DAVID MACBRAYNE LIMITED SCO15304
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

Page No.	**Contents**

Strategic Report

Chairman's Overview

The David MacBrayne Limited (DML) Board takes the responsibility of delivering the Clyde and Hebrides Ferry Service (CHFS) contract extremely seriously and we are each committed to playing a major role in ensuring that the services are provided effectively.

Ferries offer a lifeline to people living and working across the west coast and the islands. It is vital that we as a Board not only engage with the communities we serve but hear what they are saying. Whilst we ultimately wish to drive DML and CalMac Ferries Limited (CFL) towards a more successful and prosperous future, it is our intention to focus on the CHFS contract for the time being. We will continue to work diligently to ensure that all necessary improvements are made to run this service to the best of our abilities.

However, we cannot avoid the very real challenges which are having an impact on our ability to provide the best service possible and will prioritise our resources on these challenges over future development plans for as long as is required. I recognise that our island communities have faced real challenges over this past year, and I am sorry for the impact that issues with the ferry service have had on them. Unfortunately, these challenges are set to continue until new vessels are introduced to the fleet.

The average age of the CalMac fleet is now 25 years old, with over one third of the vessels in service greater than 30 years of age. The increasing age of the vessels has resulted in a growing need for repairs and maintenance. The total cost of maintenance, including the completion of the 2022/23 overhaul programme was £29.0m (2022: £27.4m). In addition, the asset owner Caledonian Maritime Assets Ltd (CMAL) invested a further £7.5m in 2023 (2022: £5.5m).

The demand for ferry services is increasing each year, however our capacity levels are not increasing in line with this, which often leads to frustration for our customers – whether they are islanders, business owners, or holidaymakers. Weather patterns also continue to have an effect on our services – as we simply cannot sail for safety reasons during certain types of poor weather and factors such as vessel and port resilience also play a role when decisions not to sail are taken by Masters.

The Scottish Government's announcement that they will fund a total of 16 brand new vessels will go a long way to improving services. This dedicated funding will mean that the fleet will welcome six major and 10 small vessels over the next five years.

MV Loch Frisa was welcomed to the fleet in June 2022, which has been an extremely helpful addition to the Oban-Mull route, freeing up MV Coruisk to support elsewhere on the network.

New fleet is being introduced to service the Clyde and Herbides contract, MV Glen Sannox is set to join during 2024 and we are very much looking forward to the MV Glen Rosa being completed and delivered too. Also joining soon will be the two new vessels for the Islay route in 2024 and early 2025, as well as an additional ten small vessels in planning for the future. Consideration is now turning to new ferry options for Mull.

Finally, our new ticketing system launched in May, and while many changes and improvements have been added since its launch, we continue to work on embedding this throughout the network to offer a more efficient, modern and user-friendly booking experience for our customers.

With many opportunities, changes and challenges ahead, we will continue to engage with our customers, communities and stakeholder groups through multiple channels including contact with ferry committees, the Ferries Community Board, Caledonian Maritime Assets Limited (CMAL) and Transport Scotland. We are all committed to delivering the best service that we can and will continue to work together to combine expertise, knowledge, and experience to best effect.

I would also like to extend my thanks and best wishes to my fellow Board members, DML management and all staff for their continued support, hard work and resilience during these testing times.

Erik Østergaard
Chairman
DML Board

For-shealladh a' Chathraiche

Tha Bòrd-Stiùiridh Dhaibhidh Mhic a' Bhruthainn Earranta (DMcB) a' meas lìbhrigeadh cùmhnant Sheirbheisean Aiseig Chluaidh is Innse Gall (SACIG) mar dhleastanas air leth deatamach, agus tha gach ball againn ag obair gu dealasach gus na seirbheisean a choileanadh gu h-èifeachdach

Tha seirbheis aiseagan riatanach dhan t-sluagh a tha a' còmhnaidh agus ag obair air a' chost an iar agus sna h-eileanan, agus tha e deatamach dhuinne mar Bhòrd, chan ann a-mhàin a bhith a' còmhradh ris na coimhearsnachdan a tha sinn a' frithealadh, ach am beachdan a chluinntinn.

Ged, ri tìde, bu mhath leinn DMcB agus Aiseagan Chalmac Earranta (ACE) a stiùireadh gu ìre nas soirbheachaile agus nas buannachdaile, tha sinn am beachd cuimseachadh air cùmhnant SACIG aig an àm seo. Leanaidh sinn ag obair gu dìcheallach gus a h-uile leasachadh iomchaidh a dhèanamh gus an t-seirbheis seo a ruith mar as fheàrr as urrainn dhuinn.

Ach cha ghabh seachnadh air na dùbhlain a tha toirt buaidh air ar comas an t-seirbheis as fheàrr a lìbhrigeadh, agus bidh sinn a' cur prìomhachas stòrais air na dùbhlain sin ann am planaichean leasachaidh romhainn cho fada 's a dh'fheumar. Tha mi mothachail air na dùbhlain mhòra a dh'fhuiling ar coimhearsnachdan eileanach thar na bliadhna a chaidh, agus tha mi duilich mun bhuaidh a dh'adhbharaich trioblaidean nan seirbheisean aiseig dhaibh. Gu mì-fhortanach, leanaidh na dùbhlain sin chun an tig bàtaichean ùra dhan chabhlach.

Anns an fharsaingeachd tha cabhlach Chalmac a-nise 25 bliadhna a dh'aois, leis an treas cuid de na bàtaichean san t-seirbheis còrr air 30 bliadhna a dh'aois. Mar a tha an aois a' dol am meud tha na bàtaichean ag iarraidh barrachd càraidh is cumail suas. Gu lèir chosg cumail suas £29.0m (2022: £27.4m) is sin a' gabhail a-staigh prògram leasachaidh bliadhnail 2022/23. A bharrachd air sin, thaisg a' bhuidheann-seilbh Caledonian Maritime Assets Earr (CMAL) £7.5m eile ann an 2023. (2022: £5.5m).

Tha iarrtas sheirbheisean aiseig a' dol am meud gach bliadhna, ach a dh'aindeoin sin chan eil na goireasan againne a' fàs dha rèir, rud a tha bitheanta ag adhbharachadh leamhachas dhar luchd-cleachdaidh – ge b' iad eileanaich, luchd-gnothaich, neo luchd-shaor-làithean.

Tha dreach na h-aimsire cuideachd a' cumail a' toirt buaidh air na seirbheisean againn - air sgàth adhbharan sàbhailteachd chan fhaod sinn seòladh aig amannan droch aimsire àraid, agus tha cuideachd comasan an t-soithich agus nam port na phàirt de cho-dhùnadh Sgiobairean gun seòladh.

Cuiridh am fios bho Riaghaltas na h-Alba gum pàigh iad airson 16 bhàtaichean ùr nodha gu mòr ri leasachadh sheirbheisean. Bidh am maoin comharraichte seo a' ciallachadh gun cuir a' chabhlach fàilte air sia soithichean mòra, agus deich bheaga, thar nan còig bliadhna romhainn.

Chuireadh fàilte air MV Loch Friosa chun a' chabhlaich san Ògmhios 2022. Bha sin na chuideachadh air leth air an t-slighe eadar Muile 's An t-Òban, a' saoradh an MV Cor Uisge airson taic eile san lìon-bheairt.

Tha loingeas ùr gu bhith a' tighinn a lìbhrigeadh cumhnant Chluaidh is Innse Gall is dùil ris an MV Gleann Sannox ann an 2024, agus tha fiughair againn ri crìochnachadh an MV Gleann Rosa is ise a bhith gar ruigheachd a dh'aithghearr cuideachd. Bidh dà shoitheach ùr airson slighe Ìle cuideachd a' tighinn thugainn a dh'aithghearr, ann an 2024 agus tràth ann an 2025, cuide ri deich shoithichean beaga a bharrachd a tha gan dealbh airson an àm ri teachd. Tha beachdachadh a' tòiseachadh a-nise air roghainnean aiseig dha Muile.

Mu dheireadh, chaidh an siostam ùr thiogaidean againn a stèidheachadh anns a' Chèitean, agus ged a chaidh iomadh atharrachadh agus leasachadh a chur ris bho nochd e tha sinn a' cumail ag obair ga stèidheachadh feadh na lìonra gus eòlas seirbheis ro-chlàraidh nas èifeachdaiche, ùr-ghnàthach agus càirdeil, a thairgsinn dhar luchd-cleachdaidh.

Le iomadh cothrom, atharrachadh, agus dùbhlan romhainn, cumaidh sinne coluadar a' dol le ar luchd-cleachdaidh, ar coimhearsnachdan, agus ar buidhnean-seilbh, tro chaochladh mhodhan leithid co-cheangal le comataidhean aiseig, Bòrd Coimhearsnachd nan Aiseagan, Stòras Mara Caileanach Earranta (SMCE), agus Còmhdhail Alba. Tha sinn uile dealasach gus an t-seirbheis as fheàrr as urrainn dhuinn a lìbhrigeadh, agus cumaidh sinn ag obair còmhla gus an luach as buannachdaile fhaotainn à amaladh ealantais, fiosrachaidh, agus eòlais.

Dh'iarrainn cuideachd mo thaing agus deagh dhùrachd a chur gu mo cho-Bhuill-Bùird, luchd-stiùiridh DMB, agus an luchd-obrach air fad airson an taice leantainnich, an cuid obrach chruaidh agus an cuid fhulangais tro na h-amannan dùbhlanach seo.

Erik Østergaard
Cathraiche - Bòrd DMcB

Chief Executive's Statement

Welcome to the David MacBrayne Limited (DML) annual report for April 2022-March 2023. This report sets out DML's performance and key priorities for this financial year and lists the company's financial statements and account narrative.

This past year has once again been extremely challenging for our customers. Several major vessels were out of service for a considerable period, which meant that we could not operate a full service for several months. Customers across the network have experienced a lot of disruption and have quite rightly voiced their frustration about the effect that this is having on their day to day lives and businesses. This is not a situation we want to be in, and every effort is being made to prevent this from happening again.

Our frontline staff have worked tirelessly to support our customers in difficult circumstances and their care and dedication is frequently recognised by local communities. I would like to thank all staff for their efforts and unwavering commitment throughout this period.

DML continues to face several growing challenges which are affecting our commitment to provide the best ferry service as possible to our customers. The first of these is the age of the fleet. With an average age of 25 years, over one third of our 35 vessels are operating beyond their life expectancy of 30 years. This means that they require more and more maintenance and are more liable to suffer technical failures. It can also be difficult to source parts for the older vessels because they are no longer manufactured, meaning more time is spent having to have specific parts made from scratch.

However, thanks to Scottish Government funding, Caledonian Maritime Assets Ltd (CMAL) will welcome 16 new vessels to the fleet over the next five years, 6 major and 10 small. This will bring extremely welcome additional tonnage to services and will strengthen resilience.

We are aware that we will continue to face challenging times over the next two years until these new vessels start to join us. There are several ways in which we are working to improve resilience in the meantime.

