CALMAC FERRIES LIMITED SC302282
STRATEGIC REPORT, DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

Contents

Strategic Report

CalMac Ferries Limited is the UK's largest ferry operator, running 34 vessels to over 50 destinations, across 200 miles of Scotland's west coast as at 31st March 2022. 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 £2.4m (2021: Profit before tax £3.3m), operating the Clyde and Hebrides ferry service (CHFS 2) contract.

Operations during 2022 have been challenging due to the continuing pandemic, travel restrictions and vessel resilience. On a positive note we are experiencing an increase in carryings moving towards pre Covid-19 levels and new vessel commitments such as the MV Loch Frisa which entered service during June 2022.

The principal risk that the Company faces remains the eight-yearly cycle of competitive tender processes conducted by the Scottish Government.

Covid-19 – Impact on 2022

The Covid-19 pandemic continued to present challenges for the country, the communities we serve, our customers and our staff. At the start of the pandemic, we introduced an essential service timetable which maintained a lifeline service to our communities.

As the pandemic evolved, we took quick and brave decisions to continually change our services in line with the rapidly changing guidance to keep staff and passengers safe. Our risk measures were independently assessed by DNV (Det Norske Veritas), which is an independent expert in assurance and risk management, and the world's leading classification society for the marine industry. We were also the first UK ferry company to be awarded their Covid-Care accreditation in recognition of the strength of our response.

We operated lifeline services throughout the pandemic, enabling essential travel and support for our communities, with all our staff demonstrating commitment to our CalMac values of putting people first, bravery and acting in the best interests of the places we serve.

As the restrictions started to ease, we took steps to ensure the safety of our staff and passengers in line with the changing government guidance, including maintaining social distancing and face coverings. We displayed guidance in offices, ports and vessels on how to act appropriately and help to prevent the spread of infection.

We received additional Covid-19 funding in the year of £11.7m from Transport Scotland as a variation to our Clyde and Hebrides Ferry contract and £0.2m of furlough funding from HMRC. We remain incredibly grateful for the public funding which enabled us to protect jobs, staff who needed to isolate and the continuity of our services.

Carrying Figures

As Covid-19 restrictions eased during the financial year our scheduled sailings increased from 117,039 last year to 152,275 in 2022.

We maintained our vital commercial vehicle links to the islands, increasing on pre-pandemic levels. The other carrying areas improved but not yet to the levels experienced pre Covid-19.

Fiscal Year	Passengers	Cars	Commercials	Coaches
FY 2017/18	5,561,555	1,429,744	80,469	10,914
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

Contracted reliability and punctuality remain at industry leading levels at 98.76% for reliability and 99.63% for punctuality. Actual reliability and punctuality which includes weather disruptions were 91.72% for reliability and 95.25% for punctuality.

Service Resilience

We completed a £2.4m investment programme for the MV Argyle Flyer and MV Ali Cat, supported by Transport Scotland and on 13th June 2022 introduced MV Loch Frisa into the fleet, purchased as a pre-owned vessel from Norway.

In 2022 we continued to invest in the vessels and delivered a £5.5m programme on behalf of Transport Scotland via CMAL to address vessel 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.

The vessel resilience work is important and extensive with typical projects including the replacement of main engines and generators, upgrading lifesaving equipment, improving lighting to modern LED formats, replacing end of life batteries, replacing electrical cabling and upgrading navigation and communications equipment.

We are continuing to develop the use of data to support better understanding of the technical risks associated with the fleet 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.

As of 1 January 2021 a new, long-term contract for the provision of annual vessel overhaul and breakdown support came into effect with our strategic yard suppliers. All 34 vessels had a successful annual overhaul accomplished by our three strategic suppliers across four yard locations. The contract provides a long-term approach and we have seen significant improvements in the preparation, collaboration and planning for these complex activities.

Significant investment has been made to establish a modern workshop and logistics hub to improve the maintenance of spare assemblies and supply chain support for our vessels undergoing repairs and annual overhauls. The new workshop facility to be opened next year will provide a new facility for off-vessel component maintenance, repair and overhaul. The new logistics hub has lead 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. Commencing in September 2021 we successfully rolled out a fleet wide 'preload' campaign to improve supply chain support on vessel annual overhauls driving timely and on site logistics support.

Our technical supply chain is critical to the support of vessel resilience. The pandemic had a negative impact on the supply chain and required close monitoring and collaborative working with our suppliers. This will continue to be an area of focus through robust supplier management to drive improvement in our technical supply chain management and mitigate external pressures such as inflation and supply chain delays.

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 commenced 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.

Our core challenge remains the average age of the fleet and we will be outlining a programme due to commence next year for operational excellence taking into account best industry practise for managing our vessel assets. We are confident that through the planned strategy for a replacement maintenance management system, developing an operational excellence programme, focussing on support and development of our staff we can drive further efficiencies to support and maintain our fleet.

Fleet Key statistics (February 2022)

- Youngest vessel is four years old (Carvoria)
- Oldest vessel is 45 years old (Isle of Cumbrae)
- Eleven vessels are 30+ years old (31% of the fleet)
- By the end of 2022, 13 vessels will be 30 years or older (37%, more than a third of the fleet)
- 22 vessels are 20 years old or greater (65% of the fleet)
- In 2022 the average age of the fleet was 24 years old.

