NorthLink Orkney & Shetland Ferries Limited

Directors' report and financial statements

Registered number SC212342

6 July 2010

Contents

Directors' report

The Directors present their Directors' report and financial statements for the year ended 6 July 2010.

Principal activities

The principal activity of the Company had been the operation of lifeline ferry services to Orkney and Shetland until the Company ceased to operate these services on 6 July 2006. Accordingly these financial statements are not prepared on a going concern basis.

Business review

Performance during the year

As a result of the re-tendering of the Northern Isles ferry services contract, the services previously provided by the Company were transferred to a new provider on 6 July 2006. Since that point the Company has not traded. All the expenses during the year related to the discontinued operations and the settlement of outstanding liabilities relating to the previous operations.

The Company received income from the Scottish Government in respect of the settlement of outstanding liabilities.

Future plans

As noted above the Company ceased trading on 6 July 2006 and it is the intention of the directors to effect a winding up of the Company on a solvent basis as soon as reasonably practicable. The Directors are currently considering the alternatives of how best to give effect to this. As a result, the Directors have not prepared the financial statements on a going concern basis. No adjustments were necessary to the amounts at which the remaining net assets are included in these financial statements.

As a consequence of the Company ceasing to trade on 6 July 2006 and the TUPE transfer of staff to the new operator the Company now has no employees and there are no plans for any future business activity.

Dividends

The Directors do not recommend the payment of a dividend.

Directors and Directors' interests

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

PK Timms CBE
W I Watson
G S Johnston
KJ Maddick

Charitable donations

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

Disclosure of information to auditors

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

Directors' report *(continued)*

Auditors

The Directors have agreed to re-appoint KPMG LLP as auditors. The Company has an elective resolution in place to dispense with the requirement to hold an Annual General Meeting.

By order of the board

Peter Timms
Director

1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL
14 January 2011

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors 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 their profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to the financial statements, the Directors do not believe that it is appropriate to prepare these financial statements 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 its 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.

Independent auditor's report to the members of NorthLink Orkney & Shetland Ferries Limited

We have audited the financial statements of NorthLink Orkney & Shetland Ferries Limited, for the year ended 6 July 2010. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). The financial statements have not been prepared on the going concern basis for the reasons set out in note 1.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

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

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 6th July 2010 and of the Company's 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

Emphasis of matter – possible statutory debt in relation to the Merchant Navy Officers Pension Fund (MNOPF)

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 15 to the financial statements concerning the possible statutory debt arising in relation to the Merchant Navy Officers Pension Fund (MNOPF) following transfer of all the seagoing staff of Northlink Services (Guernsey) Limited (NSGL) to Northlink Crewing (Guernsey) Limited (NCGL). The MNOPF has put forward an initial suggested course of action and the company has challenged this. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

G Macrae

G Macrae (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Glasgow

28 January 2011

Profit and loss account

for the year ended 6 July 2010

	Note	**2010** **£000**	2009 £000
Administrative expenses		**(27)**	(60)
Exceptional other operating income	*2*	**34**	60
Operating profit		**7**	-
Interest receivable and similar income	*6*	**2**	33
Profit on ordinary activities before taxation	*3-5*	**9**	33
Tax on profit on ordinary activities	*7*	**-**	(7)
Profit for the financial period	*12*	**9**	26

All results are derived from discontinued operations.

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

Balance sheet
at 6 July 2010

	Note	**2010** **£000**	2009 £000
Fixed assets			
Investments	*8*	-	-
Current assets			
Debtors	*9*	**17**	43
Cash at bank and in hand		**2,073**	2,041
		2,090	2,084
Creditors: amounts falling due within one year	*10*	**(18)**	(21)
Net current assets		**2,072**	2,063
Net assets		**2,072**	2,063
Capital and reserves			
Called up share capital	*11*	**1,500**	1,500
Profit and loss account	*12*	**572**	563
Shareholders' funds	*13*	**2,072**	2,063

These financial statements were approved by the board of Directors on 14 January 2011 and were signed on its behalf by:

Peter Timms
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is exempt by virtue of s402 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.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

The Company was set up in October 2000 as a single purpose Company to run a contract for a five year period from 1 October 2002. However, on 8 April 2004 the then Scottish Transport Minster announced that the Northern Isles Lifeline Ferry Service was to be re-tendered earlier than had been originally planned and on 6 July 2006 the service was transferred to a new operator.

Given the transfer to the new operator, it is the intention of the Directors to effect a winding up of the Company on a solvent basis as soon as reasonably practicable. The Scottish Ministers have provided an undertaking that they will continue to provide working capital during the wind up process to enable the Company to meet its debts as they fall due.

The financial statements were not prepared on a going concern basis for the period ended 6 July 2006, and the going concern basis of preparation continues not to be appropriate. The wind up process is expected to take some time and due to the support of the Scottish Ministers referred to above, all creditors are expected to be paid. No adjustments were necessary to the amounts at which the remaining net assets are included in these financial statements.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (ie forming part of Shareholders' funds) 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of Shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in Shareholders' funds.