Our improvements include the introduction of new asset management technology, the development of logistics hub and shore support workshops as "centres of excellence", the introduction of a single operations centre based on airlines model with clear incident and crisis protocols, and better contingency planning. We are also investing record sums in maintenance despite the challenge to our financial position, as it is the right thing to do for our customers and communities.

Community engagement has continued to be of the utmost importance, and I recently committed my senior team to spend more time in our communities so we can listen and understand their real experiences and how we can make our service better. We also intend to take advantage of our new hybrid working patterns to recruit more staff in our local communities and invest in satellite offices as local staff truly understand the needs of communities.

We were pleased to welcome the introduction of MV Loch Frisa to our tonnage in June 2022, she is based on the Oban to Craignure route and has proved to be a reliable and high-quality addition. This year, we chartered MV Alfred from Pentland Ferries for a period of nine months, which has been invaluable while MV Hebridean Isles has been off service for several months. She has been primarily based on the Ardrossan to Brodick route.

We welcomed the publication of the Scottish Government's Project Neptune report and look forward to working with our local communities, the Scottish Government, Transport Scotland and CMAL on what the next steps will be. Communities expect any future structure to be clearer and simpler to understand and engage with. This goes with a desire for better levels of accountability to the communities on the network. We agree with communities that simplicity and accountability are critical in designing the best structure to meet future community needs.

In January 2023, DML sold its 50% share in Solent Gateway Ltd to Associated British Ports raising net proceeds of £22.4m to support the Group's balance sheet. The decision to invest in this joint venture on the south coast of England is an example of our entrepreneurial skill and vision.

We approved the production of a documentary about the CalMac ferry services covering our people, our customers and the communities we serve, which was broadcast by the BBC on 24 July and ran for a period of 8 weeks. We hope that this has allowed more people to see the work that we do, the effort that our people put in to help our customers through good times and bad, and the many and varied reasons for which the communities we serve use our ferry services.

The Clyde and Hebrides Ferry Services (CHFS) contract remains of the utmost importance to DML, and we continue to strategically focus on delivering this to the best of our ability. Our absolute focus will remain on delivering a full and reliable service through to contract completion.

On 16 November 2023, the Minister for Transport announced, "We have considered two options for contractual arrangements to ensure the continued operation of the services: either a direct award to the current operator, in what is known as a Teckal arrangement, in accordance with the Public Contracts (Scotland) Regulations 2015, or a competitive tender on the open market. Having considered the benefits and risks of each, I want to update the Parliament on Scottish Government ministers' preferred way forward, which is to explore a direct award." The Scottish Government has indicated that it will undertake a due diligence exercise considering the legal, financial and operational implications of any direct award. We will work with Transport Scotland to support this as required.

With under a year remaining on the current contract, we welcome the opportunity to work alongside Scottish Government and Transport Scotland to ensure continuity of lifeline ferry services and a focus on continual improvement for communities across the Clyde and Hebrides. Taking the uncertainty out of the contract would allow us to focus all our efforts on improving service delivery, without the distraction of a highly resource-intensive procurement process.

We will continue to work in partnership with local stakeholders and communities to ensure the best possible outcomes for all who rely on our services. All of us at CalMac are committed to working together to focus our efforts on improving the service we deliver to our customers.

On behalf of the Board

R L Drummond
Chief Executive Officer
22 March 2024

Background & History

David MacBrayne Limited is one of the largest logistics companies in Scotland and the largest ferry company in the UK. A multi-award-winning ferry operator, harbour, and ship management specialist, it is one of Scotland's biggest headquartered firms employing on average 1,918 people during this financial year.

DML, through its main subsidiary company CalMac Ferries Limited, which delivers the Clyde and Hebrides Ferry Service and Perth Harbour contract, transports more than five million passengers in an average year and operates 26 ports within the UK.

Strategic Priorities

DML provides transport and infrastructure services to communities, supporting the aims of the Scottish Government to provide a **Wealthier, Fairer**, **Smarter**, **Healthier**, **Safer, Stronger** and **Greener** Scotland, and to make a commercial return to our shareholder, the Scottish Ministers.

DML's Strategic priorities are:

- Maintain Safety at the heart of our operation.
- Deliver efficient and effective operations offering value for money.
- Deliver excellence in customer service, with customers at the heart of all we do.
- Be a socially responsible employer valuing and investing in our people.
- Reduce our impact on the environment through sustainable operations.

DML's key initiatives to deliver this strategy include:

Service Resilience

Service Resilience is one of DML's key priorities. We have a planned strategy for a replacement maintenance management system which will improve the management of engineering activity on the vessels and develop the engineering information to allow enhanced risk management, reducing vessel breakdowns.

We have conducted a comprehensive condition assessment programme on the older Major Vessels which will enhance the normal maintenance and survey regime allowing condition-based decisions to be made on any high-risk areas to ensure overhaul and maintenance activity is targeted at reducing the risk of technical incidents.

Our Operational Excellence Programme provides a benchmarking of our engineering management processes with a view to establishing industry best practice and highlighting areas for improvement in complex vessel engineering management; this activity and output has been prioritised towards safety, quality and service resilience. Other initiatives designed to improve service resilience include the development of a logistics hub to streamline the provision of parts and equipment, and improved supplier performance through improved engagement and relationship management.

Ticketing System

Implementation of the new system will provide a sleeker experience for customers when they make bookings, an easier way for staff to manage capacity on board the vessels, help employees to manage operations, and provide e-commerce opportunities.

HR Systems

Development of a new learning system, crew scheduling, HR, and payroll systems. Helping our employees manage their own records and shifts while reducing both costs and the complexity of rostering crew on board our ships.

A Just Culture

A culture that promotes learning from all reported events. This requires a culture where staff or other persons are not punished for actions, omissions, or decisions taken by them that are commensurate with their experience and training, but in which gross negligence, wilful violations, and destructive acts are not tolerated.

Digital Presence

Re-imagining the DML digital presence through a new-look website for 2023 and moving into other digital sales channels to reach customers and business partners, while also making the booking system a smoother experience.

Process Excellence

Ensuring the DML management system policies, processes and procedures are scalable, meet international standards and support our ability to win and deliver new business. Simultaneously, they will be safety-centric and will deliver consistency, with a professional, quality ethos at their core.

Group Performance Overview

During the financial year we have seen our vessel carryings continue to recover, with both car and commercial carryings now in line with pre-pandemic levels. However, passengers remain 10% lower than the baseline of 2018/19 which reflects the adoption of hybrid working, and a reduction in the number of commuting passenger journeys. However, both cars and commercial traffic have recovered and are now above the 2018/19 baseline indicating growing activity in our communities.

We operated 169,929 sailings during 2022/23, with our contractual reliability and punctuality levels at 98.7% and 99.6%.

We received our final Covid-19 funding support during the year of £0.4m (2022 £11.7m) as a variation to the Clyde and Hebrides Ferry contract. We remain grateful for the public funding support provided during the pandemic which enabled us to protect jobs, provide staff isolation where required and to ensure the continuity of our services.

KPIs

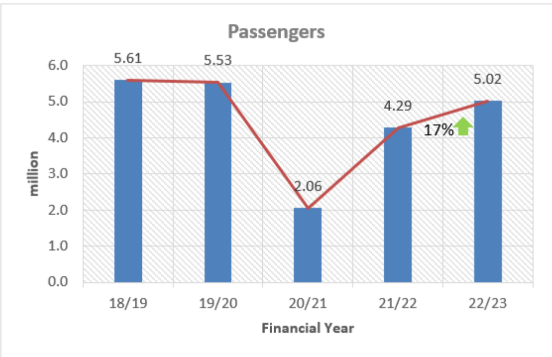
<u>CHFS Reliability and Punctuality 2021 to 2023</u>

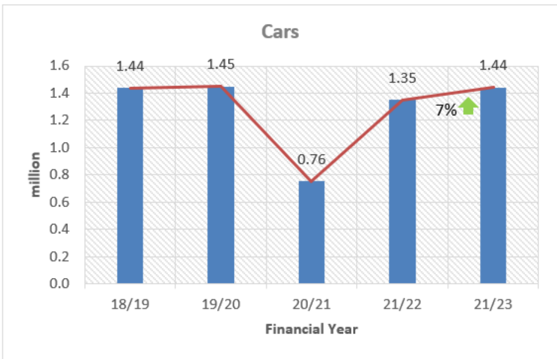
The CHFS contract stipulate the contractual reliability and performance definitions which exclude weather-related disruptions. We also report and monitor actual reliability and performance, which includes the impact of all disruption to services. The below illustration sets out our contractual and actual performance over the last 3 years.

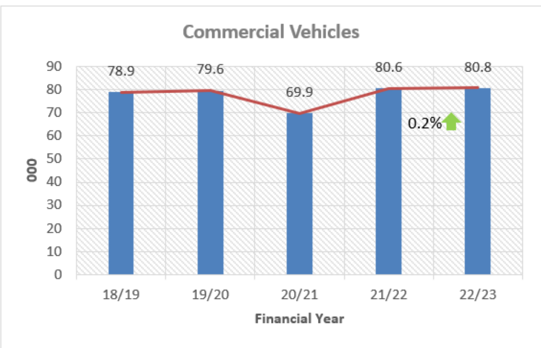
Fiscal Year Name	Contractual Reliability %	Actual Reliability %	Contractual Punctuality %	Actual Punctuality %	Operated Sailings
FY 2020/21	99.6%	94.0%	99.9%	97.3%	117,039
FY 2021/22	98.9%	93.1%	99.6%	96.7%	152,275
FY 2022/23	98.7%	95.2%	99.6%	96.6%	169,929

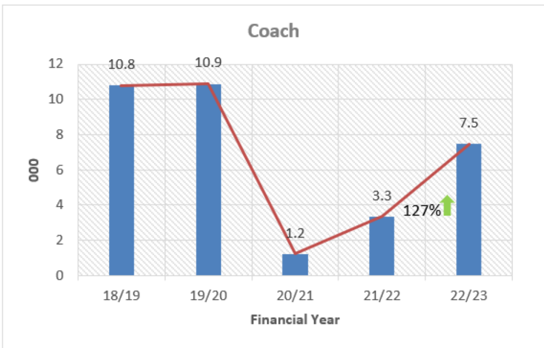
During 2023, we delivered contractual reliability of 98.7% (2022: 98.9%) and performance of 99.6% (2022: 99.6%). An average of 3-4% of sailings each year are impacted by weather, and this is higher during the winter season.

<u>CHFS Carryings 2019 to 2023</u>









Fiscal Year	Passengers	Cars	Commercials	Coaches
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
FY 2022/23	5,020,637	1,441,649	80,768	7,469

CSAT (Customer Satisfaction) score 2022/23: 87% (Target: 85%)

Our 87% CSAT score is derived from regularly surveying our customers about their onboard experience. Customer feedback is received via our monthly Your Voice Journey Experience survey and a URL included on the back of our tickets, excluding our stand-alone ticket machines. The feedback comes from all customers who have booked travel on our vessels and calculated by applying an average % on an annual basis.

