

**NORTHLINK FERRIES LIMITED  
DIRECTORS' REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014**

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**Contents**

Directors' Report	1
Statement of Directors' responsibilities in respect of the Directors' report and the financial statements	2
Independent Auditor's Report to the members of NorthLink Ferries Limited	3
Profit and Loss Account	4
Balance Sheet	5
Notes on the financial statements	6
Corporate information	11

## **Directors' Report**

The Directors present their Directors' Report and financial statements for the year ended 31 March 2014.

### **Principal activity and business review**

Following the loss of the Northern Isles contract, the Company ceased trading on 5 July 2012. A dividend of £5.57m was made from distributable reserves in March 2014.

The Company made a profit before tax for the year of £0.11m (2013: £0.35m).

### **Political and charitable donations**

The Company made no political or charitable donations during the year.

### **Directors and their interests**

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

R L Drummond  
D C McGibbon  
N L Quirk - resigned 31 December 2013  
P Stark

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

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

### **Employees**

The Company is a non-discriminatory employer operating an Equal Opportunities Policy and is committed to ensuring that all individuals are treated fairly, with respect and are valued.

### **Policy of employment of people with disabilities**

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

### **Financial instruments**

The Company enters into no complex financial instruments.

### **Adoption of going concern basis**

As a result of the contract for the provision of ferry services having come to an end on 5 July 2012, the Directors consider that the Company will have no business activity in the future. Accordingly, the financial statements have not been prepared on a going concern basis. No adjustments were necessary to the amounts at which assets and liabilities are included in the financial statements as a result of the going concern basis no longer being appropriate. In addition, this has no impact upon the ability of the Company to meet its residual financial obligations in relation to the previous contract.


### **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 all companies within the David MacBrayne Group will be put to the members at the David MacBrayne Ltd Annual General Meeting.

On behalf of the Board

  
R L Drummond  
Director

10 September 2014

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

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

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

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

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

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

As explained in note 1, the Directors do not believe the going concern basis to be appropriate for the preparation of the financial statements and, accordingly, the financial statements have not been prepared on a going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

**Independent Auditor's Report to the members of NorthLink Ferries Limited**

We have audited the financial statements of NorthLink Ferries Limited for the year ended 31 March 2014 set out on pages 4 to 10. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These financial statements have not been prepared on a going concern basis as set out in note 1 to the financial statements.

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

**Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit, or
- the Directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report



**Martin Ross (Senior Statutory Auditor)  
for and on behalf of KPMG LLP**

Chartered Accountants  
191 West George Street  
Glasgow  
G2 2LJ

10 September 2014

**Profit and Loss Account  
for the year ended 31 March 2014**

	Note	<b>2014 £000</b>	Result before Exceptional items 2013 £000	Exceptional items 2013 £000	2013 £000
<b>Turnover</b>	2	-	18,933	1,308	20,241
Cost of sales		<b>99</b>	(17,613)	(2,030)	(19,643)
<b>Gross profit</b>		<b>99</b>	1,320	(722)	598
Administrative expenses		<b>(1)</b>	(994)	(115)	(1,109)
Gain on sale		-	-	837	837
<b>Operating profit</b>		<b>98</b>	326	-	326
Interest receivable and similar income	6	<b>12</b>			23
<b>Profit on ordinary activities before taxation</b>	3	<b>110</b>			349
Tax on profit on ordinary activities	7	-			(5)
<b>Profit for the financial year</b>	13	<b>110</b>			344

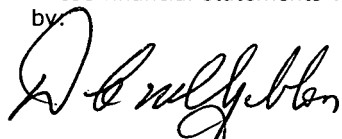
All results are derived from discontinued operations; the Company's operation as a ferry operator ceased on 5 July 2012.


There were no recognised gains or losses other than the results for the financial years reported above.

**Balance Sheet  
as at 31 March 2014**

	Note	2014 £000	2013 £000
<b>Fixed assets</b>			
Investment	9	-	-
<b>Current assets</b>			
Debtors	10	-	175
Cash at bank and in hand		<b>74</b>	5,468
		<b>74</b>	5,643
<b>Creditors</b>			
Amounts falling due within one year	11	-	(108)
<b>Net current assets</b>		<b>74</b>	5,535
<b>Total assets less current liabilities</b>		<b>74</b>	5,535
<b>Net assets</b>		<b>74</b>	5,535
<b>Capital and reserves</b>			
Called up share capital	12	<b>74</b>	74
Profit and loss account	13	-	5,461
<b>Shareholder's funds</b>	14	<b>74</b>	5,535

These financial statements were approved by the Board of Directors and signed on 10 September 2014 on its behalf by:

  
D C McGibbon, Chairman

  
R L Drummond, Director

## Notes on the financial statements

### 1. Accounting policies

#### (a) Basis of preparation

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

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 the Group of which it is a part.

