5. Taxation

Current tax	2023 £000	2022 £000
UK corporation tax profit for the period	6	86
Adjustments in respect of prior periods	(56)	(17)
Total current tax charge	(50)	69
Deferred tax		
Impact of tax rate change	(37)	(127)
Adjustment in respect of prior periods	13	(8)
Origination and reversal of temporary differences	(300)	39
Total deferred tax charge/(credit)	(324)	(96)
Total tax charge/(credit)	(374)	(27)

Income tax recognised in other comprehensive income

	2023 £000	2022 £000
Tax relating to cash flow hedge	(1,374)	1,374

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

	2023 £000	2022 £000
(Loss)/Profit for the period before tax	(6,017)	(2,353)
UK corporation tax rate of 19% (2022: 19%)	(1,143)	(447)
Tonnage tax	1,029	552
Adjustments in respect of prior periods	(43)	(25)
Remeasurement of deferred tax for changes in tax rates	(37)	(127)
Non-deductible expenses	3	20
Group relief surrendered/(claimed)	63	-
Reversal of deferred tax asset previously not recognised	(246)	-
Total tax (credit)/charge	(374)	(27)

Notes on the financial statements

6. Fixed Assets

	Assets under construction £000	Buildings £000	Leasehold Improvements £000	Ships £000	Vehicles & Equipment £000	Total £000
Cost						
At 1 April 2022	679	2,049	-	91,166	1,235	95,129
Additions in the year	612	803	-	-	-	1,415
Items re-classified during year	(1,291)	-		-	-	(1,291)
Transfers	-	-	1,291			1,291
At 31 March 2023	**-**	**2,852**	**1,291**	**91,166**	**1,235**	**96,544**
Depreciation and impairment						
At 1 April 2022	-	1,152	-	49,659	823	51,634
Charge for the year		416	128	16,602	196	17,342
Disposals in the year	-	-	-	-	-	-
At 31 March 2023	**-**	**1,568**	**128**	**66,261**	**1,019**	**68,976**
Net book value at 31 March 2023	**-**	**1,284**	**1,163**	**24,905**	**216**	**27,568**
Net book value at 31 March 2022	679	897	-	41,507	412	43,495

Property, plant and equipment includes right-of-use assets with carrying amounts as follows:

Right of use assets

	Buildings £000	Ships £000	Vehicles & Equipment £000	Total £000
Cost				
At 1 April 2022	2,049	91,166	915	94,130
Additions in the year	803	-	-	803
Disposals in the year	-	-	-	-
At 31 March 2023	**2,852**	**91,166**	**915**	**94,933**
Depreciation and impairment				
At 1 April 2022	1,152	49,660	508	51,320
Charge for the year	415	16,602	190	17,207
Disposals in the year	-	-	-	-
At 31 March 2023	**1,567**	**66,262**	**698**	**68,527**
Net book value at 31 March 2023	**1,285**	**24,904**	**217**	**26,406**
Net book value at 31 March 2022	897	41,506	407	42,810

Notes on the financial statements

7. Derivative financial Instruments

	2023				2022			
	Assets		**Liabilities**		Assets		Liabilities	
	Current	**Non-Current**	**Current**	**Non-Current**	Current	Non-Current	Current	Non-Current
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Hedging derivatives								
Cash flow hedge								
Fuel hedge	-	-	-	-	8,527	-	-	-

8. Investments

	£000
At 1 April 2022 and 31 March 2023	-

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

	2023 £000	2022 £000
Fuels and lubricants	**957**	530
Consumable inventories	**2,186**	1,409
Retail inventories	**209**	164
	3,352	2,103

Fuels and lubricants, consumable inventories and retail inventories recognised in Cost of Sales £28.8m (2022: £17.7m).

Non-retail inventories are held for the operating requirements of the Company and not for resale. Of the retail stocks held, £nil was expected to be recovered after more than twelve months in both this and the previous year.

10. Debtors and prepayments

	2023 £000	2022 £000
Trade receivables	**3,930**	5,092
Other receivables	**2,586**	5,561
Prepayments and accrued income	**3,985**	5,851
Corporation tax	**51**	-
	10,552	16,504

11. Creditors: amounts falling due within one year

	2023 £000	2022 £000
Trade payables	**6,426**	7,196
Other payables and accruals	**15,021**	16,553
Corporation tax	**-**	71
Amounts due to group undertakings	**848**	516
	22,295	24,336

Notes on the financial statements

12. Deferred tax assets and liabilities

The main components of deferred tax at 19% (2022: 19%) are:

	Assets 2023 £000	**Liabilities 2023 £000**	Assets 2022 £000	Liabilities 2022 £000	**Net 2023 £000**	Net 2022 £000
Tangible fixed assets	**455**	**-**	524	-	**455**	524
Financial assets	**-**	**-**	-	(1,621)	**-**	(1,621)
Other	**228**	**-**	83	-	**228**	83
	683	**-**	607	(1,621)	**683**	(1,014)

Movement in deferred tax during the year

	1 April 2022 £000	Recognised in income £000	**31 March 2023 £000**
Tangible fixed assets	524	(69)	**455**
Financial assets	(1,621)	1,621	**-**
Other	83	145	**228**
	(1,014)	1,699	**683**

Movement in deferred tax during the previous year

	1 April 2021 £000	Recognised in income £000	31 March 2022 £000
Tangible fixed assets	445	79	524
Financial assets	(247)	(1,374)	(1,621)
Other	64	19	83
	262	(1,276)	(1,014)

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 2022	897	407	41,506	42,810
Additions to right-of-use assets	803	-	-	803
Depreciation charge for the year	(415)	(190)	(16,602)	(17,207)
Balance at 31 March 2023	**1,285**	**217**	**24,904**	**26,406**

The following amounts have been recognised in profit or loss for which the Group is a lessee.

	2023 £000	2022 £000
Interest expense on lease liabilities	**908**	1,246

No short-term leases were recognised in the profit or loss in the year.

Amounts recognised in statement of cash flows

	2023 £000	2022 £000
Total cash outflow for leases	**16,106**	15,339

13. Leases (continued)

	Vessels £000	Property £000	Vehicles & plant £000	Total £000
IFRS16 – lease liability				
Within 1 year	16,741	464	130	17,335
1 - 2 years	13,996	292	91	14,379
2 - 3 years	-	113	5	118
3 - 4 years	-	123	-	123
4 - 5 years	-	374	-	374
	30,737	**1,366**	**226**	**32,329**

14. Share capital

	2023 £000	2022 £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 2022	**8,527**	**(1,374)**	**7,153**
Effective portion of changes in fair value of cash flow hedges	**3,623**	**-**	**3,623**
Tax charge relating to cash flow hedge	**-**	**1,374**	**1,374**
Net change in fair value of cash flow hedges reclassified to profit or loss	**(12,150)**	**-**	**(12,150)**
At 31 March 2023	-	-	-

The fuel hedge related to CHFS2 contract and ended in September 2022.

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 2021, carried out by an independent actuary, showed that the scheme had liabilities of £343.5m, assets of £338.6m and, consequently, a deficit of £4.9m.

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 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 2021 showed a gross surplus of £58m at the valuation date and that the market value of the assets of £3,250m covered 102% of the value of the liabilities. The Company could still be required to make contributions against any deficit.

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. Future contributions are expected to continue at a rate of 20%.

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

Notes on the financial statements

16. Pension arrangements (continued)

The Directors also consider that any liability the Company has in relation to MNOPF 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.

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

	2023	2022
	£000	£000
CalMac Pension Fund	**4,956**	4,544
Ensign	**13**	13
Other schemes	**305**	256
	5,274	4,813
Contributions to be paid to pension schemes included in creditors	**583**	508

17. Related party transactions

Under FRS 101, the Company is exempt from the requirement to disclose related party transactions with Group undertakings with David MacBrayne Limited 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:

	2023	2022
	£000	£000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- subsidy	**165,424**	150,021
- SEC 70 Grant	**4,479**	-
- Capital Supplement	**590**	-
- consultancy services	**2,658**	2,391
Caledonian Maritime Assets Limited		
- vessel leasing charges	**(16,446)**	(15,933)
- harbour services	**(11,981)**	(11,121)
- vessel new build, modifications and other costs	**6,951**	6,348
- ferry travel costs	**27**	10
Solent Gateway Limited		
- management recharge	**271**	321

Notes on the financial statements

17. Related party transactions (continued)

	2023	2022
	£000	£000
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- subsidy	**11,380**	28,633
- recharge of consultancy agreements	**659**	712
Caledonian Maritime Assets Limited		
- harbour services	**(1,791)**	(532)
- vessel new build, modifications and other costs	**2,121**	2,314
- ferry travel costs	**2**	1

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 was a joint venture company between David MacBrayne Limited and GBA (Holdings) Limited. On 31 January 2023, David MacBrayne Limited and GBA (Holdings) Limited divested their interest in Solent Gateway Limited.

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
Solicitor	Pinsent Masons
Bankers	The Royal Bank of Scotland plc Santander UK plc
Principal insurer	The North of England Protecting & Indemnity Association
Website	Parent company: www.david-macbrayne.co.uk Company: www.calmac.co.uk