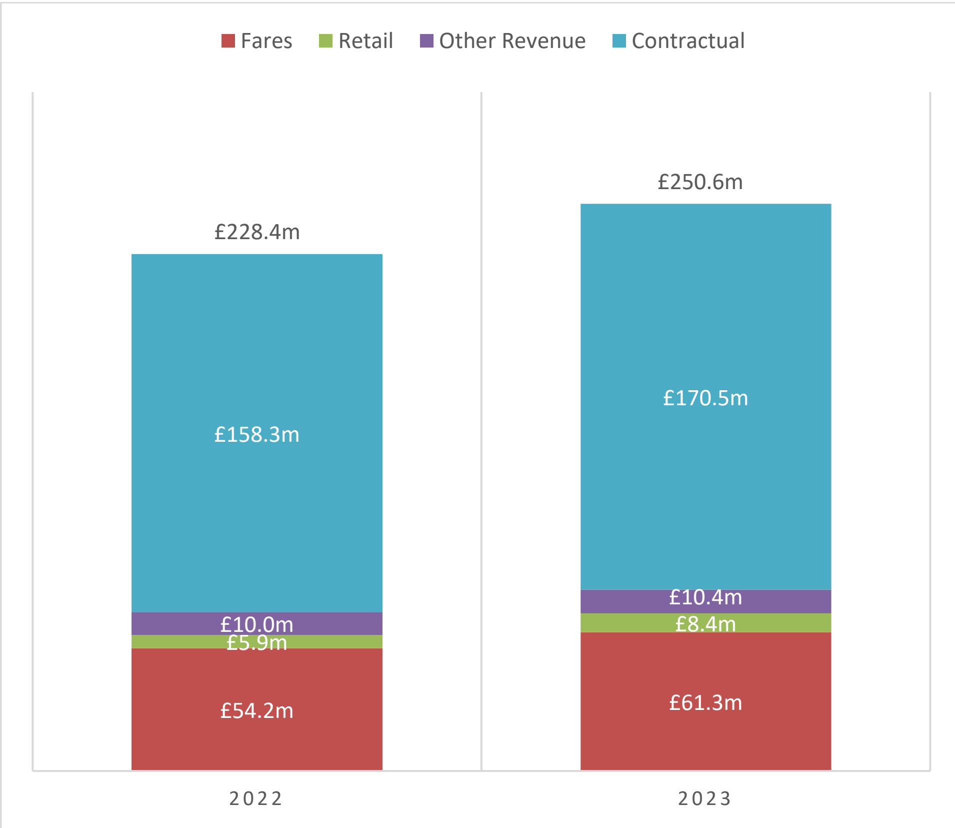
During a challenging time CSAT has held up well. We also measure other metrics which are more sensitive to disruption and capacity issues such as 'trust' and 'ease of journey'. Service disruption has dominated customer feedback and, at times, impacted negatively on 'trust' and 'ease of journey' scores. There has been continued pressure on capacity across the network impacted by service disruption and, in the early part of 2023, a series of delays to the annual overhaul schedule and its subsequent impact on vessel deployment.

Financial Performance Highlights

Financial Stats/KPIs:

Group Revenue excluding the proceeds from the sale of Joint Venture £250.6m (2022: £228.4m).

- Fares revenue increased by £7.1m to £61.3m (2022: £54.2m).
- Retail revenue increased by £2.5m to £8.4m (2022: £5.9m).



Cost of Sales £221.9m (2022: £199.0m)

Administrative Expenditure £33.6m (2022: £30.4m)

Group Profit

Farebox, Retail and Other Revenue

We have seen a growth in revenue during the financial year with Farebox revenues of £61.3m (2022: £54.2m), Retail revenue £8.4m (2022: £5.9m) and an increase in other income £10.4m (2022: £10.0m).

As the pandemic eased in April 22, we received final Covid-19 funding of £0.4m from Transport Scotland, to mitigate the financial impact of restrictions on CHFS services and carryings during this period.

Cost of Sales and Administrative Expenditure

Direct expenditure has increased in line with Revenue growth experienced during the financial year.

The cost of maintaining our fleet during the financial year increased by £2.4m. Unplanned maintenance and technical disruption have driven some of the additional maintenance expenditure, as well as the level of service performance penalties.

Whilst many of our costs have increased because of high levels of CPI in the year, CPI increases are funded via contract funding. We had in place a fuel hedge which ended on 30 September 2022, following this we have purchased fuel at market price. Fuel price risk is also funded under the CHFS contract.

The Group reported an Operating Loss of £4.9m (2022: Operating Loss £1.0m), followed by a Net Profit of £18.6m (2022: Net Loss £3.7m) which includes the net proceeds of £22.4m in relation to the divestment of our 50% interest in Solent Gateway Ltd (Note 21).

Balance Sheet

The net asset position of the Group at March 2023 is £42.6m (2022: £32.5m), an increase of £10.1m. This includes the Group Profit after Tax £18.6m, and the unwinding of the fuel hedge within the year 2023: £nil (2022: £8.5m asset).

The cash position of the Group on 31 March 2023 is £51.3m (2022 £14.2m), which includes the divestment proceeds, and earlier settlement of contractual funding £16.9m.

Dividend

The Group paid no dividend to the Shareholder during this financial year.

Service Resilience

There were several service resilience improvement initiatives delivered during 2023, which are detailed below:

MV Loch Frisa

MV Loch Frisa entered the fleet in June 2022, adding resilience and additional capacity on the Oban-Craignure route.

CMAL Vessel Resilience Programme

During 2023, we continued to invest in the vessels and delivered a £7.5m programme on behalf of Transport Scotland via CMAL to address vessel upgrade and 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.

This programme of vessel resilience is important and extensive, with typical projects including navigation and communication equipment upgrades, engine control and monitoring system upgrades, fire detection system updates, emergency generator replacement, sewage tank replacements and small vessel ramp replacement.

We continue to develop data and insight to better understand technical risks and are investing more than 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.

The long-term contract for the provision of annual vessel overhaul and breakdown support with our yard suppliers continues to provide benefit in terms of collaboration, planning and relationships which has been particularly helpful this season with several short notice changes being supported by the yards.

Condition Assessment Programme (CAP)

We have implemented a Condition Assessment Programme that has commenced a programme of additional surveys and inspections (over and above statutory requirements) to improve understanding of the condition of our vessels and ensure that risks are identified and, where possible, mitigated. As the data builds over the next two years this will be used to feed into and improve the preventative maintenance programme.

Global Supply Chain

Our technical supply chain is critical to the support of vessel resilience. There have been wide, well publicised impacts on global supply chains including the Covid pandemic, Brexit, reduction in semiconductor production and supply and high global and local inflationary pressures. Our supply chains are worldwide with many parts and service agents being provided from outside the UK, coupled with the increasing age and obsolescence of equipment this is resulting in high risks around technical supply chain. This is being reviewed with several initiatives being progressed to mitigate these risks over the next few years.

Workshop Relocation to Faulds Park

The workshops have now formally moved into the new facility at the workshop and logistics hub which supports the maintenance of spare assemblies and supply chain support for our vessels undergoing repairs and annual overhauls. The new facility provides off-vessel component maintenance, repair, and overhaul replacing the previous facility located at the Gourock based head office.

The new logistics hub has led 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 with fleet wide 'preload' now being embedded and made ready for a proposal to bring this initiative into Business as Usual, in 2023-24. This initiative has improved supply chain support on vessel annual overhauls driving timely and on-site logistics support.

Operational Excellence

Our core challenge remains the average age of the fleet, and in 2023, we initiated an Operational Excellence Programme, considering best industry practise for managing our vessels. This has identified several 'quick wins' that have been implemented and a programme of improvement in management of change, data collection, analysis, visualisation and quality assurance. In addition, the organisational structure of how we manage the vessels has been reviewed and we will be implementing changes to this over the next year to ensure we embed quality in everything we do.

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 started 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.

During 2023 we completed a project to gather the asset data required to support this initiative de-risking delivery. This change in maintenance management system will take some time to fully embed (more than the next financial year) and will be closely linked to the new maintenance management system roll out but once both are in place this will improve maintenance management, data capture and analysis and allow significantly better understanding and driving of optimised maintenance for the vessels.

Fleet Key statistics (February 2023)

1. Oldest vessel is 46 years old (Isle of Cumbrae)
2. 13 vessels are over 30 years old (37% of the fleet)
3. 24 vessels are over 20 years old (69% of the fleet)
4. The average age of the fleet is 25 years old.

Our People and Staff Engagement

We have continued to deliver our People Strategy in line with the Scottish Government Fair Work principles. Within CalMac Ferries Ltd, we recognise four trades unions (Nautilus International, RMT, Unite, TSSA). Each union has collective bargaining rights for certain employee groups, and we negotiate pay on a joint basis with all four unions. There is a regular schedule of meetings between management and trades union representatives through Port Committee meetings, the Small Ferries Committee, the Officer Liaison meeting and regular business review meetings with the CalMac CEO.

We have a well-established People Steering Group who meet monthly, this is chaired by the CalMac Operations Director, which further provides a forum and a voice for staff from across all areas of our business to provide input and feedback into what is happening in the business.

Employee Wellbeing

We support and value our colleagues and their wellbeing is of the utmost importance to us. We launched a new Employee Assistance Programme (EAP) in November 2021, designed to help improve health and wellbeing in both personal and professional life. We have teamed up with Health Assured to offer all colleagues this enhanced EAP, which includes access to the UK's leading wellbeing app, My Healthy Advantage. The app is a confidential resource designed to support the employees' overall wellbeing - with features including mood trackers, helpful videos, 24/7 support services, active challenges and a wellbeing calendar of events. Employees also have access to a wellbeing portal, where they can get telephone support and they can download an app.

Investment in workforce development

Since the award of the CHFS 2 contract, we have focused on continuously improving our approach to provide staff with access to the development they require to deliver their current and future roles. The Learning and Development team, which is part of the HR Department, provides an extensive range of learning and development which, together with our Union Learning partnership, helps ensure that that staff have equal access to the development required. This includes supporting managers to identify learning needs through the annual performance appraisal and development planning cycle. The Learning and Development Team focuses on providing training linked to our corporate goals; local priorities and objectives; retention and development of our key talent; and compliance with regulations and maritime standards.

Our Talent Management and Succession Planning processes allow us to tailor programmes and personal development plans to progress our top talent and address succession risks.

Our full time RMT Trade Union Learning representative has partnered with us to deliver a range of learning opportunities, including LGBTQ Inclusion and Awareness workshops, and mentoring training, to support trainees and unconscious bias training.

In partnership with the Scottish Trade Union Learning Fund, we trained more Mental Health First Aiders, growing our network to 65 staff, and continued to deliver our Mental Health Awareness Training for line managers.

Our strong commitment to early careers is evidenced through our industry leading apprenticeship programmes. We run modern apprenticeship programmes in Project Management, Deck, Engine and Maritime hospitality, typically taking on 20 apprentices each year from our Island communities, benefitting both CalMac and the Communities we serve. Since March 2018 we have recruited 107 modern apprentice positions, and we are immensely proud of each apprentice and their achievements over the period.

We continue to contribute to the Merchant Navy Training Board (MNTB) Apprenticeship Committee Group and provide influence, input and feedback to UK wide discussions.