Dividends on shares presented within Shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Exceptional other operating income

Exceptional other operating income for 2010 and 2009 relates to the reimbursement by Scottish Ministers of expenses incurred by the company.

3 Profit on ordinary activities before taxation

	2010	2009
Profit on ordinary activities before taxation is stated after charging	**£000**	£000
Auditors' remuneration:		
Audit	**5**	8
Other services relating to tax	**2**	2
Other services	**-**	7

4 Remuneration of Directors

None of the Directors received any remuneration from the Company during the year *(2009: £nil)*.

5 Staff numbers and costs

The company had no employees in the current or previous year.

6 Interest receivable and similar income

	2010	2009
	£000	£000
Bank interest receivable	**2**	33

Notes *(continued)*

7 Taxation

Analysis of charge for year

	2010 £000	2009 £000
UK corporation tax		
Current tax on income for the period being total current tax	-	7

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2009: lower)* than the standard rate of corporation tax in the UK, 28% *(2009: 28%)*. The differences are explained below:

	2010 £000	2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	9	33
Current tax at 21% *(2009: 28%)*	2	9
Effects of:		
Expenses not deductible for tax purposes	5	16
Non taxable income	(7)	(16)
Tax at lower rate	-	(2)
Total current tax charge (see above)	-	7

8 Investments

	Shares in subsidiary undertaking £
Cost and net book value	
At beginning and end of year	2

Details of the Company's subsidiary undertaking are as follows:

Subsidiary undertaking	Country of registration	Ordinary shares percentage held	Nature of business	Profit for the year to 30 September 2009 £000	Aggregate capital and reserves at 30 September 2009 £000
NorthLink Services (Guernsey) Limited	Guernsey	100	Provision of crewing services	-	(4)

NorthLink Services (Guernsey) Limited ceased trading on 30 June 2008 and it is planned that the company will be wound up in due course.

Notes *(continued)*

9 Debtors

	2010 £000	2009 £000
Other debtors and prepayments	**17**	43

10 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors and accruals	**18**	14
Corporation Tax	-	7
	18	21

11 Called up share capital

	2010 £000	2009 £000
Authorised, allotted, called up and fully paid		
750,000 Ordinary A Shares of £1each	**750**	750
750,000 Ordinary B Shares of £1each	**750**	750
	1,500	1,500

On 20 October 2000, 750,000 Ordinary A shares and 750,000 Ordinary B shares were issued at par representing the authorised share capital on incorporation of the Company. The Royal Bank of Scotland plc holds 750,000 Ordinary A shares as security trustee for and on behalf of Royal Bank Project Investments Limited and 750,000 Ordinary B shares as security trustee for and on behalf of Caledonian Maritime Assets Limited.

The Ordinary A and Ordinary B shares rank pari passu in all respects.

12 Profit and loss account

	2010 £000
At beginning of year	563
Profit for the year	9
At end of period	**572**

Notes *(continued)*

13 Reconciliation of movements in Shareholders' funds

	2010 £000	2009 £000
Profit for the financial period	**9**	26
Opening Shareholders' funds	**2,063**	2,037
Closing Shareholders' funds	**2,072**	2,063

14 Commitments

The Company had no capital commitments at the end of the current or previous year.

15 Contingent liability

On 1 July 2008, the seagoing staff of the company's subsidiary, Northlink Services (Guernsey) Limited (NSGL) were transferred to Northlink Crewing (Guernsey) Limited (NCGL).

It has been indicated by the Merchant Navy Officers Pension Fund (MNOPF) that this transfer may have triggered a statutory debt in respect of the MNOPF for the 23 officers and some retirees involved relating to the period from when this provision of the Pensions Act came into force in September 2005 until June 2008.

The fund's actuary will determine the actual amount in due course and it has not been possible to estimate the liability, or the expected timing of settlement at this time. The directors are also challenging the legislation in this area which may further impact the quantum and timing of disbursement of any liability.

Any initial liability will reside with Northlink Orkney & Shetland Ferries Limited as the company will reimburse NCGL. However, under the terms of the Minute of Amendment (MOA) dated 29 September 2004 and the Minute of Further Amendment (MOFA) dated 29 May 2007, the liability for this debt ultimately falls to the Scottish Government.

As explained in the 2006 financial statements, the MOA provided the company with an undertaking that until the new operator appointed by the Scottish Ministers took over the Approved Services, the Scottish Ministers would provide the company with funding to enable it to provide the Approved Services. The Approved Services were transferred to Northlink Ferries Limited on 6 July 2006 and on this date, the MOA was replaced by the MOFA. The MOFA provides the company with an undertaking that the Scottish Ministers remain committed to meeting remaining liabilities of the company pending final dissolution of the company.

16 Related party disclosures

Royal Bank Project Investments Limited and Caledonian Maritime Assets Limited (formerly Caledonian MacBrayne Limited until 1 October 2006) each have a 50% shareholding in the Company. The shares of both parties are held by Royal Bank of Scotland plc as security trustee.

There were no related party transactions during the year, other than standard current account banking services operated by the Royal Bank of Scotland plc.