Our People and Staff Engagement

Despite the challenges of meeting with colleagues from across our network face to face during the past year, we have made good progress in implementing our engagement initiatives. Our regular pulse survey results are showing clear improvements in levels of trust in management and that colleagues feel well supported by their managers. Activities are overseen by an Executive Steering Group to ensure that we remain on track and that activities are having the desired impact.

Our 'Inclusive CalMac' group and 'Wellbeing' group, both involving colleagues from all areas of our business are now well established, and in the past year we have also introduced a People Steering Group, providing a forum where new initiatives can be discussed, and feedback taken on board.

In support of our employee wellbeing – particularly crucial during the past two years – we have successfully launched an Employee Wellbeing App, giving access for all our colleagues to a wealth of confidential information and support 24/7, via their mobile phones.

As we emerge from the Covid-19 pandemic we have been able to reinstate our onboard and in port days programmes, aimed at increasing visibility and accessibility of shore-based management to front line colleagues and promoting a one team approach.

Change and Continuous Improvement

We are continuing our change journey through a major programme to improve performance across the business. A new role of Performance Improvement Manager has been introduced into our Operational team. This has resulted in the launch of a new seafarer appraisal process, linking directly to our talent management and career progression processes.

In support of our culture change journey a new Behavioural Framework has been developed and launched, aligned to our values, which will underpin our people processes at all stages of the employee lifecycle.

Change Management expertise is being applied within all our key projects, ensuring full involvement and buy-in across the business.

Our Customers

Key Issues

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.

<u>Ticketing and Reservations</u>

We are in the final stages of implementing a new ticketing system via the Ar Turas (Our Journey) programme. Designed to improve the booking and ticketing experience for our customers, it offers greater choice over the purchase, management and use of tickets, including the ability to carry tickets on a smart device, booking multiple vehicles on a single reservation and being able to purchase selected concession fares online for the first time. Greater data and capacity management will help us improve how we utilise capacity across our major vessels, which is key given growing demand.

The delivery of the system, known as 'eBooking', which is used by several operators across the world, follows an in-depth training programme for our colleagues throughout the network – to help ensure a positive transition for our passengers; business users, island visitors and those who use our lifeline services daily.

<u>Network Improvement Project (WIFI)</u>

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.

<u>The Digital Refresh Project</u>

Our new website and CFL app will be implemented by early 2023, following an extensive period of discovery, as well as product, design and user testing. The project will deliver a best-in-class experience for our customers, thanks to the fully reimagined website and app – supporting a channel shift to digital self-service and improved customer satisfaction. The new platforms are delivered in line with Digital Scotland criteria, ensuring we meet and exceed standards of user needs, accessibility, ongoing research, feedback, analysis and continuous improvement.

<u>Caledonian MacBrayne Brand Mark</u>

This year, we have introduced the Caledonian MacBrayne brand mark, an evolution of our brand and brand assets, and the first investment of this nature since the 1980s. This work ensures that our brand's proud heritage is fit for the digital age and can be uniformly and consistently communicated to our customers, with a design that can be more easily and consistently applied in digital environments.

<u>Customer brand strategy</u>

We are introducing a Caledonian MacBrayne branded customer experience across all customer touchpoints. Local pilots are being introduced to improve CSAT (Customer Satisfaction) scores and better understand our customer needs from both a practical and emotional perspective. Journey mapping and local score cards are being introduced to create insights for local teams to action and own.

Oran Mor and our retail strategy

Following the introduction of our new stock management system '*Saffron'* in 2021, we have been able to use the data it produces to analyse the performance of our customer offer, by individual outlet and vessel. This insight has allowed us to shape our retail vision and strategy, while also tapping into significant input from our frontline colleagues – those members of our team who are closest to our customers on a day-to-day basis – to help refine the offer further.
The result has been the development of new retail ranges, an enhanced our food and drink offer which builds on local provenance and quality and plans for the refurbishment of our customer environments as well as the overall refinement of how we market our on-board services to customers.

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 an 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.

Non-leisure customer behaviour tracking
To better understand the travel habits of commuters, islanders and business travel customers – and how they changed as a result of the pandemic, we introduced a non-leisure behaviour tracker survey in May 2021. We completed three surveys in 2021, and a fourth in March 2022.
An onboard survey programme for non-bookable routes also began in mid-2022 capturing feedback from this customer group, which given its nature, is often difficult to reach. This provides us with a holistic view of the experience for this customer type.
In December 2021, we launched the Commercial/Business to Business Customer Research project, which takes a more targeted approach with this customer group, involving in-depth interviews along with the introduction of a quarterly key metrics tracking programme.

Review of disruption handling
We know that when our services are disrupted, be it because of weather or technical or operational reasons, it has a significant impact on our customers, the communities we serve and on our own staff. We cannot eliminate disruptions, but we are determined to be the best we can in how we manage our operations and our communications in these scenarios. We have introduced a Disruption Communications Toolkit that will help to streamline our communications across our channels and help to ensure consistency in our messaging.

Communities

CalMac is committed to engaging openly and effectively with local communities. Listening to views and opinions from the people who live and work in communities where we provide a lifeline service helps us to gather valuable input, which shapes the way in which we deliver services.

We engage with communities both formally and informally. As well as working closely with ferry committees and ferry stakeholder groups, we are in close contact with local councils and local businesses. During the pandemic, we continued to work closely with the Ferries Community Board with regular meetings attended by our Managing Director. The Community Board have been a valuable addition to our community engagement.

When the Covid-19 pandemic hit, normal channels of engagement with stakeholders changed and adapted accordingly, and we worked harder to communicate more frequently, particularly with ferry stakeholder groups, local authorities and resilience and social care partners.

