CALMAC FERRIES LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2018

CalMac Ferries Limited/Company Number SC302282/31 March 2018

Contents

Strategic Report

The Company recorded an important milestone on 1 October 2017 when it completed its first year delivering the new Clyde and Hebrides Ferry Services (CHFS2) contract.

As one would expect, our principle focus is on the provision of lifeline ferry services to island and remote west coast communities, with an unwavering emphasis on safety and the well-being of our passengers, sea-going and shore-based staff.

However, the bid, and the consultation activity we undertook with our local communities to understand better what they wanted from us in the new contract, has created a valuable opportunity to review and put in place some new approaches to key areas of our activities. The three I would like to highlight are engagement, employment and the environment.

Sitting at the core of this is the CHFS2 contract and the 350 or so bid commitments on which we are being regularly and robustly monitored. The majority of these are compliance and regulatory obligations, but, alongside these, are a significant number of service improvements and pledges that we are working hard to deliver.

The creation of a Community and Stakeholder Engagement Department has sparked a transformation in the way we intend engaging with our communities. Of course, it was always something that was important to us, but the focus it has brought to every part of the organisation to always view what we do through the eyes of our customers is a change and we are already seeing the benefits. Central to this is the formation of the Community Board which brought together representatives from across our network to provide input, at a strategic level, directly to the main David MacBrayne Group Board. Their insight into how we communicate with customers and stakeholders during prolonged periods of disruption led us to recognise that, despite its complex and fluid nature, we can do more to keep customers appraised of an evolving situation. This led us to put in place new procedures and processes to improve the flow of information both within the Company and out to customers and stakeholders.

Our contracted performance across the network, outwith relief events, continues to be among the best in the industry with contract reliability at 99.51% and contract punctuality at 99.57% across more than 137,000 sailings.

In the financial year, passenger numbers increased 209,739 (4.1%) to 5,264,816 and cars increased 67,943 (5.0%) to 1,429,504.

Positive financial performance in CHFS2 contract year 1 ended September 2017 has resulted in grant returned to Transport Scotland of £5.8m.

While we are one of the largest companies headquartered in Scotland, our strength rests with the 1400 port staff and vessel crew throughout our network who work hard, often in difficult and challenging conditions, to ensure that islands are able to engage and do business with the rest of the world.

We recognise the economic value in employing locally. In many places, we are the key employer in a local community and we work proactively with local schools and colleges to encourage local people to apply for jobs with us and to develop a long-term career.

CalMac Ferries Limited (CFL) is also conscious of the need to bring young people into the maritime industry and one way in which it does this is through modern apprenticeships, where we are a recognised leader. Working in partnership with two of City of Glasgow College's faculties, each year we support 10 Deck and Engine Modern Apprenticeships and 10 Retail (On-Board services) Modern Apprenticeships. We have also formed a partnership with ForthPorts, in Grangemouth, to deliver a new Port and Harbours Modern Apprenticeship, which is the first of its kind and has wider industry approval.

The Company's desire to bring more young people into the industry has also led to its involvement in the Developing Young Maritime workforce project. Working with the Merchant Navy Training Board, Comhairle nan Eilean Siar (Western Isles Council), the Scottish Qualifications Authority and University of the Highlands and Islands and representatives from across the Scottish maritime sector, to create an industry-standard maritime National Progression Award (NPA) qualification that meets the needs of a wide variety of maritime sectors.

CFL is privileged to operate in one of the most beautiful and unspoilt places on the planet and recognises that the natural environment and the wildlife within it are a primary reason why it attracts so many visitors. We understand, therefore, that it is vital that we minimise any impact we may have on the marine environment and have, therefore, appointed an Environmental Manager to deliver a variety of innovative initiatives. To date, this has included developing a Marine Action programme in partnership with 14 other organisations to research the usage of the marine environment and educating crew and passengers about marine life across the west coast through a full-time Wildlife Officer, seconded from charity ORCA.

The issue of plastic pollution at sea has recently stimulated a national debate on the damage caused by single use plastics and, following an approach from children from Sunnyside Primary in Glasgow as part of their #NaeStrawAtAw campaign, we have agreed to ban plastic straws on board our ferries. We also gave the Sunnyside Ocean defenders the opportunity to address our Community Board to help spread the message across our network.