We have a well-established cadet sponsorship programme in partnership with Clyde Marine Training based in Glasgow and currently sponsor 24 cadets.

We are active across our network communities promoting early careers at CalMac and the sector. We continue to launch campaigns during Scottish Apprenticeship Week, sending out our Early Careers Brochure to 70 schools across our communities and delivering a social media apprenticeship campaign.

We do not employee any staff under zero hours contracts. We are, and will continue to be, a Living Wage Employer.

We continue our commitment to equal pay for work of equal value across all areas of our organisation. However, our industry is traditionally male dominated and while we have a positive gender balance across our shore-based roles (and a Gender Pay Gap that is favourable to women), it remains a challenge to attract and retain more females into seafaring roles, particularly in the engineering disciplines. We have worked proactively with Equate Scotland and through our Early Careers Work to ensure that barriers are removed and that females are encouraged to consider roles in these disciplines. Our Gender Pay Gap across both our seagoing and shore-based workforce remains favourable compared with national and industry benchmarks.

We have a well-established "Inclusive CalMac" Steering Group which meets six times a year. The purpose of this group is to champion, encourage and develop a sustainable culture of inclusion.

Within the Inclusive CalMac framework, we have developed an "Inclusive Females" work stream. Some of this work includes:

- Focus groups with female colleagues to better understand our colleagues' experiences, any challenges of working in maritime and to understand how we can become more inclusive for all

- Targeted communications during Scottish Modern Apprenticeship Week and International Women's Day to promote CalMac as an inclusive employer and to inspire young females to see CalMac and maritime as a career choice

- Connecting with secondary schools to encourage underrepresented groups of people to apply to our Modern Apprenticeship Scheme

•Amending outdated job titles that are specific to male roles such as "motormen" and "nightwatchmen"

•Working with Equate Scotland (Napier University) to deliver Unconscious Bias and Positive Recruitment training to the full team involved in the recruitment of Modern Apprentices into Science, Technology, Engineering and Maths roles.

We have a 50:50 male-female gender balance in our Executive Management Team, creating positive role models and supporting our ability to attract greater gender balance in our organisation and promote opportunities for career progression.

Change and Continuous Improvement

Over the past year, we have made considerable progress on our strategic transformation journey. One major undertaking has been the preparations for the implementation of our largest-ever project - a new ticketing and reservation system. This significant upgrade, which replaced our legacy 26-year-old system and impacted nearly every aspect of the business, exemplifies our drive for modernisation and commitment to elevating customer service standards.

In our continued pursuit of operational efficiency, we have successfully integrated a new payroll system across the organisation, with further HR enhancements expected next year. This not only boosts administrative efficiency but also introduces self-service capabilities for employees and managers.

Simultaneously, we have made substantial advancements in the management of our vessels with a programme dedicated to improving our operational excellence in all aspects of vessel management. This includes the design of a new target operating model, which embeds quality at the heart of our operations, reflecting our commitment to providing exceptional service in all aspects of our work.

To further align our operations with industry standards, we have undertaken a comprehensive programme to capture and develop our asset management data and documentation. This proactive measure aligns us with industry-leading best practices and readies us for future advancements.

To bolster our operational capabilities, we have also prioritised the upskilling of our teams, with specific emphasis on root cause analysis and continuous improvement techniques. This initiative, central to our vision of nurturing a culture of proactive problem-solving, has played a significant role in driving performance across the business.

Throughout this transformation, our commitment to Change Management has remained unwavering and has become the centrepiece of key strategic initiatives. This approach ensures wide-ranging involvement across the organisation, fostering a culture of adaptability and resilience, vital to navigating the demanding and ever-evolving landscape of our industry.

Customers

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.

Customer Digital Experience

A new ticketing platform was implemented in Spring 2023, which provides our customers with a greater choice to purchase and manage their tickets. The platform is designed to improve their overall booking and ticketing experience with Caledonian MacBrayne, and all customers are now able to pre purchase tickets online in advance of travel. This new digital channel offers an alternative way for customers to purchase tickets, in addition to still being able to purchase via the telephone, port offices and vessel staff, where relevant. Customers can: have an eTicket delivered to their device to use for travel; book multiple vehicles on a single reservation and purchase selected concession fares online for the first time. The platform is used by several travel operators across the world, and its launch followed an in-depth training programme for colleagues across the network, to promote a positive transition for customers, business users, and all who use our lifeline services.

Following this, our new website and app will be implemented during 2024 The project has benefitted from an in-depth period of discovery, design, customer focused development and user testing. When complete, it will deliver a best-in-class experience for customers through a fully re-imagined website, which supports a channel shift to digital self-service and improved customer satisfaction. The accompanying app will offer support to customers through service updates, push notifications for disruptions and online timetables and offline timetable details for saved routes.

As we progress towards implementation of the new site, we are carrying out extensive customer and accessibility testing to harness improvements for all users. The site will also carry a refreshed design, and a fully refreshed suite of content. As the programme of work progresses, we've successfully completed the Digital Scotland Service Standards alpha assessment and we are now progressing through the beta assessment stage, focusing on product, technical and user needs. This process will help to ensure we meet and exceed standards of user needs, accessibility, ongoing research, feedback, analysis, and continuous improvement.

Network Improvement Project (WIFI)

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.

Branded Customer Experience

Our activities to bring the Caledonian MacBrayne brand to life across the customer journey have continued. The brand imagery has been introduced in certain vessels and ports as well as across our digital and social channels. We are also working to ensure that the customer experience is aligned with our employee experience, through engagement sessions with local teams and the development of a company-wide customer experience training programme.

Review of disruption handling

Disruption, be it because of weather or technical or operational reasons, is a challenge for our customers, the communities we serve and on our own staff. We continue to work to improve our disruption management, in particular how we communicate with our customers to provide timely and accurate information. We have made several improvements including a streamlined internal and external communications process and clearer internal status reporting. We continue to improve the Disruption Communications Toolkit, in response to feedback from customers and staff and are providing support tools and guidance to our front-line colleagues to help them in their roles during times of disruption.

Customer Journey Mapping

A key part of being able to understand our customers is the ability to map the end-to-end customer experience. This could be from a local level to network wide, or scenario specific. Journey mapping is core to supporting delivery of our customer experience by identifying key pain points and working collaboratively to implement improvements. We will continue to work with internal stakeholders to ensure our customer journey is mapped at every level. Teams should expect to see us out on the network to map face-to-face at local ports and vessels. Forthcoming mapping includes reviewing our commercial customers journeys.

Customer Standards

To provide a consistent approach to how we manage our customers network-wide, we developed a series of dedicated 'Customer Standards' for our frontline staff. These were created in conjunction with our frontline teams directly. We have standards for many other areas of the business and with a focus on customer, it was imperative to us that we also have Customer Standards also. The Standards align with the new behavioural framework and will be a facilitation tool to be used in parallel with the Customer Service training. Last year, we completed our Standards Pilot and used our learnings to facilitate key changes for network wide rollout.

Pet management

Pet management has been a long-standing issue across our network. By working closely with frontline teams and listening to our customers, we've taken significant steps to generate positive change. These changes include introducing pet tickets and 'pet rules'; Pet 'hydration stations'; Introduction of a 'pet fouling fine' to combat the issue of fouling onboard; Development of new collateral to support both customers and colleagues before, during and after their journey; A new 'pet ticket checker' introduced online whilst we are unable to support online bookings via COMPASS, with the view to facilitate a smoother transition into eBooking. Working to improve pet management is an emotional and contentious subject at times, but one we will continue to enhance the further we progress.

Customer Communications

Our customer communications are focused on a strategy of 'truth well told' - and include the key components of customer focus, transparency, empathy, understanding and meeting needs of multiple audiences and alignment of customer, stakeholder and colleague communications.

We continue to regularly review and enhance the design, delivery and effect of our customer communications. This has included a review of our process to manage any customer facing communication – with a fully integrated process in place which ensures communications with key audiences are integrated and aligned across channels.

We have also completed a review of how we manage and enhance customer communications on disruptions – focusing on delivering certainty and transparency. A toolkit is now in place guiding the multiple communication leads who will be involved in such communications and decision making, ensuring timely, accurate and transparent outputs, ensuring customers understand the 'why' as well as the 'how' and 'when'.

ICIA Consultations

In the past, we have always engaged with our community stakeholders on key improvements. We have now developed, a formal consultation process which follows best practise, and our communities can fully support. In Summer 2022, we conducted the first consultation using a process which aligns directly with the Scottish Governments 'Islands Community Impact Assessment' (ICIA) criteria. With this new method of consultation, we have now successfully completed two consultations (the first being on 'updated ticketing terms and conditions' and the second on 'Advance Standby'). This ensured the voice of our communities was heard and their feedback directly influenced the result of what we are now implementing. This method of consultation is key in improving our customer experience to the level that our customers deserve and expect.

Retail strategy

We have carried out an in-depth analysis of retail offered across our vessels to understand what customers would like and combined this with feedback from crew. A key part of our learning is the growth in island products that are naturally sourced and manufactured on the islands. We are building more partnerships with local suppliers in the supply of products such as sea salt, vegetables, soaps, and textiles. We will be inviting our suppliers onboard to promote their products and to share the fascinating stories behind them. To further support our island suppliers, we will be updating retail areas during the 2023/24 drydock overhauls, giving customers a modern, fresh and appealing experience on board. We are also constantly revising our menus and have introduced Special Menus which are specific to routes and include local produce. We will continue to conduct customer feedback.

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 a 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.

Communities

We have continued to ensure positive engagement with the communities we serve. Vessel reliability and fleet availability have proved challenging, and this has played a difficult part in our relationships within communities. At times this has been particularly challenging as we have been faced with difficult decisions on how to deploy a remaining fleet to maintain a breadth of lifeline service. This has often meant we have had to spread the impact of disruptions over a larger number of communities. Despite this we have maintained generally positive interactions with our communities throughout this year.

Our people have worked hard at ensuring we remain at all times focused on delivering the best service within the options available to them. Throughout this very challenging period it has remained important to maintain strong communication and we are grateful for the efforts our people have played in delivering tough and difficult messages to their communities.

Improvements this year have also been made through the help of our communications team in ensuring our communications on disruptions are completed in an honest and timely way. Whilst this remains challenging at times of disruption, our efforts here have seen improvements in our messaging.

We have continued to commit our time and efforts to support over 25 Ferry Committees and other community group meetings across the network. By ensuring our focus and attention to these group meetings we have seen positive improvements, particularly with regards to open, honest and transparent discussions.

Ferry stakeholder group meetings have continued twice-yearly with representation at each of the three geographical Scottish Government meetings where we have worked closely with Transport Scotland, CMAL, Hitrans and relevant local councils.

The Ferries Community Board has continued to provide a very valuable link across the network. Through the Community Board we have been able to seek opinion and viewpoints on matters impacting our contract and our service. The board have played an influential part in helping us to shape our business. An example being the Community Board involvement on the introduction of our new ticketing system.