Many decisions affecting travel in Scotland during the pandemic were made at a national level, which we then implemented, while ensuring essential services could continue. Helping to protect the islands and reduce the spread of infection.

Moving on from the pandemic we are seeing a return to the more traditional face to face community engagement, however increased engagement developed through video conferencing (Zoom and Teams) will also be maintained as a valuable communication method.

Working with the communities we serve will always be important to us. We will continue to be present through our work with learning and development partners via our popular modern apprenticeship programme where the 2022 intake included 20 employees from local communities. We are an active employer within the communities we serve with 454 of our employees residing on the islands. We have further enhanced our presence within our communities with senior operational management roles located within the network. This includes Area Operation Managers, Head of Operations, Head of Performance, and Operations Director roles, all of whom are network based.

We are active supporters of destination marketing and tourism sector events, economic forums, community events, sporting fixtures and environmental forums. We sponsor awards and participate in many commercial and social interest activities.

Environment

The Environmental Strategy for the period 2021-23 was prepared through extensive consultation across the business, with each directorate committing to action to improve the impact of their most significant environmental aspects. Actions are tracked through our sustainability reporting system and progress reported internally on a quarterly basis.

The continuing recovery from the Covid-19 pandemic has resulted in expected overall increases in emissions in 2022 in comparison to the previous year. Comparative analysis of Scope 1 and 2 emissions suggest an approximate 20% increase in GHG emissions since the previous year and a 4% decrease in emissions arising since the 2019/20 baseline year. The scope of the GHG inventory reported has expanded this year to include additional Scope 3 emission sources.

The intensity ratio of kg CO2e per passenger km (vessel emissions) has reduced by 14% in comparison to the previous year and increased by 2% compared to the 2019/20 baseline year. The intensity ratio of kg CO2e per passenger km (whole organisation emissions) has increased by 6% in comparison to the previous year and increased by 26% compared to the 2019/20 baseline year.

Total waste arisings have increased by 21% from last year, recycling rate has marginally decreased by 1 percentage point to 59% and landfill rate increased by 1 percentage point to 38%.

During this year we have developed and delivered several initiatives to improve our environmental performance.

Reduce emissions: Following a successful trial of a fuel borne catalyst which improved fuel consumption and emissions against baseline figures, a project has commenced to assess the impact of extending to more vessels in the fleet. Three vessels had engine upgrades to minimise the levels of nitrous oxides released during fuel combustion and four vessels had their conventional lighting replaced with LED. Five plug-in hybrid electric vehicles have replaced end-of-lease diesel Light Commercial Vehicles at our ports and a workspace review prompted the closure of one of our office buildings in Gourock. A new agile working policy was launched allowing 80-90% of the support workforce to work from anywhere. Combined with the use of information technology, this has reduced business travel and commuting miles.

Minimise waste: During this year there has been a focus on waste minimisation with steps being taken across the organisation to digitise paper processes and communication. Onboard retail outlets have reduced the number of drinks sold in single-use plastic containers by installing post-mix drinks machines. Ninety redundant computers were donated to eight organisations in the past year. Throughout the year there have been targeted awareness campaigns and webinars for staff on topics such as waste minimisation, the waste hierarchy, electrical waste and recycling.

Protect biodiversity: For the fourth year, an ORCA Wildlife Officer was appointed to engage with passengers and facilitate the monitoring of marine mammal populations along the west coast of Scotland. Overall, 119 marine mammal surveys were completed, and 358 individual marine mammals were recorded. The Volunteer Seabirds at Sea (VSAS) citizen science scheme restarted in August after an 18-month hiatus with volunteers monitoring seabirds on four routes. External communication during the reporting period included the release of a series of short films celebrating the work of local Environmental Heroes showcasing how everyone can play a part in protecting and safeguarding Scotland's marine environment.

Perth Harbour

Perth Harbour Operating Contract

Perth operations noted a challenging first 6 months for 2022 but continues to prosper despite the reduction in cargo throughput following the loss of a key contract and BREXIT implications imposed by the UK government. The reduction was further impacted following the silting of the basin at the harbour entrance, requiring dredging to deepen the entrance.

CalMac Ferries Ltd (CFL) and Perth & Kinross Council (PKC) continue to build upon our positive relationship to drive forward the harbour operating contract, evidenced through recent collaboration relating to the approval of the ports dredge licence from the governing body. Following the completion of the dredging activity it is expected shipping numbers will increase by 150%, through increased cargo handling of Fishmeal and Soya.

Our long-term tug charter with Montrose Port Authority continues to operate well, generating a significant revenue stream for the port, offsetting the cargo reduction.

The harbour has continued to build relationships with shipping agents, investigating the export of cargos from the port, and further developed our offshore wind opportunities supporting the SeaGreen Offshore Wind farm in the North Sea.

2021 saw the creation of the Perth Harbour Community Fund, which was aimed at supporting health and wellbeing within the Perth & Kinross Council region. In 2021 CFL made awards to nine organisations totalling £9,000 and throughout the year the team at Perth kept regular contact with the beneficiaries and in addition to the funds offered support across different areas. 2022 will see the Perth Harbour Community fund offer another round of awards, this time focused on the river use and surrounding areas, supporting the health and wellbeing of all users.

The Council's Designated Person (DP) completed their annual compliance audit relating to the Port Marine Safety Code with no nonconformities noted and acknowledged the robust reporting channels CFL have in place providing the assurance to the PKC Harbour board that the port/harbour is managed and operated safely under CFLs stewardship.