As explained in the Directors' Report on page 1, the financial statements are not prepared on a going concern basis following the existing contract for the provision of ferry services having come to an end.

#### (b) Investments

Fixed asset investments are carried at cost.

#### (c) 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 year in which the work is performed.

#### (d) Taxation

The Company has elected into the Tonnage Tax regime available to shipping organisations. However, certain activities within the Company are liable to corporation tax. Tonnage tax is levied wholly on the net tonnage of the vessels operated by the Company.

#### (e) Post retirement benefits

The Company operated a defined contribution pension scheme and its subsidiary also participated in the Merchant Navy Officers' Pension Fund (MNOFF). The assets of the scheme are held separately from those of the Company in independently administered funds. The amount charged to the profit and loss account represents the contributions payable by the Company to the scheme in respect of the accounting year.

#### (f) Derivatives and financial instruments

The Group has adopted FRS 13: Derivatives and other financial instruments. The Company's financial instruments comprise cash, other liquid resources and various items such as trade debtors and creditors which arise directly from operations. The Company's policy is not to trade or speculate in financial instruments but to utilise them to finance operations. However, the Group enters into fuel hedging arrangements as and when this is considered appropriate.

#### (g) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### (h) Dividend

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

### 2. Turnover

Turnover represented the amount (excluding value added tax) derived from the operation of ferry services and also included subsidy income received from the Scottish Government. Transportation income was recognised at point of departure and all other income was recognised at point of sale of the goods or services.

Analysis of turnover:

	2014 £000	2013 £000
Fares and other income	-	8,767
Subsidy receivable from the Scottish Government	-	12,087
Subsidy Clawback	-	(613)
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	-	20,241
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Subsidy clawback is a reduction in contracted subsidy payable by Transport Scotland. It represents Transport Scotland's share of efficiencies made by the Group in excess of the allowable operator return.



**Notes on the financial statements continued**

**3. Profit on ordinary activities before tax**

Profit on ordinary activities before taxation is stated after charging/(crediting):

	<b>2014</b>	2013
	<b>£000</b>	£000
Auditor's remuneration		
- audit of these financial statements	-	14
- advisory	-	4
- all other services	-	2
Depreciation written off tangible fixed assets	-	178
Amortisation of capital grants	-	(170)
Agency staff costs	-	5,010
Operating lease rentals		
- property	-	180
- vessels/other	-	3,881
Interest received	<b>(12)</b>	(23)
Net gain on disposal of tangible fixed assets	-	(837)
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The 2014 audit fee was borne by the parent company.

An analysis of exceptional items is as follows:

	2013
	£000
Income	
- Subsidy to fund Northern Isles contract cessation	1,308
- Gain on sale of NorthLink assets	837
Expenses	
- Settlement of s75 pension liabilities	(1,584)
- Costs relating to cessation of Northern Isles contract	(561)
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There were no exceptional items in this financial year.

**4. Staff numbers and costs**

The average number of people employed by the Company, including Directors, during the year was Nil (2013: 69).

The aggregate payroll costs of these people were as follows:

	<b>2014</b>	2013
	<b>£000</b>	£000
Wages and salaries	-	472
Social security costs	-	53
Pension costs (note 15)	-	11
	<hr/>	<hr/>
	-	536
	<hr/>	<hr/>

**5. Directors' remuneration**

	<b>2014</b>	2013
	<b>£000</b>	£000
Directors' emoluments, including performance payments and benefits in kind	-	35
Company contributions to a defined benefit pension scheme	-	6
Highest paid Director		
- emoluments, including performance payment and benefits in kind	-	35
- Company contributions to defined benefit pension scheme	-	6
- accrued pension at 31 March	-	3
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**6. Interest receivable and similar income**

	<b>2014</b>	2013
	<b>£000</b>	£000
Bank interest receivable	<b>12</b>	23
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Notes on the financial statements continued

**7. Taxation**

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

	<b>2014 £000</b>	2013 £000
UK corporation tax on profit for the year	-	5
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<b>Tax on profit on ordinary activities</b>	<b>-</b>	<b>5</b>
	<hr/>	<hr/>

