

**CALMAC FERRIES LIMITED  
DIRECTORS' REPORT & FINANCIAL STATEMENTS  
2009 - 2010**

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## Directors' Report

The Directors present their Directors' Report and financial statements for the year ended 31 March 2010.

### Principal activity and business review

The Company holds the contract for the provision of the Clyde and Hebrides ferry services for the 6-year period ending September 2013.

The principal activity of the Company is the provision of lifeline ferry services under this contract with the Scottish Government. Under the terms of the contract, the Company receives grant support from the Scottish Government; the Company is also able to provide services outwith the contract provided these do not require grant support.

The Company made a profit for the year before tax of £2.2m (2009: £2.8m). A dividend of £2.0m (2009: £1.3m) was paid to the Company's sole shareholder during the year.

The Company achieved performance levels during the year of almost 100% and operated within the contract grant provision for the year. Following approval by the Scottish Government under the terms of the contract, a number of timetable enhancements were introduced from the commencement of the 2009/10 Winter season. These are primarily aimed at providing better integration with bus and rail services, as well as improving connectivity for customers.

The principal risks and uncertainties facing the business relate to the financial impact of operating the Clyde and Hebrides ferry services under contract and the implications of the introduction on a pilot basis, under direction from the Scottish Government, of a road equivalent tariff scheme on a number of the routes operated by the Company. Through the development and maintenance of comprehensive business risk assessment procedures, the Company ensures that both the incidence and impact of identified risks are limited.

Key areas of the performance and development of the business include safety, reliability, punctuality and standard of service. Specific performance measures are defined within the terms of the Clyde and Hebrides ferry services contract and include reliability, punctuality, customer service undertakings and finance.

The Company is participating in the Scottish Ferries Review in its capacity as a ferry operator. The review was commissioned by the Scottish Government with the principal aim of developing a long-term plan for the provision of ferry services throughout Scotland. Publication and launch of the Scottish Ferries Plan is due in early Summer 2011.

During the year, the European Commission completed its inquiry into the levels of support provided for the operation of ferry services in Scotland and concluded that the support provided for the operation of the Clyde and Hebridean ferry services is compliant with all relevant EU directives.

The Board examines, on an ongoing basis, existing practices with a view to identifying more efficient and cost effective ways of delivering and improving standards of service. In the opinion of the Directors, the state of affairs of the Company is satisfactory.

### Political and charitable donations

The Company made no political or charitable donations during the year. However, the Company supports a range of local organisations through travel-related sponsorship and continues to be the main commercial supporter of the Royal National Mod.

### Directors and their interests

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

P K Timms	
W L Sinclair	
I Gillies	
A M Lynch	
L B MacLeod	
D C McGibbon	
P G Preston	
N L Quirk	
R Sinclair	- appointed 28 October 2009
P Stark	- appointed 28 October 2009
G A Taylor	

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

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

## **Employees**

The Company has a policy of equal opportunities and non-discrimination in all aspects of employment.

The majority of employees are formally represented by Trade Unions recognised for collective bargaining purposes. A system of Employee Participation and Consultative Committees is well established. In addition, Information and Consultation Forum meetings are held twice yearly.

Through either the formal negotiating or consultative process, or a mixture of both, employees at all levels, directly or through their representatives, are provided with information on matters concerning them and are encouraged to be involved in the activities of the Company.

All of these measures are kept under constant review to ascertain whether or not improvements can be made.

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

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

## **Adoption of going concern basis**

On the basis of the information available to them, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

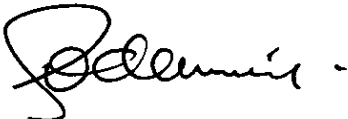
## **Disclosure of information to Auditors**

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/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 auditors are aware of that information.