This year, we have also taken part in several commercial haulier group meetings. The meetings have allowed our commercial customers to give their view on our service and to highlight concerns they have regarding the impact over fleet deployment. They have further allowed our commercial customers an opportunity to highlight future growth potential.

Environment

Our vision is to provide a resilient and environmentally sustainable service in a changing climate to support the economic growth of our communities.

To deliver our vision, our Environmental Strategy has focussed on four core priorities (i) to operate an optimally efficient ferry service that has lower greenhouse gas emissions; (ii) to provide a reliable ferry and port operation that is resilient to climate change; (iii) to generate minimal waste and sustainably use materials; and (iv) to protect biodiversity on land and in our seas. The core priorities of the Strategy are embedded throughout the business, with defined targets set and progress closely monitored.

This year our (Green House Gases) GHG emissions have increased overall by 6% from 2021/22. Comparative analysis of Scope 1 and 2 emissions suggests an approximate 6% increase in GHG emissions since the previous year and a 1% increase in emissions arising since the 2019/20 base year. The scope of the GHG inventory report has expanded this year to include the additional Scope 3 well-to-tank emissions from electricity generation, transmission and distribution and business travel.

The intensity ratio of kg CO_2e per passenger km (vessel emissions) has reduced by 33% in comparison with the previous year and by 32% compared to the 2019/20 base year. The intensity ratio of kg CO_2e per passenger km (whole organisation emissions) have decreased by 34% in comparison with the previous year and by 16% compared to the 2019/20 base year.

Total waste arisings have remained the same as last year although passenger numbers have increased, recycling rate has marginally decreased by 1 percentage point to 58% and landfill rate decreased by 2 percentage points to 36%.

This year we developed and delivered several sustainability initiatives, the highlights are:

To reduce emissions, we appointed a full-time Fuel Efficiency Manager to support improvements in the energy efficiency of our vessels and as part of a Consortium, we have received government funding for a 4-year project to demonstrate retrofitting of emission control solutions on existing ships.

To minimise waste, we have phased out single-use plastic items used in our retail outlets that were introduced during the COVID-19 pandemic and our Supplier Relationship Management programme has expanded to 26 suppliers where supplier sustainability objectives are monitored through a score carding process. We also donated 70 redundant IT devices to charities and community groups around the network.

To protect biodiversity, we continued our partnership with the conservation charity ORCA and two Wildlife Officers were appointed to engage with passengers and facilitate the monitoring of marine mammal populations on five routes. Overall, 18 marine mammal surveys were completed by ORCA volunteers, and 728 individual animals recorded. This year a programme of mini cruises was trialled on eight routes across the network giving passengers a chance to observe and learn more about local wildlife from our Wildlife Officers. The Volunteer Seabirds at Sea (VSAS) citizen science scheme also completed 13 seabird surveys across two routes.

Perth Harbour

CFL operated Perth Harbour on behalf of Perth and Kinross Council between 3 July 2018 and 30 September 2023.

During the contract tenure Perth Harbour operations faced an ongoing challenge owing to silting of the basin at the harbour entrance. This silting has required a draught restriction to be imposed on vessels using the harbour to ensure they can do so safely. Although a licence was obtained to complete part of the dredging works Perth & Kinross Council performed a review of the harbours viability as a Council asset at which point a decision was reached to close Perth Harbour as a commercial port.

In the last period of the contract CFL continued to work closely with shipping agents and stakeholders to drive business and welcomed the largest vessel at Perth in 15 years.

NASH Maritime completed the Port Marine Safety Code Audit and noted an increased score from "Fair" to "Satisfactory".

In 2021 the Perth Harbour Community Fund was launched and since its launch The Fund has awarded some fourteen groups a total of £17,411. In 2023, CFL commissioned Social Value Business (SVB) to measure the social value (community benefit) of The Fund, this evidenced a social value created of £104,723.

CMAL Harbours

Our harbour operations continue to thrive following the removal of pandemic restrictions in 2023. During 2023, CFL engaged with cruise agents which saw the number of ships rise back up to 140. By working closely & collaboratively with industry partners to promote the harbours, supporting growth for both commercial cargos including alternative methods of shipping timber, and cruise activity, this ensures local island communities and businesses continue to be supported. In 2024 the forecast is to receive 385 ships which is an impressive increase when compared year on year, including against pre-pandemic data.

During the reporting period our Harbour Operations function was audited by CMAL in line with the Port Marine Safety Code requirement, including five ports visits. The outputs of the audits found no nonconformities against CFL, but identified minor observations relating to housekeeping and process, evidencing CFLs strong commitment to deliver successful, safe, operating functions for our client in line with legislation, but also best industry practices identified by the auditor and shared with other ports. 2024 will see the Designated Person visit another five ports as part of the programme, with our commitment to reduce observations by 3%.

2023 also saw our 26 CFL operated ports undergo an environmental quality audit by Keep Scotland Beautiful (www.keepscotlandbeautiful.org), achieving 'Silver' accreditation which evidences continuous improvement from the 2017 & 2019 audits. The Ports and Harbours Environmental Award accolade, adapted from the criteria for the *National Award for Environmental Excellence*, recognises the achievements of both organisations across a variety of areas, including building maintenance, cleanliness, waste management and engagement with the local communities. Our objective for 2024 is to increase our score by 5%, achieving 'Gold' standard, linking our policies and practice to ISO accreditations & our environmental strategy goals.

Our strive for operational excellence & continuous improvement remains at the forefront, promoting existing locations and facilities, ensuring that port & harbour developments incorporate the needs of our customers and local communities for a prosperous and sustainable future within a challenging, but continuously developing industry.

Principal Risks

The Group's Risk Management Strategy

The Group's Risk Management Strategy ensures that the wide range of risks related to the challenges faced by the organisation are captured and managed. This year, the company revised its risk appetite in line with political and economic climate whilst looking to the wider industry for emerging trends. The Group continues to take a continuous improvement approach to its Risk Management framework and to ensure that the associated risk registers are effectively capturing and managing identified risks.

The Corporate Risk Register records those risks that may affect the organisation as a whole and may prevent the achievement of the strategic goals and objectives. The Register is linked to the Group's risk appetite statement and all risks are assigned a value measure-based probability and impact. This enables any risks to be assessed in line with the appetite and appropriate risk treatment deployed. The Register is regularly reviewed and assessed by the Executive team and Board members.

The Group have a Risk Management function to further enhance and facilitate the management of risk throughout the organisation. The principles being applied by this team ensure that risks are initially identified, mitigated wherever possible, and that ongoing reviews are carried out.

Key Risks Facing the Organisation

Ref	Risk	Key Mitigations
Clyde and Hebrides Ferry Service Contract - Funding levels	There is a risk of further losses in Contract Year 7 and Contract Year 8 as the contractual income required is not sufficient to fully cover the cost of delivering CHFS services, and resulting in contractual losses.	We are collaborating with Transport Scotland on a number of initiatives to mitigate this risk: • Discussions ongoing with Transport Scotland, to provide additional funding to cover increasing vessel resilience and obsolescence on the fleet.
Clyde and Hebrides Ferry Service Contract - Extension	There is a risk that CFL will not be the operator of the CHFS services beyond 30 September 2024, as there is currently no contract extension. At date of signing, Transport Scotland have announced that they have launched a due diligence process to explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd.	Transport Scotland have commenced a due diligence process to establish the feasibility of a direct award using the "Teckal exemption". • CFL will support Transport Scotland with the due diligence process. • CFL will provide the relevant information/submission in line with Transport Scotland's requirements, and in support of a Direct Award. • The submission will include funding levels to cover the full cost of delivering CHFS services, with financial risks identified and included to mitigate future losses while providing value for money to the taxpayer.
Fleet Reliability	There is a risk that some of our vessels may be unavailable for an extensive period, impacting on our ability to deliver a reliable service. This risk arises as we operate a fleet of vessels with a diverse age range, condition, and complexity. This risk has been realised in the last 12 months and will continue to be the Groups biggest risk until new vessels are brought into the fleet.	We are collaborating with CMAL (vessel owner) on a number of initiatives that will improve vessel reliability: • Delivery of Upgrade and Resilience programme of work for the fleet. • Major Vessel Replacement Programme which is in progress. • Provide support for Transport Scotland to develop the vessel strategy for the Scottish Government Ferries Plan. • Exploring the potential chartering of vessels in collaboration with Transport Scotland. We have also developed a programme of Fleet Reliability improvement initiatives that include: • Introduction of a defect management system, as well as improvements to defect management processes, identifying defect trends and relevant actions. • Delivery of Preventative Maintenance Strategy, and condition monitoring programme for major vessel equipment. • Embedding learnings and improvements because of our experience, vessel technical events and investigations. Throughout 2023 we have implemented an improved Fleet operating model for the organisation. This model will bring enhancements to our decision making, management of change and quality assurance around vessel maintenance.
Overhaul Schedule	There is a risk that emergent works prevent us from achieving our overhaul schedule. This would impact the summer timetable and increase maintenance costs for the fleet. Unforeseen work can be attributed to a combination of	• We have a continuous improvement approach to our overhaul period and look to extract lessons learned at the end of each overhaul season. This includes annual reviews with our yards. • An improved Fleet operating model will be implemented throughout 2023, which will deliver improved decision making around vessel maintenance. • An audit programme of key external suppliers involved in vessel maintenance will be introduced throughout 2023.

	equipment obsolescence, conflicting workstreams and supply chain delays.	• Exploring the potential introduction of additional vessels via Transport Scotland which will provide resilience to the fleet. • Long term strategic framework agreements with key stakeholders including but not limited to the shipyards and original equipment manufacturers.
Traffic Management	Our near miss and accident data analysis shows that there is a risk that a member of staff and/or member of the public is involved in a Road Traffic Accident at a CalMac Port or during the embarking /disembarking of a vessel. This risk could be caused by insufficient controls being in place and or members of the public failing to comply with staff instructions and the highway code.	• Each Port has an individual traffic management plan which lists the controls for that location. This is reviewed regularly. • A robust assurance programme is in place which subjects the traffic management arrangements to an independent review. • A close working relationship is in place with CMAL and 3rd Party Harbour's to improve infrastructure arrangements and address any deficiencies in traffic management infrastructure. • We continue to improve the safety information made available to customers at the time of booking and via our website. • Near misses and accidents are investigated to understand the root cause and where learning is identified remedial actions put in place.
Staff Wellbeing	There is a risk that staff wellbeing may deteriorate during periods of business disruption. This risk may arise due to stress associated with the role, particularly during periods of significant disruption and the increased workloads associated with decreasing vessel reliability. This risk may result in increased staff absences and challenges retaining staff.	• Formal and regular programme of staff communication, including the introduction of our People Steering Group. This group is aimed at raising staff concerns directly with the senior management team. • Monitor staff, provide support and raise awareness of assistance available. • Introduction of a revised operating model and organisational structure which will deliver an improved distribution of responsibilities. • We have invested in an employee assistance programme that provides support on physical and mental wellbeing.
Recruitment	There is a risk that we are unable to recruit enough suitably competent staff to key roles, including the manning of vessels. This may be influenced by a more competitive labour market, the reduction in seasonal workers post-Brexit and the post pandemic recovery.	• We have established a recruitment focus group with key stakeholders from across the organisation to help shape our strategic approach to recruitment. • We have implemented measures that help accelerate our recruitment process. • We continue to invest in our apprenticeship programme, specifically encouraging recruitment from the island communities. • We have improved the branding and marketing of our job vacancies to help attract the best talent.