Strategic Report

It was gratifying therefore to have these efforts recognised in 2017 by the Scottish Council for Development and Industry who awarded us the Crown Estate Scotland Award for Excellence in a Marine Business for building working relationships with wildlife groups.

On behalf of the Board

Robbie Drummond
Director
22 October 2018

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 and continues to be the main commercial supporter of the Royal National Mod.

Directors and their interests

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

D C McGibbon	
R L Drummond	
M Dorchester	Resigned 1 December 2017
S Hagan	
S Browell	
M Comerford	
J Stirling	
A Tait	

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 and the Gender Equality Scheme. As a Company, we continue to develop structures and systems to ensure that equal opportunities becomes an integral part of our thinking and behaviour.

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 Group.

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 to continue in operational existence for the foreseeable future. For this reason, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Directors' Report

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

Robbie Drummond
Director
22 October 2018

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 and prudent;
- 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 2018 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 and of its profit 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

The directors are responsible for the 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 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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, 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.

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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.

Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
22 October 2018

Profit and Loss Account
for the year ended 31 March 2018

	Note	**2018 £000**	2017 £000
Turnover	2	**206,952**	192,534
Cost of sales		**(179,464)**	(165,574)
Gross profit		**27,488**	26,960
Administrative expenditure		**(22,883)**	(21,977)
Operating Profit		**4,605**	4,983
Interest receivable	3	**11**	20
Interest payable	3	**(31)**	(42)
Profit before taxation	3	**4,585**	4,961
Tax on Profit	5	**(343)**	421
Profit for the financial year		**4,242**	5,382

All results are derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 March 2018

	Note	**2018 £000**	2017 £000
Profit for the year		**4,242**	5,382
Other comprehensive income, net of tax			
Change in value of cash flow hedge recognised		**2,385**	-
Tax relating to cash flow hedge	5	**(405)**	-
Total comprehensive income attributable to equity holders of the parent		**6,222**	5,382

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

Balance Sheet
as at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	6	-	8
Investments	8	-	-
Other financial assets	7	2,385	-
		2,385	8
Current assets			
Stocks	9	1,049	1,178
Contract assets	2	16,479	15,771
Debtors and prepayments	10	8,357	10,039
Cash at bank and in hand		7,024	9,669
		32,909	36,657
Creditors			
Contract liabilities	2	(4,359)	(4,318)
Amounts falling due within one year	11	(16,543)	(24,177)
Net current assets		12,007	8,162
Net assets		14,392	8,170
Capital and reserves			
Called up share capital	12	-	-
Hedge reserve	13	1,980	-
Profit and loss account		12,412	8,170
Shareholder's funds		14,392	8,170

These financial statements were approved by the Board of Directors and signed on 22 October 2018 on its behalf by:

D C McGibbon, Chairman

R L Drummond, Director

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 2016	-	-	2,788	2,788
Total comprehensive income for the year				
Profit for the year	-	-	5,382	5,382
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	5,382	5,382
Balance at 31 March 2017	**-**	**-**	**8,170**	**8,170**

	Called Up Share Capital £000	Hedge Reserve £000	Profit and Loss Account £000	Total Equity £000
Balance at 1 April 2017	-	-	8,170	8,170
Total comprehensive income for the year				
Profit for the year	-	-	4,242	4,242
Other comprehensive income	-	1,980	-	1,980
Total comprehensive income for the year	-	1,980	4,242	6,222
Balance at 31 March 2018	**-**	**1,980**	**12,412**	**14,392**

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")*. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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 IFRSs"), 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
- disclosure in respect of capital management
- the effects of new but not yet effective IFRSs
- an additional balance sheet for the beginning of the earliest comparative period
- 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 have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

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

(c) Investments
Fixed asset investments are carried at cost.

(d) 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

(e) 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.

(f) 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.