CMAL Harbour

CMAL Harbour Operating Contract

Our CMAL harbour operations continue to thrive following a significant reduction in traffic throughout the pandemic. From a pre-pandemic position of 184 cruise ships arriving in 2019, the number reduced to 52 in 2020 due to restrictions, but with the removal of these restrictions in 2021, CFL actively engaged with cruise agents which saw the number of ships rise back up to 140. CFL is working closely with industry partners to promote the harbours, supporting growth for both commercial cargos and cruise activity, which in turn supports the local island communities. In 2022 the forecast is to receive 321 ships which is an impressive increase on our pre-pandemic levels.

During the reporting period our Harbour Operations function was audited by the CMAL Designated Person, in line with the Port Marine Safety Code requirement, including five ports visits. The outputs of the audits found no nonconformities, but identified minor observations relating to housekeeping and process, evidencing CFLs strong commitment to deliver successful operating functions for our client in line with legislation, but also best industry practices identified by the auditor and shared with other ports. 2022 will see the designated person visit another five ports as part of the programme, with our commitment to reduce observations by another 5%.

2022 will also see our CFL operated ports undergo an audit by Keep Scotland Beautiful (www.keepscotlandbeautiful.org) Our objective is to attain the gold award following two recent silver awards, only missing out on gold by 2% during the last audit.

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 decisions taken by the Board, with examples of how stakeholder considerations have been considered, are included on page 9.

Customers
Key Issues

Understanding our customers and how they perceive their experience of Caledonian MacBrayne throughout the customer journey.
Responding to and improving the customer experience at each touchpoint – through investments in research, technology, brand, communication and customer engagement.

Reliability and punctuality of service – and where unavoidable disruptions occur, provide transparency to support customers' businesses and leisure travel plans.

Engagement

Customer Insights – bringing the voice of the customer to life
In the past year, the business has continued its commitment to making data-informed decisions that place the customer at the heart of all we do.

We've raised the profile of the Insights team and grown its capability through the approval of additional resource and investment in new tools and systems – including a Customer Experience Measurement Solution (VOC platform) and Customer Journey mapping software.

We survey and analyse feedback from our customers at key stages on their journey, measuring several Customer Experience metrics including CSAT, ease of task completion and trust. These are tracked against internal KPIs.

Throughout the past year we have also reviewed and analysed thousands of free text responses and social media channels to gather themes for improvement and reasons for scores and sentiment.

Combined, these allow us to track and monitor customer sentiment and Customer Experience metrics in real time for all touchpoints in the customer journey, presenting results and actionable insights to those responsible for making real improvements to our service.

Customer Insights Forum
We have created an internal Customer Insights Forum (CIF) to provide a one-stop-shop for insights collaboration, collation, reporting, measurement and improvements, with the outputs being reported into Caledonian MacBrayne Customer Steering Group (CSG). This includes a targeted panel of key individuals from throughout the business, who are directly involved in, or responsible for insights management. They are accountable for the collation and interpretation of key insights from across the business. This ensures we have a more intuitive and collaborative reporting and improvement process in place, with the customer experience measurement tool being the core platform for facilitation of this work.

Customer Steering Group
We are now in the second year of our Customer Steering Group, mentioned above. It includes colleagues from throughout the business and customer representatives from the Ferries Community Board. This collaborative forum supports collaboration between frontline and support service colleagues, and by involving key community representatives, the voice of the customer is at the centre.

Significant steps have been taken via this group to initiate actionable and measurable improvement, including enhancements to our communications, end-to-end insights reporting and visibility of business wide issues for collaborative resolution.

Enhancing our customer focused communications
We continue to regularly review and enhance our customer communications, which stay focused on a strategy of 'truth well told.' Customer Focus; Transparency; Empathy; Meeting the needs of different audiences; and alignment of customer, stakeholder, and colleague communications are the key components of the strategy.

As part of this approach, we are enhancing how we provide certainty and transparency to our customers when a disruption to our service takes place. A business wide review on disruption related communications processes is underway to develop improvements based on customer need.

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 2022
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 of the Miller Heiman, Large Account Management Process, to build our relationship as a strategic partner.

Suppliers
Key Issues

Brexit:
We have worked 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.

Covid-19:
Since the beginning of Covid-19, we have continued to have regular engagement with our supply chain, including a focus on our strategic and critical suppliers, to optimise planning time to ensure critical goods and services are delivered when required, while demonstrating value for money during challenging times. Risks have been identified, managed and mitigated accordingly.

Face to face engagement with suppliers during the period has been limited, due to the impact of Covid-19 restrictions. However, we continued to fully utilised modern technologies which has enabled regular and enhanced supplier engagement, and this way of working has become an effective and established alternative.

Prompt payment:
Suppliers expect to be paid promptly after high quality goods or services have been provided. We adopt processes in line with Scottish Government Prompt Payment policy, with 92% of suppliers paid on time and within 30 days.

Engagement in 2022
Supplier Relationship Management (SRM)
We effectively deployed SRM methodology during 2021 and are continuing to enforce this approach, which included regular supplier review meetings to identify key actions for improvement. Processes and procedures have been established to enable the work stream, supporting 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 is now 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 established an Employee Wellbeing Group and an Inclusive CalMac Group, with representatives from across our network. In addition to our Occupational Health service, we have provided an enhanced Employee Assistance Programme via access to a wellbeing app. This app offers a wealth of resources to support health and wellbeing, in addition to one to one counselling if required.