Stakeholders and 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 discussions and decisions taken by the Board, with examples of how stakeholder considerations have been reflected, are included on page 16-19.

Customers

<u>Key Issues</u>
Regular and reliable ferry service
With minimal disruption to support island residents, and customers' business and leisure travel expectations.

Communication
Timely communication during periods of disruption to ensure customers are informed of service changes.

Community Engagement
Regular engagement with communities, providing the opportunity to contribute directly on priority issues relating to service provision.

Engagement in 2023

Customer Steering Group
We hold regular Customer Steering Group meetings for our colleagues and customers to collaborate on key customer focused issues and improve where possible. Meetings focus on core operational issues/impacts, to seek feedback and identify ways to improve our service.

Communication
We continually review our customer communications, and regularly assess the impact of these communications to identify where we can improve. Our primary focus this year has been disruption management and how we can better support our customers via our 'truth well told' approach. Through cross departmental collaboration and actions driven via customer led insight, our teams aim to provide timely, accurate and quality information that aligns with our customers and colleagues needs.

Community Engagement
Due to the level of service disruption, this year has been challenging for our customers. We have held consultations, face-to-face community drop-in sessions and attend key community forums. Inviting our customers to contribute directly on priority issues has allowed for more meaningful engagement and understanding of the challenges our customers face.

eBooking
On 16 May 2023, we launched our new modern ticketing platform eBooking, which allows customers to book travel across the network online. This technology replaces our legacy ticketing system which was c30 years old.

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 2023
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 Miller Heiman, Large Account Management Process, to build our relationship as a strategic partner.

Suppliers

Key Issues
Brexit
We have continued to work 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.

Russia/Ukraine War
Since February 2022, we have worked closely with our key suppliers to determine the impact of this conflict on our supply chain. We have continued to engage regularly, and risks have been highlighted, including price increases and potential issues impacting continuity of supply, which we have been effectively managing.

Prompt payment
Suppliers expect to be paid promptly after goods or services have been provided. We adopt processes in line with Scottish Government Prompt Payment policy, with 93% of suppliers paid on time and within 30 days during the period.

Engagement in 2023

Supplier Relationship Management (SRM)
We continue to develop and improve our SRM programme. Processes and procedures have been continuously improved to enable this work stream, which supports 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 continues to be 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 further embedded our Wellbeing and Inclusive CalMac Groups, with representatives from across our network. An inclusive females' sub-group has been established to identify and address any barriers and challenges faced by our female workforce. In addition to our Occupational Health service, the use of our enhanced Employee Assistance Programme via access to a wellbeing app has increased from 40% in 2022 to 69% in 2023.

Pay and conditions
A one year pay deal with our four recognised trade unions was negotiated during 2023, covering the period up to 30 September 2024.

Career development and training
We have continued to invest heavily in the development of our staff. This included statutory training, to ensure our staff maintained their professional certification, as well as developmental training and a leadership programme for our Top Talent as identified through our Talent Management and Succession Planning process.

Engagement in 2023

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. An Executive Staff Engagement Group meets monthly to monitor progress against our targets and to drive engagement initiatives. Progress is measured via twice yearly pulse surveys. Our latest survey results show that 71% of our staff trust their line manager, and 69% feel supported by their line manager. 67% of our staff would recommend CalMac as a great place to work. This is below our target of 75% and is reflective of the many pressures faced by our frontline staff in delivering a service in challenging circumstances over the last year.

Local Communities

Recruitment
We continue to support modern apprenticeship across the network with 100% of our modern apprentices this year recruited from communities and areas we serve around the network. Our efforts to ensure our people are recruited from all around the network continue. This has seen several senior manager posts co-located around the network. Operations Director, Head of Operations, Area operations managers, and Head of Marine, all being posts that are now network based. Lessons learned from the pandemic have allowed us to apply greater flexibility on work location. Incorporation of Microsoft Teams has enabled several people to operate successfully from port locations around the network. This has been a positive development for our staff and local employment in our communities.

Training opportunities
Discussions are underway with the University of the Highlands and Islands to explore partnerships on the delivery of local training. Utilising the UHI satellite campus arrangements would allow us to ensure training can be delivered to peoples home and work locations. it is hoped that further partnership can be delivered in the coming year.

Environment

Key Issues

Climate Change
The effect of a changing climate presents a range of challenges to our operations. This year 4,152 sailings were cancelled due to adverse weather conditions and extreme tides. Caledonian Maritime Assets Limited (CMAL) have installed webcams and weather and tide monitoring equipment at sixteen ports providing live information to our vessels to assist with weather-routing.

Greenhouse Gas Emission
Our most significant environmental issue is the emission of greenhouse gases (GHG) from the direct combustion of fuel by our vessels. Vessel fleet fuel consumption was responsible for 80% of annual total GHG emissions in 2022/23. In September we appointed a full-time Fuel Efficiency Manager to support improvements in the operational energy efficiency of our vessels and as part of a Consortium, we have received government funding for a 4-year project to demonstrate retrofitting of emission control solutions on existing ships.

Waste
This year we generated 2,200 tonnes of waste across the network with 58% of this being sent for recycling and 36% sent to landfill. At twenty-seven of our ports, we continue to rely on local authorities for the disposal of our general and mixed recycling waste who, with the exception of Highland Council, continue to landfill all collected general waste. We continue to explore opportunities to recycle more of our waste, through expansion of recycling collections and new recycling contracts.

Engagement in 2023

We continue to engage with Transport Scotland and Caledonian Maritime Assets Limited to decarbonise the vessel fleet and ports and ensure new vessels and port upgrades are resilient to the effects of climate change. We engage with our suppliers through our Supplier Relationship Management Programme to minimise waste and with staff, passengers, port owners, local authorities and our waste collection contractors to maximise recycling.

Shareholder

Key Issues

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

Engagement in 2023

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 discussions and decisions taken during 2023, where stakeholder views were considered and informed the decision.

Asset Management Excellence
This programme has been designed to enable our operation and the management of our assets to become more reliable, resilient and fit for the future. The business has undertaken a review of the way we manage our assets, including lessons learned and cost impacts from previous incidents. The conclusion was that a newly aligned operating model would make the biggest positive impact in addressing the challenges we face around how we manage our assets. As a result, a new Target Operating Model has been designed and built around the support required to manage the vessels most effectively and puts quality at the heart of what we do. The target operating model is focused on different time horizons, enabling us to not only manage day to day but also position ourselves for the long term, putting us in a positive position for the upcoming CHFS3 tender.

Finance & Procurement System
Our Finance Team is focused on delivering visible service improvements to the business through having the right talent, robust controls across the business, highly efficient processes, and the ability to provide timely financial performance information and business insight. A critical component of this is bringing in modern Finance & Supply Chain technology as the existing system was implemented circa 20 years ago. A modern Finance & Supply Chain system is also integral to the implementation of our new Asset Management Technology maritime software, which will allow us to ensure that all aspects of fleet maintenance and parts management are carried out efficiently.

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.

TV Documentary Programme

The board approved a TV company making a documentary about the CalMac ferry services covering our people, our customers and the communities we serve. We hope that this will allow more people to see the work that we do, the effort that our people put in to help our customers through good times and bad, and the many and varied reasons for which the communities we serve use our ferry services.

Divestment of Solent Gateway Ltd

During the financial year the board approved the divestment of our Joint Venture Solent Gateway Ltd, the sale brings a return on investment for the Group and the Scottish Government.

Governance

Board of Directors

Erik Østergaard
Chairman
Erik Østergaard OBE is CEO of a transport and logistics organisation. He has more than 35 years of experience in senior management positions in the shipping, ferry and transportation industry. Originally trained in shipping, he later studied international economics and management at IMD in Lausanne, Stanford Graduate School of Business, California, and Booth School of Business, University of Chicago where he was awarded a Masters in Business Administration. He has held and holds office as a Non-Executive Board Member or Chairman of several companies in the shipping and transportation industry, numerous government committees and boards of trade associations.

Duncan Mackison (Resigned 16 September 2022)
Chief Executive
Duncan Mackison was the Chief Executive Officer for David MacBrayne Limited. Duncan is a Board level professional with expertise in the delivery of high value, complex service contracts to government and public sector clients. Prior to resignation he was an Executive Director for the David MacBrayne Group, CalMac Ferries Limited and Solent Gateway Limited. He is also the Vice-President (Royal Marines) for the Reserve Forces & Cadets Association Lowland Board and Chairman of the Board of Governors for The Glasgow Academy.

Robbie Drummond
Chief Executive Officer
Robbie Drummond is Chief Executive Officer for CalMac Ferries Limited and Executive Board Director for the David MacBrayne Group. He leads the delivery of our services across 35 vessels, 51 ports and over 1,828 staff as at March 2023. His previous roles in the Group include Group Finance Director, Transformation Director, Bid Director and Operations Director. He is a member of Interferry's Operator Policy Committee where the top 15 global ferry companies consider industry and regulatory matters.

Robbie is skilled at building relationships with a wide variety of senior stakeholders and local communities, leading teams through change and passionate about driving business performance improvement. He has a keen interest in supporting local business, particularly community based, and serves as Chairman of Stramash (an outdoor nursery social enterprise) and is on the Board of the SCDI (Scottish Council for Development and Industry).

Susan Browell
Non-Executive Director (Resigned 30 November 2022)
Susan Browell is a Board level HR professional with over 30 years' strategic and operational experience gained in public, private and non-profit organisations in the UK with some International experience. She is a Chartered Fellow of the Chartered Institute of Personnel and Development. Ms Browell has been responsible for change programmes, consultancy projects, management training and leadership development for a variety of organisations in the UK and overseas and lectured at a university business school. She has also authored books, book chapters and articles. She is currently a Public Interest Member for the Institute of Chartered Accountants Scotland and was a Non-Executive Director for the Scottish Prison Service and a Trustee of Diabetes UK. She has been a regular passenger of CalMac for over 30 years.

Michael Comerford
Non-Executive Director (Resigned 30 November 2022)
Michael Comerford originally trained as a Naval Architect and has over 35 years' experience in shipbuilding, shipping, offshore energy, and logistics, starting his career with Lloyd's Register of Shipping. He has held industry leadership positions focussing on asset integrity and asset management, organisational competence, and operational excellence with Bureau Veritas, Petrofac Ltd and most recently in a consultancy role with the Global Offshore Wind Division of the Danish state utility DONG Energy. He served as a Regional Director for Scotland and Northern Ireland of the UK Maritime and Coastguard Agency (MCA) and subsequently on its main Board as Director of Strategy and Communications. Prior to this he was Managing Director of Lithgow's Ltd Marine Division comprising four shipyards and a ship design consultancy. He has extensive Board experience as a Director and Chairman, with expertise in Asset Management, Risk, Safety, Audit and Business Continuity. He is a Chartered Engineer, a Member of the Royal Institution of Naval Architects (MRINA), an Associate Fellow of the Nautical Institute and an RYA/MCA commercially endorsed yacht master and instructor. In July 2018, Michael was appointed as a Non-Executive Director of the Port of Tyne.