(g) Leases
The Company leases ships, shore terminal infrastructure and office accommodation. All of these leases are considered to be operating leases since a significant portion of the risks and rewards of ownership of the leased assets are retained by the lessor. Lease charges incurred under these operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Notes on the financial statements

1. Accounting policies (continued)

(h) Revenue
The accounting policy for revenue is described in note 2.

(i) 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, takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(j) 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 14, for the purposes of FRS 101, pension contributions are accounted for as if the scheme was defined contribution.

(k) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value then at amortised cost, less any impairment losses. The criteria which the Group uses to determine that there is objective evidence of an impairment loss includes:

- significant financial difficulty of the debtor
- a breach of contract, such as a default or delinquency in interest or principal payments
- the probability that the debtor will enter bankruptcy or other financial reorganisation

Trade and other payables

Trade and other payables are obligations to pay for goods or services which have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits which have a maturity of three months or less from the date of acquisition.

Derivative financial instruments

IAS 39 'Financial instruments: Recognition and Measurement' requires all derivatives to be recognised on the balance sheet at fair value. Unrealised gains or losses on remeasurement of derivatives are reported in the income statement except when hedge accounting is applied (see below).

Hedge accounting is applied when certain conditions required by IAS 39 are met. Hedge accounting for the Company falls into the following category:

Cash flow hedges

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the income statement within cost of sales. For cash flow hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

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%.

Notes to the consolidated financial statements

1. Accounting policies (continued)

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.

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, and 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. CHFS 1 operated the Clyde and Hebrides ferry service under public service contract with the Scottish Government. The CHFS 2 contract was awarded to the Group with a start date of 1 October 2016 and runs for eight years. CalMac Ferries Limited will continue to operate Clyde and Hebrides ferry services. The contract provides the Company with revenue to subsidise the life-line services provided.

Products and Services	Nature, timing of satisfaction of performance obligations and significant payment terms.
Fares	The Company recognises revenue when the sailing associated with the ticket sold occurs. The amount is equal to the value of the ticket price. Receipts for advanced tickets are recognised with reference to the time of travel with the deferred element maintained on the balance sheet within contract liabilities.
Contracts with Government	The CHFS 2 contract is paid on a straight line basis, monthly in arrears over the contract year. The Company recognises revenue as the services under the contract are provided. This is deemed to be over time over the length of each contact 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.

	2018	2017
	£000	£000
Fares - transferred at a point in time	**69,375**	63,461
Government – transferred over time	**136,820**	128,306
Inter Group – management fees	**757**	767
Total	**206,952**	192,534

Notes to the consolidated financial statements

2. Revenue (continued)

Contract balances

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

	2018 £000	2017 £000
Contract assets	**16,479**	15,771
Contract liabilities	**(4,359)**	(4,318)

The contract assets primarily 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

	2018 Contract assets £000	**2018 Contract liabilities £000**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(4,318)**	**-**
Increases due to cash received, excluding amounts recognised as revenue during the period	**-**	**(4,359)**
Increases as a result of changes in the measure of progress	**16,479**	

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.

3. Profit before tax

The profit is stated after charging/(crediting):		**2018 £000**	2017 £000
Auditor's remuneration	- audit of these financial statements	**38**	36
	- other services relating to taxation	**64**	69
	- all other services	**20**	16
Depreciation of tangible fixed assets		**8**	14
Harbour access charges	- Caledonian Maritime Assets Limited	**17,997**	12,562
	- other	**14,254**	13,295
Agency staff costs		**65,891**	63,075
Operating lease costs	- land and buildings	**318**	6,254
	- ships and motor vehicles	**17,186**	17,177
Interest receivable	- bank	**(11)**	(20)
Interest payable	- bank	**31**	42

4. Employee information

Staff costs (including Directors)

	2018 £000	2017 £000
Wages and salaries	**18,424**	16,245
Social security costs	**1,873**	1,573
Other pension costs	**3,296**	2,755
	23,593	20,573

Notes to the consolidated financial statements

4. Employee information (continued)

Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	**339**	365
Company contributions to a defined benefit pension scheme	**77**	69

The aggregate of remuneration of the highest paid Director was £181,000 (2017: £194,000). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £11,236 (2017: £8,951).