## **Auditors**

A resolution to re-appoint KPMG LLP as auditors 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



G W McKenzie  
Secretary  
28 June 2010

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

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

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

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

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

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

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

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

**Independent Auditors' Report to the members of Calmac Ferries Limited**

We have audited the financial statements of CalMac Ferries Limited for the year ended 31 March 2010 set out on pages 5 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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's (APB's) Ethical Standards for Auditors.

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

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://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 31 March 2010 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.



**G Macrae (Senior Statutory Auditor)  
for and on behalf of KPMG LLP**

Chartered Accountants  
191 West George Street  
Glasgow  
G2 2LJ

28 June 2010

**Profit and Loss Account for the year ended 31 March 2010**

	Note	<b>2010 £000</b>	2009 £000 reclassified
<b>Turnover</b>	2	<b>113,195</b>	109,507
Cost of sales		<b>(104,040)</b>	(100,584)
<b>Gross profit</b>		<b>9,155</b>	8,923
Administrative expenditure		<b>(7,016)</b>	(6,339)
<b>Operating profit</b>		<b>2,139</b>	2,584
Interest receivable	3	<b>11</b>	239
<b>Profit on ordinary activities before taxation</b>	3	<b>2,150</b>	2,823
Tax on profit on ordinary activities	4	<b>(139)</b>	(255)
<b>Profit for the financial year</b>		<b>2,011</b>	2,568

There are no other recognised gains or losses for the year.

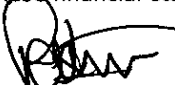
The 2009 figures have been reclassified to reflect revised standard Group classification of costs; this mainly relates to a more detailed allocation of central services and has no impact on costs overall.

The accompanying notes are an integral part of these financial statements

**Balance Sheet as at 31 March 2010**

	Note	2010 £000	2009 £000
<b>Fixed assets</b>			
Tangible assets	6	31	33
Intangible assets	7	-	286
Investments	8	-	-
		<u>31</u>	<u>319</u>
<b>Current assets</b>			
Stocks of fuel, lubricants and consumables		1,036	977
Debtors and prepayments	9	5,637	5,258
Cash at bank and in hand		8,985	7,629
		<u>15,658</u>	<u>13,864</u>
<b>Creditors</b>			
Amounts falling due within one year	10	(12,446)	(10,951)
		<u>3,212</u>	<u>2,913</u>
<b>Net current assets</b>			
		<u>3,243</u>	<u>3,232</u>
<b>Net assets</b>			
		<u>3,243</u>	<u>3,232</u>
<b>Capital and reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	3,243	3,232
		<u>3,243</u>	<u>3,232</u>
<b>Shareholder's funds</b>			
		<u>3,243</u>	<u>3,232</u>

These financial statements were approved by the Board of Directors and signed on 28 June 2010 on its behalf by:

  
P K Timms, Chairman

  
A M Lynch, Director

The accompanying notes are an integral part of these financial statements



## Notes on the financial statements

### 1. Accounting policies

#### (a) Basis of preparation

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

#### (b) Tangible assets

Gross book values of all tangible assets are stated at cost. No depreciation is charged until the asset comes into use.

#### (c) Intangible assets

Intangible assets represent the bid costs incurred under the Clyde and Hebrides ferry services tender.

#### (d) Investments

Fixed asset investments are carried at cost.

#### (e) 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

#### (f) Stock

Stock is valued at the lower of average invoiced cost and net realisable value.

#### (g) Maintenance and repair costs

Routine maintenance and repair costs, as well as vessel overhaul costs, are charged to the profit and loss account in the financial period in which the work is performed. Repairs to meet statutory or classification requirements are met by the vessel owners and recharged to the operator by increased charter hire charges. Where the Company provides ferry services under a fixed-term contract, at contract end, independent vessel surveys are carried out to establish any work required. The agreed dilapidation costs are charged to profit and loss account at the end of the contract period.

#### (h) 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 takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The Directors have chosen not to discount the Company's deferred tax liability, as permitted by FRS 19.