Pay and conditions
A two year pay deal with our four recognised trade unions was negotiated in 2020/21, covering the period up to 30 September 2022.

Career development and training
We have continued to invest heavily in the development of our staff, adapting much of our training offer to online. This included statutory training, to ensure our staff maintained their professional certification, as well as developmental training.

<u>Engagement in 2022</u>
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. More generally, we have focused on building understanding of our goals, values and behaviours and have promoted our values through the launch of our new People Behind the Journey campaign, aimed at highlighting and celebrating our people.

Local Communities

Key Issues

Contributing to the success of the communities that we serve, including providing opportunities for local employment and training, as well as supporting local projects to improve the wellbeing of our communities.

We strive to serve the communities that make up our network, deeply embedded in our geography with many of our people living and working in their own communities. Local employment and future shaping are important to us as we seek talent in the workforce through apprenticeships, retraining and offering roles in areas where every job opportunity is an enabler.

<u>Engagement in 2022</u>
We have regular meetings with partner agencies, local authorities, supply chain and commercial customers.

In the response to the pandemic years there is a much closer relationship in place with resilience partners and we have been undertaking a review of disruption management which is inclusive of community and customer representatives.

The work of the Ferries Community board remains core and crucial and we work closely with the FCB on many issues. CalMac and the FCB have commissioned a socio economic study which was deferred due to the pandemic, this was completed in summer 2022.

Many of the engaged groups and committees now have a blend of face to face and online meetings. An enabling approach that allows us to bring the right people to discussions more efficiently than previously.

Environment

Key Issues

CalMac recognises Scotland's long-term trends of warming temperatures, shifting rainfall patterns, rising sea levels, changes in seawater salinity and increases in coastal erosion and have been experiencing some of these changes as highly variable weather conditions, which bring a range of challenges to our operations. Future climate change will bring additional challenges to transport infrastructure.

Climate related risk has been identified as a critical risk for CalMac. High-level climate related risks have been identified and categorised as critical and non-critical. Climate risk has been embedded into the Environmental Strategy as a core action area to be addressed.

Carbon emissions
The continuing recovery from the Covid-19 pandemic has resulted in expected overall increases in emissions in 2022 in comparison to the previous year. Comparative analysis of Scope 1 and 2 emissions suggests an approximate 20% increase in Greenhouse Gases (GHG) emissions since the previous year and a 4% decrease in emissions arising since the 2019/20 baseline year.

Waste
The continuing recovery from Covid-19 has resulted in total waste arisings increasing by 21% from last year, recycling rate has marginally decreased by 1 percentage point to 59% and landfill rate increased by 1 percentage point to 38%. The environmental strategy noted earlier in this document identifies our initiatives in place to reduce environmental impact in areas such as computer donations, digitalisation and the reduction of single use plastic.

Engagement in 2022
We carried out extensive engagement across the business to identify significant environmental aspects and propose actions to reduce environmental impact. The actions which align with the four core priorities of our Environmental Strategy form an Action Plan 2021-23 with progress tracked and reported quarterly to the Board.

Shareholder
Key Issues

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

Engagement in 2022
Annual Report
The Annual report provides details of Group 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 Group growth and operational strategy.

Board Decisions taken during 2022, where stakeholder views were considered and informed the decision.

Asset Management Technology
It is important to look for more innovative ways to manage fleet resilience, upgrades, overhauls and maintenance.

The board has approved additional resource to support the overhaul process as well as an investment project to assess a more modern maritime software that would allow us to track and ensure all aspects of fleet maintenance and parts management are scheduled efficiently to enable improvements to our service and provide more automated real time data availability for our staff managing the fleet.

By adopting a more innovative approach to improve vessel resilience this will mean that our communities and customers are rewarded with a more reliable and punctual service supporting local business and promoting a more enhanced travel experience overall.

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.

Agile Working
During 2022 the board have endorsed a new agile working policy which allows 80%-90% of the support services workforce to work from remote locations with improved flexibility and locality.

By deploying technology and cultural change strategically through the business, agile working provides financial and operational performance improvements, elevates customer satisfaction through increased productivity and responsiveness.

The board see this as a modern and innovative approach which will promote an activity-based environment supporting our organisation and stakeholders alike.

On behalf of the Board

R L Drummond
Chief Executive Officer
19 December 2022

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. CalMac Ferries Ltd are the main commercial sponsor of the Royal National Mod.

Directors and their interests

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

D C McGibbon	Resigned 31 January 2022
R L Drummond	
D Mackison	Resigned 16 September 2022
S Hagan	Resigned 20 November 2021
S Browell	Resigned 30 November 2022
M Comerford	Resigned 30 November 2022
J Stirling	Resigned 20 November 2021
A Tait	Resigned 28 February 2022
T Ingram	Appointed 8 November 2021
G Macrae	Appointed 16 November 2021
E Østergaard	Appointed 3 January 2022
S O'Connor	Appointed 14 February 2022

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

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

Employees

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

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

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

As a Company owned by the Scottish Ministers of the Scottish Government, we fully subscribe to the Government's Race Equality Scheme, Disability Scheme, 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.

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

Employee consultation

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

The Company also provides further engagement through active participation with our Trade Unions. The majority of employees are formally represented by Trade Unions recognised for collective bargaining purposes. A system of consultative committees is well established.