Tim Ingram
Non-Executive Director
Tim Ingram brings health and safety, risk management and governance skills and a range of energy industry, marine and port operations experience. He is the Chair of David MacBrayne's HSQE Committee and is a member of the Audit & Risk Committee. He was a Non-Executive Director and Vice-Chair of Western Isles NHS Board, Principal Inspector at Health and Safety Executive and has held director roles at Maersk Oil, Wood Group, Dana Petroleum and Port of Tyne. He now runs a specialist corporate safety consultancy.

Grant Macrae
Non-Executive Director
Grant Macrae is a Member of ICAS and CIPFA and has extensive experience of audit, risk management and governance. For many years he led external audit of a wide range of entities owned by government across the public sector. He has participated in the development of international accounting standards. Since returning to the UK he has been a board member of several bodies where he has chaired finance or audit and risk committees. He has also been an independent member of the audit and risk committee of two large organisations. He is currently a Board Member of the Scottish Police Authority.

Sharon O'Connor
Non-Executive Director
Sharon O'Connor is a Fellow and Chartered Director of the Institute of Directors and a Chartered Fellow of the Institute of Personnel Development as well as being professionally qualified in Marketing. She was the former Chair of the Education Authority NI and was previously Chief Executive of Derry City Council. She has extensive experience in capital projects, public services, economic development, tourism and is a Board member of the Sustainable Energy Authority of Ireland (SEAI); and the NI Transport Holding Company (Translink).

David Beaton (Appointed 19 June 2023)
Non-Executive Director
David Beaton was born and raised in Sutherland and has lived in the Isle of Skye for the last 35 years apart from a short spell in Chicago, United States as Managing Director for Stagecoach owned companies. He will bring direct knowledge and a lived experience of the key issues effecting rural and island communities. Mr Beaton has a wealth of public transport skills and experience. He has been involved in the public transport sector since 1988, with 25 years of that directly involved in managing public transport in the Highlands and Islands. He is also Chair of the local Royal National Lifeboat Institution fundraising committee.

Principal Activity and Business Review

David MacBrayne is a publicly owned private company with the Scottish Government being its sole shareholder. Its primary activity is to operate ferry services and port management for Clyde and Hebrides.

CalMac Ferries Limited (CFL) is a wholly owned subsidiary of David MacBrayne Limited (DML), which is wholly owned by Scottish Ministers.

CFL was created in October 2006 to bid for the Scottish Government contract to operate Clyde & Hebrides Ferry Services (CHFS I), which it subsequently won, and which was extended to September 2016. In May 2016, following a full tendering process, CFL was awarded the CHFS 2 contract to run the services for a further eight years to 2024.

Purpose Statement and Values

We are the heart and soul of the places we sail and the people we serve. We are hard-working and conscientious, resilient and responsible, warm and welcoming to all.

Our core purpose is to navigate the waters, ensuring life thrives wherever we are.

- 'To navigate' is to successfully find a way from one place to another.
- 'the waters' or indeed challenges, problems or change can be smooth or rough, charted or uncharted, familiar or unfamiliar.
- 'ensuring life thrives' as we want all life to flourish and thrive – our colleagues, our communities, our customers.
- 'wherever we are' indicates we will do this in every location in which we operate.

Our core values are:

- People First - We help each other thrive.
- Locality - We act in the best interests of the places we serve.
- Bravery - We think and act with courage and conviction.

Corporate Governance Statement

The Group is committed to ambitious standards of corporate governance, business integrity and professionalism in all its activities, a summary of which is set out on the remainder of this page and pages 21 to 23.

Board of Directors

The David MacBrayne Limited Board is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling the Group and is accountable to the parent company's sole shareholder, the Scottish Ministers, for financial and operational performance. The Board approves Group strategy and monitors performance. The Board has adopted a formal schedule of matters specifically reserved for its decision, which is reviewed on an annual basis.

The role of the Chairman is distinct and separate, with a clear division of responsibility.

The Chair leads the Board and ensures the effective engagement and contribution of all Non-Executive and Executive Directors. Executive Directors have responsibility for all operating companies' business and act in accordance with the authority delegated from the Board. Responsibility for the implementation of policy, strategy and operational management is delegated to Executive management.

A minimum of four Board Meetings are held each year. Board Meetings are structured to allow open discussion and all Directors participate in discussing the Group's strategic aims and performance, as well as financial and risk management. All Directors declare any conflict of interest at the beginning of each Board or Board Committee meeting. The Board is supplied with comprehensive information in advance of each Board Meeting, including financial and operational reports covering the Group's business activities. Members of the senior management of the Group companies regularly attend and make presentations at Board Meetings. A representative of the parent company's sole shareholder attends each Board Meeting. Board Meetings are supplemented by workshops/development sessions as appropriate throughout the year.

Board balance and independence

The Board currently comprises four Non-Executive Directors (including the Chair) and one Executive Director. Recruitment for a further two Non-Executive Directors is currently underway. The Board considers that all Non-Executive Directors are independent.

The Directors believe that the Board functions effectively and efficiently and is of an appropriate size in relation to the Group's level of business and associated responsibilities.

The Directors believe their collective experience provides an appropriate mix of skills, experience, and expertise. The Board Committees comprise Directors with a mix of relevant skills and experience such that no undue reliance is placed on any one individual.

The Non-Executive Directors combine broad business and commercial experience with independent and objective judgement and constructively challenge and assist the development of proposals on strategy.

The balance between Non-Executive and Executive Directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity and professionalism across the Group's business activities.

Appointment of Directors

All Board appointments are approved by Scottish Ministers. Non-Executive Directors are appointed for a three-year period and can be re-appointed. Executive Directors are appointed for a period coterminous with the holding of the associated executive post. All appointments and re-appointments are subject to the limitations prescribed in the Code of Practice for Ministerial Appointments to Public Bodies in Scotland, as published by the Public Appointments Commissioner for Scotland.

Information, induction, and professional development

The Chair ensures that all Directors receive clear, accurate and timely information on all relevant matters. Any requests for further information or clarification are dealt with or co-ordinated by the Company Secretary.

All Directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice at the Company's expense.

On appointment, a director receives a formal induction programme, including an introductory meeting with the Chairman and the Executive Directors. During their term of office, Directors undertake such professional development as is considered necessary to assist them in carrying out their duties as Directors.

Performance evaluation

The performance of Non-Executive Directors is assessed by the Chair and the performance of Executive Directors is assessed by their line manager and reported to the Remuneration Committee. The Chairman's performance is assessed by the Scottish Ministers.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness to safeguard the Shareholder's investment and the Group's assets. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

Procedures are in place to ensure that there is an ongoing process for identifying, evaluating, and managing the significant risks faced by the Group, which is subject to regular review by the Audit & Risk Committee and the Board. The Board continues to take steps to ensure that a consistent approach to these procedures is adopted throughout the Group.
The key elements of the system of internal control are as follows: -

Control structure

The Group's control structure is the responsibility of the Directors and Managers at all levels. The Group's organisational structure has clear lines of responsibility and effective communication channels which ensures that best practice in managing risks and controls is consistently applied throughout the Group.

In addition, the Group's internal and external auditors present reports to the Audit & Risk Committee which include any significant internal control matters which they have identified.

Under ISO 14001:2015 standard, CalMac Ferries Limited has implemented an environmental management system which is aimed at minimising environmental risks and ensuring compliance with legislative and corporate governance requirements.

Identification and monitoring of business risks

The Group has adopted a risk-based approach to internal control through evaluating the likelihood and impact of risks and resting responsibility for risk management and internal control in a designated owner. Procedures include an ongoing process of identifying, evaluating, and managing the Group's key risks and, where appropriate, enhancing the systems which manage these risks. Regular review of the risks is undertaken by the Audit & Risk Committee and the Board.

Major corporate information systems

The Group operates a comprehensive budgeting and financial reporting system. The system provides monthly comparison of actual results against budget, regularly revised forecasts, statements of financial position and key performance indicators, all of which are regularly reviewed by the Board.

Standard financial control procedures, which provide assurance on the integrity of the Group's finances, are operated in all companies within the Group.
Going concern

Based on the information available to them, the Directors have assessed that these accounts are prepared on a going concern basis, however highlighting that that there is a material uncertainty.

The current CHFS contract ends on 30th September 2024. At date of signing, the Transport Minister announced that Scottish Government will explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts Scotland Regulations 2015.

It is expected that the assessment will be complete summer 2024.

Board Committees

To provide effective overview and leadership, the Board has established several Committees with specific responsibilities extending to all companies within the Group. The Committee Chairmanship and membership, all comprising Non-Executive Directors, is refreshed at appropriate intervals.

Audit & Risk Committee

The Group Audit & Risk Committee is required, on behalf of the Board, to satisfy itself as to the adequacy and effectiveness of the Audit and Risk policies and procedures adopted in compliance with all legislation and other requirements of audit and risk affecting the Group's activities.

The Audit & Risk Committee will assist the Board discharging their responsibilities in relation to the strategic processes for risk, control and governance, the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified and management's letter of representation to the external auditor.

The Committee will advise the Board on the planned activity and results of both internal and external audit reviews, the Group risk appetite, tolerance and strategy and the current risk exposure.

The Committee reviews and monitors the independence of the external auditor in relation to non-audit assignments, considering relevant ethical guidance.

The Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements.

The Committee meets at least four times a year. The present members of the Committee are as follows:

G Macrae (Chair)
S O'Connor
T Ingram

The Board is satisfied that the Committee membership has recent and relevant financial experience.

Remuneration Committee

The primary function of the Group Remuneration Committee is to approve or, where appropriate, make recommendations to the Board on pay and conditions, taking due account of the guidelines issued from time to time by the Scottish Ministers in respect of bodies in the public sector. In particular, the main items which the Committee reviews and approves are as follows:

- basic pay levels for Executive Directors and Executive Team,
- targets to be set for the purpose of the Executive Directors' and Executive Team performance scheme,
- performance payment awards under the Executive Directors' and Executive Team performance scheme,
- any matter concerning terms and conditions of service for the Executive and Non-Executive Directors and Executive Team,
- any policy matters concerning benefits for the Executive Directors and Executive Team.

The remuneration levels for Non-Executive Directors are set by the Scottish Ministers each year. The performance scheme for Executive Directors' and Executive Team comprises:

- financial and operational targets,
- personal targets for individuals,
- related performance scheme awards for various levels of achievement.

The Committee meets at least twice a year. The present members of the Committee are as follows:

S O'Connor (Chair)
G Macrae
E Ostergaard

Health, Safety, Environment & Quality (HSEQ) Committee

The Group Health, Safety, Environment & Quality (HSEQ) Committee (formerly called the Safety Committee) is required, on behalf of the Board, to satisfy itself as to the adequacy and effectiveness of the Health & Safety, Environmental, Quality and Security policies and procedures adopted in compliance with all legislation and other requirements of safety, health, environmental and quality matters affecting the Company's activities. The Committee may investigate or comment on these and any other related issues that are referred to it or as may appear to be necessary.