#### (i) Pensions

The Company is a participating employer in the CalMac Pension Fund, which is a defined benefit scheme operated by Caledonian Maritime Assets Ltd. Accordingly, for the purposes of FRS 17 : Retirement Benefits, pension contributions are accounted for as if the scheme was defined contribution.

#### (j) Receipts in advance

Receipts for advanced and multi-journey bookings are recognised with reference to time of travel. The deferred element of this income is shown under creditors.

### 2. Turnover

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

	2010 £000	2009 £000
Fares and other income	54,655	55,262
Management fees	1,202	907
Grant receivable from the Scottish Government	57,338	53,338
	<hr/>	<hr/>
	113,195	109,507
	<hr/>	<hr/>

The increase in grants receivable from the Scottish Government mainly relates to the first full year effect of the introduction of road equivalent tariff on a number of Hebridean routes effective from October 2008.

**Notes on the financial statements continued**

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

The Profit is stated after charging/(crediting):		<b>2010</b>	2009
		<b>£000</b>	£000
Auditors' remuneration	- audit of these financial statements	<b>31</b>	31
	- other services relating to taxation	<b>12</b>	20
	- other services	-	4
Depreciation of tangible fixed assets		<b>16</b>	2
Amortisation of intangible fixed assets		<b>286</b>	63
Agency staff costs		<b>34,819</b>	31,317
Operating lease costs	- land and buildings	<b>1,933</b>	1,832
	- ships and motor vehicles	<b>13,183</b>	11,766
Interest receivable	- bank	<b>(11)</b>	(239)
		<hr/>	<hr/>

**4. Taxation**

The tax charge for the year is made up as follows:

		<b>2010</b>	2009
		<b>£000</b>	£000
UK corporation tax on profit for the year		<b>170</b>	196
Adjustments in respect of prior period		<b>(6)</b>	-
		<hr/>	<hr/>
		<b>164</b>	196
		<hr/>	<hr/>
Deferred tax:			
Adjustments in respect of prior year		<b>(5)</b>	-
Origination of timing differences		<b>(20)</b>	59
		<hr/>	<hr/>
		<b>(25)</b>	59
		<hr/>	<hr/>
<b>Tax on profit on ordinary activities</b>		<b>139</b>	255
		<hr/>	<hr/>

The tax assessed for the year differs from the standard rate of corporation tax of 28%. The differences are explained below:

		<b>2010</b>	2009
		<b>£000</b>	£000
<b>Profit on ordinary activities before tax</b>		<b>2,150</b>	2,823
		<hr/>	<hr/>
UK corporation tax at 28% (2009: 28%)		<b>602</b>	790
Effects of:			
Tonnage tax		<b>(505)</b>	(633)
Items not allowed for tax purposes		<b>53</b>	98
Deferred tax		<b>20</b>	(59)
Adjustment in respect of prior year		<b>(6)</b>	-
		<hr/>	<hr/>
<b>Corporation tax for the year</b>		<b>164</b>	196
		<hr/>	<hr/>

The Company is included within a Group election into tonnage tax. However, certain activities within the Company are liable to corporation tax. Tonnage tax is levied wholly on the net tonnage of certain vessels operated by the Company. Accordingly, the amount of tonnage tax payable is not affected by the amount of accounting profits or losses related to the associated activities.

**Notes on the financial statements continued**

The Company has a deferred tax asset of £300,000 (2009: £275,000) which is considered recoverable. It is included within debtors (note 9) and comprises:

	<b>2010</b>	2009
	<b>£000</b>	£000
Decelerated capital allowances	<b>218</b>	267
Other timing differences	<b>82</b>	8
	<hr/>	<hr/>
	<b>300</b>	275
	<hr/>	<hr/>
Balance at beginning of year	<b>275</b>	334
Movement during the year	<b>25</b>	(59)
	<hr/>	<hr/>
<b>Balance at end of year</b>	<b>300</b>	275
	<hr/>	<hr/>