Through either the formal negotiating or consultative process, or a combination of both, employees at all levels, directly or through their representatives, are provided with information on matters concerning them and are encouraged to be involved in the activities of the 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 Company will, where possible, retain the employee for duties commensurate with the employee's abilities following the disablement.

Adoption of going concern basis

On the basis of the information available to them, the Directors have a reasonable expectation that the Company has adequate resources, with the support of Transport Scotland, to continue in operational existence for the foreseeable future. A key source of income for the Group is the CHFS 2 contract subsidy from Transport Scotland, this includes but is not limited to new vessel running cost additions, pandemic support, increases in inflation and strategic project delivery.

For this reason, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

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
19 December 2022

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 2022 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 2022 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.

Going concern

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

• we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

• we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

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 by senior finance management, those including key words in description and 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 non-compliance 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 directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read 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 directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has 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 12, 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

19 December 2022

Profit and Loss Account
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Turnover	2	**227,466**	198,859
Cost of sales		**(199,964)**	(170,315)
Gross profit		**27,502**	28,544
Administrative expenditure		**(28,670)**	(23,741)
Operating (Loss)/Profit		**(1,168)**	4,803
Interest receivable	3	**61**	82
Interest payable	3	**(1,246)**	(1,606)
(Loss)/Profit before taxation	3	**(2,353)**	3,279
Tax on (Loss)/Profit	5	**(1,347)**	(748)
(Loss)/Profit for the financial year		**(3,700)**	2,531

All results are derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
(Loss)/Profit for the year		**(3,700)**	2,531
Other comprehensive income, net of tax			
Change in fair value of cash flow hedge recognised	15	**7,229**	8,424
Change in Tax relating to cash flow hedge	5	**(1,374)**	-
Total comprehensive income attributable to equity holders of the company		**2,155**	10,955

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

Balance Sheet
as at 31 March 2022

	Note	2022 £000	2021 £000
Fixed assets			
Tangible assets	6	**43,495**	60,020
Derivative financial instruments	7	**-**	465
Deferred Tax	12	**-**	262
		43,495	60,747
Current assets			
Stock	9	**2,103**	1,740
Contract assets	2	**27,810**	20,138
Debtors and prepayments	10	**16,504**	10,605
Derivative financial instruments	7	**8,527**	833
Cash at bank and in hand		**8,288**	14,897
		63,232	48,213
Creditors			
Contract liabilities	2	**(7,339)**	(3,661)
Amounts falling due within one year	11	**(24,336)**	(19,122)
Short term lease liability	13	**(16,410)**	(15,808)
Net current assets		**15,147**	9,622
Creditors: Amounts falling due after more than one year			
Long term lease liability	13	**(31,739)**	(48,009)
Deferred Tax	12	**(1,014)**	-
Net assets		**25,889**	22,360
Capital and reserves			
Called up share capital	14	**-**	-
Hedge reserve	15	**8,527**	1,298
Profit and loss account		**17,362**	21,062
Shareholder's funds		**25,889**	22,360

These financial statements were approved by the Board of Directors and signed on 19 December 2022 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 2020	-	(7,126)	18,531	11,405
Total comprehensive income for the year				
Profit for the year	-	-	2,531	2,531
Other comprehensive income	-	8,424	-	8,424
Total comprehensive income for the year	-	8,424	2,531	10,955
Balance at 31 March 2021	**-**	**1,298**	**21,062**	**22,360**

	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				
Loss 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**

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 principal contract for the CalMac Ferries 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, and to ensure the ongoing delivery and resilience of ferry services. The Covid-19 pandemic significantly impacted carryings throughout 2020/21 and 2021/22, when various levels of restrictions on travel were imposed. Transport Scotland supported CalMac Ferries throughout this period and provided additional subsidy to cover the material decline in fare revenues.

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. The company 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.

For the purposes of the Directors' assessment of the company's going concern position and to satisfy them of the company's ability to pay its liabilities as they fall due, the Directors have prepared a cash flow forecast for a period of 15 months from the date of approval of these financial statements that reflect the current assumptions include the impact of a reduction in carryings, reflecting lower commuter traffic as well as the impact of high inflation on the cost of living, which are impacting demand. Cashflows also include the increasing cost of vessel maintenance over the 15 months, required to maintain the fleet and optimise service resilience. A severe but reasonably plausible downside scenario in which fare revenue is reduced by a further 3% was also considered. Due to the seasonal revenues, delivery of the overhaul programme during the winter months, and the expiry of a former unutilised £15m working capital facility in autumn 2022, the company has agreed with Transport Scotland, a new seasonal phased contract income profile which enables it to more closely match the CHFS contract income with the costs of delivery.

Taking these factors into consideration, the Directors are confident that the company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes on the financial statements

1. Accounting policies (continued)

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

(c) Depreciation
Depreciation is provided on tangible assets by equal annual instalments calculated to write off the cost (taking account of anticipated residual values) over their estimated useful lives as follows:

Equipment	4 years
Motor vehicles	3 years
Ships	30 years

(d) Leases
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.

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

Financial assets

(ii) Classification and subsequent measurement

(a) Classification

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

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

Notes on the financial statements

1. Accounting policies (continued)

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 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).

Notes on the financial statements

1. Accounting policies (continued)

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.

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.

Notes on the financial statements

1. Accounting policies (continued)

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.

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.

Notes on the financial statements

2. Revenue (continued)

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.