Number of Directors

	2018	2017
Retirement benefits are accruing to the following number of Directors under:		
Defined benefit schemes	2	2

Employee numbers

The average number of people employed by the Company, including Directors, during the year was 605 (2017: 561).

Category	2018 £000	2017 £000
Head Office	**246**	227
Port	**349**	326
Vessel	**10**	8
	605	561

Notes on the financial statements

5. Taxation

The tax on profit/(loss) is made up as follows:

	2018 £000	2017 £000
UK corporation tax on profit for the year	**6**	6
Consortium relief	-	3
	6	9
Deferred tax:		
Impact of rate change	-	29
Adjustments in respect of prior year	**328**	151
Origination of temporary differences	**9**	(610)
	337	(430)
Tax on profit/(loss)	**343**	(421)

Income tax recognised in other comprehensive income

	2018 £000	2017 £000
Tax relating to cash flow hedges	**405**	-

Notes to the consolidated financial statements

5. Taxation (continued)

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

	2018 £000	2017 £000
The profit/(loss) on ordinary activities before tax	**4,585**	4,961
UK corporation tax at 19% (2017: 20%)	**871**	993
Effects of:		
Tonnage tax	**(1,194)**	(777)
Items not allowed for tax purposes	**61**	104
Adjustment in respect of prior year	**328**	151
Loss carry forward	**316**	(371)
Rate change for deferred tax	**-**	29
Long funded lease legislation	**-**	(653)
Non-deductable expenses	**302**	103
Capital items expensed	**64**	-
Tax charge/(credit) for the year	**748**	(421)

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

As a result of the activities which do not relate to tonnage tax, the Company has gross tax losses to carry forward of £2.4m (2017: £4.9m). No deferred tax asset has been recognised in relation to these losses, as the Directors do not consider that there is certainty that future suitable taxable profits will arise.

The Company has a deferred tax asset of £216,000 (2017: asset of £959,000).

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	**Liabilities 2018 £000**	Assets 2017 £000	Liabilities 2017 £000	**Net 2018 £000**	Net 2017 £000
Tangible fixed assets	**575**	**-**	952	-	**575**	952
Financial assets	**-**	**(405)**	-	-	**(405)**	-
Other	**46**	**-**	7	-	**46**	7
	621	**(405)**	959	-	**216**	959

Movement in deferred tax during the year

	1 April 2017 £000	Recognised in income £000	**31 March 2018 £000**
Tangible fixed assets	952	(377)	**575**
Financial assets	-	(405)	**(405)**
Other	7	39	**46**
	959	(743)	**216**

Notes to the consolidated financial statements

5. Taxation (continued)

Movement in deferred tax during the prior year

	1 April 2016 £000	Recognised in income £000	31 March 2017 £000
Tangible fixed assets	523	429	952
Other	6	1	7
	529	430	959

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly. The deferred tax asset/liability at 31 March 2018 has been calculated based on these rates.

6. Tangible assets

	Equipment and Total £000
Cost	
At 1 April 2017 and 31 March 2018	**95**
Depreciation	
At 1 April 2017	**87**
Charge during year	**8**
At 31 March 2018	**95**
Net book value at 31 March 2018	**-**
Net book value at 31 March 2017	**8**

7. Derivative financial Instruments

	2018				2017			
	Assets		**Liabilities**		Assets		Liabilities	
	Current £m	**Non-Current £m**	**Current £m**	**Non-Current £m**	Current £m	Non-Current £m	Current £m	Non-Current £m
Hedging derivatives								
Cash flow hedge								
Fuel hedge	-	**2,385**	-	-	-	-	-	-

8. Investments

	£000
At 1 April 2017 and 31 March 2018	-

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.