**5. Employee information**

**Staff costs (including Directors)**

	<b>2010</b>	2009
	<b>£000</b>	£000
Wages and Salaries	<b>8,122</b>	9,132
Social Security Costs	<b>749</b>	852
Other Pension Costs	<b>1,197</b>	1,354
	<hr/>	<hr/>
	<b>10,068</b>	11,338
Staff-related Costs	<b>1,730</b>	2,084
	<hr/>	<hr/>
	<b>11,798</b>	13,422
	<hr/>	<hr/>

**Directors' remuneration**

	<b>2010</b>	2009
	<b>£000</b>	£000
Directors' emoluments, including performance payments and benefits in kind	<b>115</b>	434
Company contributions to a defined benefit pension scheme	<b>25</b>	60
Highest paid Director		
- emoluments, including performance payment and benefits in kind	<b>115</b>	141
- Company contributions to defined benefit pension scheme	<b>25</b>	26
- accrued pension at 31 March	<b>26</b>	14
	<hr/>	<hr/>

Retirement benefits are accruing to 1 Director (2009: 4 Directors) under a defined benefit pension scheme.

**Employee numbers**

The average number of employees, including Directors, employed by the Company during the year was as follows:

	<b>2010</b>	2009
	<b>No.</b>	No.
Shore Terminal	<b>295</b>	285
Administrative	<b>59</b>	105
	<hr/>	<hr/>
	<b>354</b>	390
	<hr/>	<hr/>

The reduction in administrative staff relates to the transfer of staff as a result of management restructuring within the David MacBrayne Group effective from 1 April 2009.

Notes on the financial statements continued

6. Tangible assets

	Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>			
At 1 April 2009	35	-	35
Additions during the year	-	14	14
<b>At 31 March 2010</b>	<b>35</b>	<b>14</b>	<b>49</b>
<b>Depreciation</b>			
At 1 April 2009	2	-	2
Charge for the year	9	7	16
<b>At 31 March 2010</b>	<b>11</b>	<b>7</b>	<b>18</b>
<b>Net book value at 31 March 2010</b>	<b>24</b>	<b>7</b>	<b>31</b>
Net book value at 31 March 2009	33	-	33

7. Intangible assets

	£000
<b>Cost</b>	
At 1 April 2009 and <b>31 March 2010</b>	<b>381</b>
<b>Amounts written off</b>	
At 1 April 2009	95
During the year	286
<b>At 31 March 2010</b>	<b>381</b>
<b>Net book value at 31 March 2010</b>	<b>-</b>
Net book value at 31 March 2009	349

Intangible assets represent bid costs incurred in respect of the tender for the Clyde and Hebrides ferry services. The Directors consider it appropriate to write off the remaining balance during the current financial year.

8. Investments

	£000
<b>At beginning and end of year</b>	<b>-</b>

The Company owns the whole of the issued share capital of Caledonian MacBrayne Crewing (Guernsey) Ltd., which is registered in Guernsey, and undertakes the offshore crewing arrangements.

9. Debtors and prepayments

	2010 £000	2009 £000
Trade debtors	2,182	2,329
Other debtors	1,236	875
Prepayments and accrued income	1,250	1,167
Deferred tax (note 4)	300	275
Amounts due from parent company, subsidiaries and fellow subsidiaries	669	612
	<b>5,637</b>	<b>5,258</b>

## Notes on the financial statements continued

## 10. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	1,796	2,506
Other creditors and accruals	6,167	5,509
Deferred income	2,370	2,239
Corporation tax	170	196
Amounts due to subsidiaries and fellow subsidiaries	1,943	501
	<hr/> 12,446	<hr/> 10,951

## 11. Share Capital

	2010 £000	2009 £000
<b>Authorised</b>		
100 Ordinary Shares of £1 each	-	-
<b>Allotted issued and fully paid</b>		
1 Ordinary Share of £1 each	-	-