	2022 £000	2021 £000
Fares and other associated services	**70,161**	41,758
Government contract – transferred over time	**156,772**	156,617
Inter Group – management fees	**533**	484
Total	**227,466**	198,859

Contract balances

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

	2022 £000	2021 £000
Contract assets	**27,810**	20,138
Contract liabilities	**(7,339)**	(3,661)
Trade receivables	**5,092**	4,856

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

	2022 Contract assets £000	2021 Contract assets £000	**2022 Contract liabilities £000**	2021 Contract liabilities £000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**-**	-	**3,661**	(4,081)
Increases due to cash received, excluding amounts recognised as revenue during the period	**-**	-	**(7,339)**	(3,661)
Increases as a result of changes in the measure of progress	**27,810**	20,138	**-**	-

Transaction price allocated to the remaining performance obligations

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

Notes on the financial statements

3. Profit before tax

The profit is stated after charging/(crediting):			2022 £000	2021 £000
Auditor's remuneration	-	audit of these financial statements	**53**	51
	-	other services relating to taxation	**19**	14
	-	all other services	**11**	12
Depreciation of tangible fixed assets			**17,269**	17,269
Harbour access charges	-	Caledonian Maritime Assets Limited	**16,379**	14,898
	-	other	**16,852**	12,204
Agency staff costs			**73,221**	66,185
Finance lease costs	-	land and buildings	**598**	596
	-	ships and motor vehicles	**16,054**	15,945
Interest receivable	-	bank	**(61)**	(82)
Interest payable	-	bank	**-**	7
Finance interest expense			**1,246**	1,606
Bank facility			**60**	72

4. Employee information

Staff costs (including Directors)

	2022 £000	2021 £000
Wages and salaries	**24,276**	21,820
Social security costs	**2,564**	2,318
Other pension costs	**4,813**	4,630
	31,653	28,768

Amounts claimed and receivable or 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 2022 £0.2m (2021: £1.1m) of job retention scheme grants are shown net of wages and salaries.

Directors' remuneration

	2022 £000	2021 £000
Directors' Remuneration	**457**	437
Employer's Pension Contribution	**43**	41

The aggregated remuneration of the highest paid Director was £190,000 (2021: £190,000). All Directors of the company had their remuneration paid by another company within the David MacBrayne Limited group in both the current and previous year.

Number of Directors

	2022	2021
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 688 (2021: 643).

Category	2022	2021
Head Office	**316**	293
Port	**366**	344
Vessel	**6**	6
	688	643

Notes on the financial statements

5. Taxation

Current tax	2022 £000	2021 £000
UK corporation tax profit for the period	**86**	488
Adjustments in respect of prior periods	**(17)**	34
Consortium relief	**-**	-
Total current tax charge	**69**	522
Deferred tax		
Impact of tax rate change	**(127)**	-
Adjustment in respect of prior periods	**(8)**	(79)
Origination and reversal of temporary differences	**39**	305
Total deferred tax charge/(credit)	**(96)**	226
Total tax charge/(credit)	**(27)**	748

Income tax recognised in other comprehensive income

	2022 £000	2021 £000
Tax relating to cash flow hedge	**1,374**	-

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

	2022 £000	2021 £000
(Loss)/Profit for the period before tax	**(2,353)**	3,279
UK corporation tax rate of 19% (2021: 19%)	**(447)**	623
Tonnage tax	**552**	(124)
Adjustments in respect of prior periods	**(25)**	(45)
Remeasurement of deferred tax for changes in tax rates	**(127)**	-
Non-deductible expenses	**20**	46
Reversal of deferred tax asset previously not recognised	**-**	248
Total tax (credit)/charge	**(27)**	748

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation tax from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 March 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2021:19%).

Notes on the financial statements

6. Fixed Assets

	Assets under construction £000	Buildings £000	Ships £000	Vehicles & Equipment £000	Total £000
Cost					
At 1 April 2021	-	2,049	91,166	1,170	94,385
Additions in the year	679	-	-	65	744
Items re-classified during year	-	-	-	-	-
At 31 March 2022	**679**	**2,049**	**91,166**	**1,235**	**95,129**
Depreciation and impairment					
At 1 April 2021	-	792	33,057	516	34,365
Charge for the year		360	16,602	307	17,269
Disposals in the year		-	-	-	-
At 31 March 2022	**-**	**1,152**	**49,659**	**823**	**51,634**
Net book value at 31 March 2022	**679**	**897**	**41,507**	**412**	**43,495**
Net book value at 31 March 2021	-	1,257	58,109	654	60,020

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 2021	2,049	91,166	850	94,065
Additions in the year	-	-	65	65
Disposals in the year	-	-	-	-
At 31 March 2022	**2,049**	**91,166**	**915**	**94,130**
Depreciation and impairment				
At 1 April 2021	792	33,058	307	34,157
Charge for the year	359	16,602	201	17,162
Disposals in the year	-	-	-	-
At 31 March 2022	**1,152**	**49,660**	**508**	**51,320**
Net book value at 31 March 2022	**897**	**41,506**	**407**	**42,810**
Net book value at 31 March 2021	1,257	58,109	543	59,909

Notes on the financial statements

7. Derivative financial Instruments

	2022				2021			
	Assets		**Liabilities**		Assets		Liabilities	
	Current £000	**Non-Current £000**	**Current £000**	**Non-Current £000**	Current £000	Non-Current £000	Current £000	Non-Current £000
Hedging derivatives								
Cash flow hedge								
Fuel hedge	**8,527**	**-**	**-**	**-**	833	465	-	-

8. Investments

	£000
At 1 April 2021 and 31 March 2022	**-**

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

	2022 £000	2021 £000
Fuels and lubricants	**530**	432
Consumable inventories	**1,409**	1,237
Retail inventories	**164**	71
	2,103	1,740

Fuels and lubricants, consumable inventories and retail inventories recognised in Cost of Sales £17.7m (2021: £15.3m).