*Factors affecting the tax charge for the current year*

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

	<b>2014 £000</b>	2013 £000
Profit on ordinary activities before tax	<b>110</b>	349
	<hr/>	<hr/>
UK corporation tax at 20% (2013: 20%)	<b>22</b>	70
Effects of:		
Group relief	<b>(2)</b>	(68)
Items not allowable for tax purposes	<b>(20)</b>	3
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<b>Tax charge for the year</b>	<b>-</b>	<b>5</b>
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*Factors affecting future tax charges*

The Company has elected into the Tonnage Tax regime available to shipping organisations and had been under that regime until 5 July 2012 when trade ceased. Certain activities within the Company after 5 July 2012 are liable to corporation tax. The Company had elected into the Tonnage Tax regime throughout the previous financial year. Tonnage Tax is levied wholly on the net tonnage of the vessels operated by the Company.

**8. Cash flow statement**

Under FRS1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary and the parent undertaking includes the Company in its published consolidated financial statements.

**9. Investments**

	<b>2014 £000</b>
At beginning and end of year	-
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The Company owns the whole of the issued ordinary share capital of NorthLink Crewing Guernsey Ltd, which is registered in Guernsey, and administers the Company's offshore crewing arrangements.

Notes on the financial statements continued

**10. Debtors**

	<b>2014 £000</b>	2013 £000
Other debtors and prepayments	-	175

The balance due from Scottish Government is nil (2013: nil).

**11. Creditors: amounts falling due within one year**

	<b>2014 £000</b>	2013 £000
Other creditors and accruals	-	103
Corporation tax	-	5
	-	108

**12. Called up share capital**

	<b>2014 £000</b>	2013 £000
<b>Authorised, allotted, called up and fully paid</b>		
74,496 ordinary shares of £1 each (classified in Shareholder's funds)	<b>74</b>	74

**13. Profit and loss account**

	<b>2014 £000</b>	2013 £000
At beginning of year	<b>5,461</b>	5,117
Profit for the year	<b>110</b>	344
Dividends paid	<b>(5,571)</b>	-
<b>At end of year</b>	-	5,461

**14. Reconciliation of movements in Shareholder's funds**

	<b>2014 £000</b>	2013 £000
Opening Shareholder's funds	<b>5,535</b>	5,191
Profit for the financial year	<b>110</b>	344
Dividends paid	<b>(5,571)</b>	-
<b>Closing Shareholder's funds</b>	<b>74</b>	5,535

**15. Pension arrangements**

The Company operated a defined contribution pension scheme. The pension charge for the year amounted to Nil (2013: £11,000).

As a consequence of the TUPE (Transfer of Undertakings Protection of Employment Regulations) an S75 liability under section 75 and rule 5.2A of the Merchant Navy Officers' Pension Fund (MNOFF) rules crystallised in respect of employees of NorthLink Crewing (Guernsey) Ltd. A final payment of £1.58m was made during the prior year by NorthLink Crewing and recharged to NorthLink Ferries Ltd.

Under the rules of the MNOFF scheme, the settlement of a statutory debt does not absolve participating employers from being called upon in the future to make additional contributions towards past funding deficits. Whilst no such call has been made to date on NorthLink Crewing (Guernsey) Limited, the Directors consider that any future liability that arises in relation to past funding deficits relating to the MNOFF scheme will ultimately be funded by Scottish Ministers.

Notes on the financial statements continued

**16. Related party disclosures**

The Company is wholly owned by David MacBrayne Limited which is wholly-owned by the Scottish Ministers. The Company has taken advantage of the exemption contained in FRS 8 and has not disclosed transactions or balances with entities which form part of the Group.

Details of transactions with other related parties are as follows:

	<b>2014</b> <b>£000</b>	2013 £000
<b>Transactions during the year – receivable/(payable):</b>		
Scottish Ministers		
- subsidy	-	11,475
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**17. Ultimate parent company**

The Company is a wholly-owned subsidiary of David MacBrayne Limited, which is wholly-owned by the Scottish Ministers. 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 consolidated financial statements are available to the public and copies may be obtained from the parent company's registered office at the Ferry Terminal, Gourock, PA19 1QP and are also available on the parent company's website.

**Corporate information**

**Registered office**                      The Ferry Terminal  
Gourock  
PA19 1QP

**Auditor**                                KPMG LLP

**Solicitors**                            Pinsent Masons LLP

**Bankers**                                The Royal Bank of Scotland plc

**Principal insurers**                The North of England Protecting & Indemnity Association

**Website**                                Parent company:    [www.david-macbrayne.co.uk](http://www.david-macbrayne.co.uk)