## 12. Profit and loss account

	2010 £000	2009 £000
Balance at beginning of year	3,232	1,964
Retained profit for the year	2,011	2,568
Dividend paid during the year	(2,000)	(1,300)
<b>Balance at end of year</b>	<hr/> 3,243	<hr/> 3,232

## 13. Pension arrangements

A large number of employees are members of the CalMac Pension Fund which is a defined benefit scheme. The Company is a participating employer in this scheme which is operated by Caledonian Maritime Assets Ltd., a company wholly owned by Scottish Ministers. On this basis, pension contributions are accounted for as if the scheme were defined contribution. Caledonian Maritime Assets Ltd. is responsible for the financial arrangements to meet past deficits in the CalMac Pension Fund.

A number of other employees participate in one of the Merchant Navy Pension Funds. As these pension schemes are all industry-wide, contributions are accounted for on a defined contribution basis.

The amount charged to profit and loss account in respect of employer contributions to Pension Schemes is:

	2010 £000	2009 £000
CalMac Pension Fund	1,174	1,330
Other schemes	23	24
	<hr/> 1,197	<hr/> 1,354
Contributions to be paid to pension schemes included in creditors	<hr/> 126	<hr/> 142

## 14. Cash flow statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary and the parent undertaking includes the Company in its published consolidated statements.

Notes on the financial statements continued

15. Other financial commitments

The Company has a number of operating leases in respect of buildings and motor vehicles. The annual commitments in respect of these leases are as follows:

	2010 £000	2009 £000
<b>Buildings</b>		
Leases which expire:		
within one year	14	21
between two and five years	1,999	1,906
	<hr/>	<hr/>
	2,013	1,927
	<hr/>	<hr/>
<b>Ships and motor vehicles</b>		
Leases which expire:		
within one year	189	779
between two and five years	12,161	11,644
	<hr/>	<hr/>
	12,350	12,423
	<hr/>	<hr/>

16. Related party transactions

Under FRS 8, the Company is exempt from the requirement to disclose related party transactions with Group undertakings as it is a wholly owned subsidiary of a parent undertaking which prepares and publishes consolidated financial statements.

Details of transactions with other related parties are as follows:

	2010 £000	2009 £000
<b>Transactions during the year – receivable/(payable):</b>		
Scottish Ministers		
- grant	57,338	53,338
Caledonian Maritime Assets Ltd.		
- vessel leasing charges	(13,004)	(11,543)
- harbour, property and equipment access charges	(1,905)	(1,803)
- vessel modification and other costs	800	1,497
- vessel new build costs	37	-
- harbour management and maintenance	863	1,455
- staff costs	295	270
- ferry travel costs	6	5
	<hr/>	<hr/>
<b>Amounts due at end of year – receivable/(payable):</b>		
Scottish Ministers		
- grant	(813)	(417)
Caledonian Maritime Assets Ltd.		
- vessel new build costs	6	-
- vessel modification costs receivable	807	1,462
- harbour management and maintenance	10	-
- staff costs	2	-
- ferry travel costs	-	1
	<hr/>	<hr/>

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

17. Ultimate parent company

The Company is a wholly-owned subsidiary of David MacBrayne Ltd. which is the ultimate parent company and is incorporated in the United Kingdom. Copies of the Group Annual Report can be obtained from the Company's registered office or on the Group website, details of both of which are given under corporate information.

No other Group financial statements include the results of the Company.

**Corporate information**

<b>Registered office</b>	The Ferry Terminal Gourock PA19 1QP
<b>Auditors</b>	KPMG LLP
<b>Solicitors</b>	McGrigors
<b>Bankers</b>	<i>The Royal Bank of Scotland plc</i> Alliance & Leicester plc
<b>Principal insurers</b>	The North of England Protecting & Indemnity Association and Marine Shipping Mutual Insurance

**Website** [www.caimac.co.uk](http://www.caimac.co.uk)