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

	2022 £000	2021 £000
Trade receivables	**5,092**	4,856
Other receivables	**5,561**	1,361
Prepayments and accrued income	**5,851**	4,388
	16,504	10,605

11. Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade payables	**7,196**	8,353
Other payables and accruals	**16,553**	9,905
Corporation tax	**71**	488
Amounts due to group undertakings	**516**	376
	24,336	19,122

Notes on the financial statements

11. Creditors: amounts falling due within one year (continued)

Terms and debt repayment schedule

	Currency	Nominal Interest Rate	Year of Maturity	Face Value 2021 £000	Carrying Amount 2021 £000	Face Value 2020 £000	Carrying Amount 2020 £000
Loan from bank	GBP	Libor + 1.5%	31 Oct. 2022	-	-	-	-

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

12. Deferred tax assets and liabilities

The main components of deferred tax at 19% (2021: 19%) are:

	Assets 2022 £000	Liabilities 2022 £000	Assets 2021 £000	Liabilities 2021 £000	Net 2022 £000	Net 2021 £000
Tangible fixed assets	**523**	**-**	445	-	**523**	445
Financial assets	**-**	**(1,621)**	-	(247)	**(1,621)**	(247)
Other	**82**	**-**	64	-	**82**	64
	605	**(1,621)**	509	(247)	**(1,016)**	262

Movement in deferred tax during the year

	1 April 2021 £000	Recognised in income £000	31 March 2022 £000
Tangible fixed assets	445	78	**523**
Financial assets	(247)	(1,374)	**(1,621)**
Other	64	18	**82**
	262	(1,278)	**(1,016)**

Movement in deferred tax during the previous year

	1 April 2020 £000	Recognised in income £000	31 March 2021 £000
Tangible fixed assets	459	(14)	445
Financial assets	-	(247)	(247)
Other	30	34	64
	489	(227)	262

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 2021	1,257	543	58,108	59,908
Additions to right-of-use assets	-	65	-	65
Depreciation charge for the year	(360)	(201)	(16,602)	(17,163)
Balance at 31 March 2022	**897**	**407**	**41,506**	**42,810**

Notes on the financial statements

13. Leases (continued)

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

	2022	2021
	£000	£000
Interest expense on lease liabilities	**1,246**	1,585

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

Amounts recognised in statement of cash flows

	2022	2021
	£000	£000
Total cash outflow for leases	**15,339**	14,869

	Vessels £000	**Property £000**	**Vehicles & plant £000**	**Total £000**
IFRS16 – lease liability				
Within 1 year	15,847	372	191	16,410
1 - 2 years	16,741	389	130	17,260
2 - 3 years	8,570	199	91	8,860
3 - 4 years	4,872	-	5	4,877
4 - 5 years	-	-	-	-
	46,030	**960**	**417**	**47,407**

14. Share capital

	2022	2021
	£000	£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 2021	**1,298**	**-**	**1,298**
Effective portion of changes in fair value of cash flow hedges	**12,543**	**-**	**12,543**
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	**(5,314)**	**-**	**(5,314)**
At 31 March 2022	**8,527**	**(1,374)**	**7,153**

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

16. Pension arrangements

A large number of the Company's employees are members of the CalMac Pension Fund which is a multi-employer defined benefit scheme (the 'Scheme' or the 'CalMac Scheme'). The Company is a participating employer in the CalMac Scheme, which is operated by Caledonian Maritime Assets Limited ('CMAL'), a company also wholly owned by Scottish Ministers. As the Trustees of the CalMac Scheme are unable to identify the Company's share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, and as CMAL is legally considered to be the sponsoring employer for the Scheme, and is responsible for any deficit repair obligations in relation to the Scheme, the Company is accounting for the Scheme in its financial statements as if the Scheme was a defined contribution scheme.

The latest full triennial actuarial valuation of the CalMac Scheme as at 6 April 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.

Notes on the financial statements

16. Pension arrangements (continued)

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.

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:

	2022 **£000**	2021 £000
CalMac Pension Fund	**4,544**	4,394
Ensign	**13**	12
Other schemes	**256**	224
	4,813	4,630
Contributions to be paid to pension schemes included in creditors	**508**	479

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:

	2022 **£000**	2021 £000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- subsidy	**150,021**	153,233
- consultancy services	**2,391**	1,381
Caledonian Maritime Assets Limited		
- vessel leasing charges	**(15,933)**	(15,653)
- harbour services	**(11,121)**	(9,008)
- vessel new build, modifications and other costs	**6,348**	7,309
- ferry travel costs	**10**	5
Solent Gateway Limited		
- management recharge	**321**	315

Notes on the financial statements

17. Related party transactions (continued)

	2022 £000	2021 £000
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- subsidy	**28,633**	20,138
- recharge of consultancy agreements	**712**	564
Caledonian Maritime Assets Limited		
- harbour services	**(532)**	(132)
- vessel new build, modifications and other costs	**2,314**	1,656
- ferry travel costs	**1**	1
Solent Gateway Limited		
- management recharge	**-**	1,796

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

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

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