Notes to the consolidated financial statements

9. Stock

	2018 £000	2017 £000
Fuels and lubricants	**465**	537
Consumable inventories	**364**	433
Retail inventories	**220**	208
	1,049	1,178

Charge to profit and loss £20.5m (2017: £18.6m)

10. Debtors and prepayments

	2018 £000	2017 £000
Trade debtors	**2,497**	2,058
Other debtors	**872**	1,328
Prepayments and accrued income	**4,630**	5,278
Amounts due by group undertakings	**142**	416
Deferred tax asset (see note 5)	**216**	959
	8,357	10,039

11. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank loans and overdrafts	**-**	10,000
Trade creditors	**3,742**	4,068
Other creditors and accruals	**12,326**	9,383
Corporation tax	**6**	9
Amounts owed to group undertakings	**469**	717
	16,543	24,177

Terms and debt repayment schedule

	Currency	**Nominal Interest Rate**	**Year of Maturity**	**Face Value 2018 £000**	**Carrying Amount 2018 £000**	Face Value 2017 £000	Carrying Amount 2017 £000
Loan from bank	GBP	Libor + 1.5%	31 Oct. 2022	-	-	10,000	10,000

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

The Company has granted a floating charge over its assets to the lender.

12. Share capital

	2018 £000	2017 £000
Allotted issued and fully paid		
1 Ordinary Share of £1 each	**-**	-

Notes to the consolidated financial statements

13. Analysis of movements in equity attributable to equity holders of CalMac Ferries Limited

	Commodity derivatives £000	Tax effect £000	2018 £000
Cash flow hedges			
At 1 April 2016 and 31 March 2017	-	-	-
Effective portion of changes in fair value of cash flow hedges	**2,856**	**-**	**2,856**
Tax relating to cash flow hedge	**-**	**(405)**	**(405)**
Net change in fair value of cash flow hedges reclassified to profit or loss	**(471)**	**-**	**(471)**
At 31 March 2018	**2,385**	**(405)**	**1,980**

14. 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 2015, carried out by an independent actuary, showed that the scheme had liabilities of £177.9m, assets of £136.0m and, consequently, a deficit of £41.9m.

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 therefore accounted for on a defined contribution basis.

The Merchant Navy Officers' Pension Fund (MNOPF) is closed to new members and the actuarial valuation carried out at 31 March 2015 showed a gross deficit of £329m at the valuation date and that the market value of the assets of £2,898m covered 90% 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:

	2018 £000	2017 £000
CalMac Pension Fund	**3,057**	2,359
Ensign	**11**	10
Other schemes	**229**	187
	3,297	2,556
Contributions to be paid to pension schemes included in creditors	**355**	318

Notes on the financial statements

15. Other financial commitments

Future aggregate minimum rentals payable under non-cancellable operating leases are as follows:

	Ships & motor vehicles		Buildings/ Harbour Access		Total	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Within one year	**17,407**	17,077	**340**	336	**17,747**	17,413
In the second to fifth years	**54,776**	72,185	**1,019**	1,344	**55,795**	73,529
Plus fifth year	**48,767**	48,767	**850**	840	**49,617**	49,607
	120,950	138,029	**2,209**	2,520	**123,159**	140,549

16. Related party transactions

Under FRS 101, the Company is exempt from the requirement to disclose related party transactions with Group undertakings as it is a wholly owned subsidiary of a parent undertaking which prepares and publishes consolidated financial statements.

Details of transactions with other related parties are as follows:

	2018	2017
	£000	£000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- subsidy	**136,820**	128,307
Caledonian Maritime Assets Limited		
- vessel leasing charges	**(17,005)**	(16,908)
- harbour services	**(18,013)**	(12,943)
- vessel new build, modification and other costs	**1,619**	763
- staff costs	**14**	101
- ferry travel costs	**8**	10
Solent Gateway Limited		
- management recharge	**236**	983
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- subsidy	**16,479**	15,771
Caledonian Maritime Assets Limited		
- vessel new build, modification and other costs	**988**	772
- harbour services	**(801)**	(678)
- staff costs	**14**	-
- vessel leasing charges payable	**(322)**	(322)
- ferry travel costs	**1**	1
Solent Gateway Limited		
- management recharge	**1,796**	1,910

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.

Notes on the financial statements

17. 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
Solicitors	Pinsent Masons
Bankers	The Royal Bank of Scotland plc Santander UK plc
Principal insurers	The North of England Protecting & Indemnity Association
Website	Parent company: www.david-macbrayne.co.uk Company: www.calmac.co.uk