The Committee may take the opportunity to visit relevant sites to enhance their knowledge and understanding of the Group's activities. The Committee assists the Executive and Senior management teams in enhancing the approach to an effective safety culture.

The Committee meets at least four times a year. The present members of the Committee are as follows:

T Ingram (Chair)
S O'Connor

Board and Board Committee meetings

The number of Board and Board Committee Meetings held during the year, and the individual attendance by members holding office for the year ended 31 March 2023, was as follows (figures in brackets denote the number of meetings which members were eligible to attend):

	Board	Audit & Risk	Remuneration	HSEQ*
Erik Østergaard	12(12)	-	-	-
D Mackison	4(4)	-	-	-
R L Drummond	12(12)	-	-	-
S Browell	6(6)	4(4)	4(4)	-
M Comerford	6(6)	-	3(4)	4(4)
T Ingram	12(12)	1(1)	-	5(5)
G Macrae	12(12)	5(5)	7(7)	5(5)
S O'Connor	11(12)	5(5)	3(3)	-

Based on committee membership through the year.

There is an appropriate level of parent company Director representation on the Boards of all the direct subsidiary companies.

Executive Directors, Executive Team members and senior managers of companies within the Group are regularly invited to attend Board Committee Meetings as appropriate.

Relations with sole shareholder

As disclosed in the Directors' Report, the Company, which is currently designated as a Non-Departmental Public Body, is wholly owned by the Scottish Ministers.

The Scottish Ministers' appointed Assessor has the right to attend all Board Meetings.

Directors' Remuneration Report

Details of Directors' remuneration for those holding office at 31 March 2023 are as follows: -

	Salary £000	Fees £000	Performance Payment £000	Benefits in kind £000	Total 2023 £000	Total 2022 £000	Employer's Pension Contribution 2023 £000	Employer's Pension Contribution 2022 £000
Executive Directors								
D Mackison	83	-	3	6	**92**	190	**10**	22
R L Drummond	157	-	2	12	**171**	156	**45**	43
Non-Executive Directors								
E Østergaard	-	38	-	-	**38**	9	**-**	-
M Comerford	-	11	-	-	**11**	16	**-**	-
S O'Connor	-	11	-	-	**11**	1	**-**	-
S Browell	-	10	-	-	**10**	11	**-**	-
G MacRae	-	10	-	-	**10**	2	**-**	-
T Ingram	-	8	-	-	**8**	2	**-**	-
D C McGibbon	-	-	-	-	**-**	20	**-**	-
S Hagan	-	-	-	-	**-**	7	**-**	-
J Stirling	-	-	-	-	**-**	6	**-**	-
A V Tait	-	-	-	-	**-**	14	**-**	-
	240	88	5	18	**351**	434	**55**	65

D Mackison employer's pension contribution payments were paid directly rather than into a pension fund.

Pensions

The CalMac Pension Fund, to which each member currently contributes 6%, entitles members to a pension on retirement based on their Final Pensionable Salary which reflects the highest salary in each of the last five years of pensionable service. The financial effect of the pension arrangements for Executive Directors who were members of the CalMac Pension Fund during the year is as follows: -

	Annual Pension payable from normal retirement date based on service and salary at March		After taking account of inflation during the year, the increase in annual pension is		The effect on the transfer value of the movement in annual pension is		Transfer value based on accrued pension	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
R L Drummond	**29**	22	**7**	3	**(77)**	36	**305**	382

Allowance has been made in the above for the contributions made by Directors. Normal Retirement Age (NRA) within the CalMac Pension Fund is 65.

Service Contracts of Executive Directors

The terms of appointment of continuing Executive Directors are as follows: -

	Term	Notice of termination by the Company	Notice of termination by the Director
R L Drummond	Coterminous with holding the associated executive post	6 months	6 months

Corporate & Social Responsibility report

Our approach to Corporate Social Responsibility (CSR) is to generate social and economic value for our communities by being a community and customer driven organisation. We aim to share and tackle material issues within the communities we serve and deliver our CSR goals through key community investment programmes.

CalMac Community Fund

The CalMac Community Fund exists to benefit the lives of people living in Clyde and Hebrides communities by supporting nonprofit groups in our network to achieve their goals.

This round of Funding helped people connect with services and each other, especially helping those who are most in need. The Fund supported groups and projects working to tackle the following key themes:

Reducing social isolation
Improving health and wellbeing
Addressing issues related to poverty, especially in relation to the cost-of-living crisis
Local and community transport

We are proud to announce 41 new awards to local groups – a total of 63 awards to local causes from the 2023 Fund.

Since its launch in 2019 the CalMac Community Fund has supported 258 groups during challenging circumstances to deliver:

- Health and wellbeing outcomes including changes to people's physical health, psychological and emotional wellbeing.
- Social and community outcomes including improved social engagement and cohesion, reduction of isolation and increased cultural awareness, greater access to local community and social activities, development of new friendships.
- Education and skills outcomes including improved teamwork and communication and new technical, recreational and life skills.
- Employment and volunteering outcomes including changes to employment opportunities and the generation of 1,734 volunteering hours.
- Environmental outcomes including raising awareness of local environmental issues and challenges and promoting sustainable living.

Projects supported by the Fund have benefitted over 11,000 people living in the Clyde and Hebridean network.

Perth Harbour Community Fund

The Perth Harbour Community Fund was created to make a difference and benefit the lives of people living in Perth and Kinross.

The Fund was first launched in 2021 and made eight awards to groups tackling poverty, stigma and shame, social inclusion, health and wellbeing and organisations that help people become self-dependent and resilient.

In 2022 a further nine awards were made to Groups that use the River Tay and surrounding areas, supporting the health and wellbeing of all users.

All awards and projects supported by The Fund have benefitted c1900 people and have generated 334 hours of volunteering.

Youth and Philanthropy Initiative

Young people and charities tackling social issues in our coastal communities' benefit from CalMac's partnership that aims to build new life skills with support from CalMac employees.

The Wood Foundation's Youth and Philanthropy Initiative (YPI) is an active citizenship programme that empowers young people to make a difference in their local communities while developing new skills.

CalMac enabled 777 pupils from participating schools to research social issues in their area and the charities working to address them. They then make a case for their chosen charity as to why they should receive a £3,000 grant to help with their work. Young people develop research skills, written communication skills and teamworking.

Our people engage in YPI by:

1. Attending online launch events to support the young people as they explore values and social issues in their communities.
2. Forming part of a judging panel, listening to team presentations before selecting one group to award £3,000 for their nominated charity.
3. Mentoring teams of young people to help develop their skills and confidence to use positively within their community.

“The mentor helped us get our ideas on paper and present them better. They gave us helpful advice that will help us in later life as well” – mentee feedback.

CalMac partnered 10 west coast schools including Nicolson Institute, Stornoway; Sir E Scott, Tarbert; Sgoil Lionacleit, Benbecula; Castlebay Community School, Barra; Ullapool High School; Mallaig High School; Oban High School; Campbeltown Grammar; Inverclyde Academy, Greenock and St Columba’s, Gourock.

Statutory Disclosures

Strategic Report & Directors’ Report

The Strategic report and the Directors’ report for the year ended 31 March 2023 comprise pages 28-34.

Directors and their interests

The Directors who held office during the year, or from their date of appointment, are as follows: -

E Østergaard	
D Mackison	Resigned 16 September 2022
R L Drummond	
S Browell	Resigned 30 November 2022
M Comerford	Resigned 30 November 2022
T Ingram	
G Macrae	
S O’Connor	
D Beaton	Appointed 19 June 2023
K Ryan	Appointed 1 December 2023

None of the Directors had any beneficial interest in the share capital of the parent company or any of its subsidiaries at any time during the year.

International Financial Reporting Standards

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in Note 1 Accounting Policies.

The financial statements of the parent company are prepared under UK Generally Accepted Accounting Principles (UK GAAP), including FRS 101 Reduced Disclosure Framework.

Safety, Environment & Security

The Board recognises that safe operation of the ships and ports is of paramount importance and considers it essential that there is constant review of all practices impacting on health and safety, environmental and security matters and that there is constant vigilance over all aspects of the safety functions.

The responsibilities of the operational functions, including maintaining safety certification, compliance with safety of life at sea and marine pollution prevention rules, food safety management as well as observance in respect of officer and crew certification and qualifications, are clearly separated from the compliance and quality assurance function which is responsible for ensuring that all aspects of safety are effectively managed.

A proactive approach is taken, and a regime of planned audits and inspections is maintained for ships, ports and support services, the results of which are distributed, and actions agreed with the relevant personnel. Risk assessments and trend identification form the foundation of all safety, environmental and security tasks.

The safety arrangements within the Group also involve regular reporting to the Group Safety Committee and to the Board, thereby providing an appropriate review and challenge mechanism regarding all safety aspects of the Group's operations.

Environmental Policy

The Group is committed to its ISO14001 certified Environmental Management System and is committed to minimising the environmental impacts of its operations, continual improvement in its environmental performance, training and communication of environmental policy and programmes to all staff, sustainable procurement, and employment of Best Practicable Environmental Option (BPEO) in its activities.

Environmental Strategy

The Group's Environmental Strategy 2021-23 aligns with the UN Sustainable Development Goals and the Scottish Government's 2020 Environmental Strategy. The four core priority areas of the Strategy are: Climate Action to reduce emissions from fuel combustion and energy consumption; Climate Action to prepare for climate change and manage climate risk; Responsible Consumption and Production to minimise waste and move towards circular economy thinking; and Life under Water to protect biodiversity.

Methodology

The methodology used for the categorisation, quantification and reporting of the organisation's GHG emissions is based upon and consistent with the International Organisation for Standardisation ISO 14064-1:2018.

The annual energy consumption and associated greenhouse gas emissions of the Group during the 2022/23 Financial Year have been consolidated through the Operational Control approach. The organisational boundary consists of the parent company, David MacBrayne Ltd, and one of its primary subsidiaries, CalMac Ferries Ltd, along with its Human Resource service companies, David MacBrayne HR (UK) Ltd and Caledonian MacBrayne Crewing (Guernsey) Ltd.

Several vessels are operated by third parties on behalf of CalMac Ferries Ltd under a time charter agreement. Neither CalMac, nor David MacBrayne Ltd exercise operational control over these vessels, which are fully staffed, operated, fuelled, and maintained by the chartering organisation. As a result, under the Operational Control approach, the emissions associated with the fuel consumed by these vessels are recognised as being Scope 3 indirect emissions. However, due to the unavailability of information, this emission source is currently omitted from the SECR report.

Annual energy consumption and associated greenhouse gas emissions are reported in kilowatt hours (kWh) and tonnes of carbon dioxide equivalent (CO_2e) respectively. Conversions have, where possible, been carried out using UK Government GHG Conversion Factors for Company Reporting 2022 version 2.0.

99% of the organisation's total emissions are from verifiable data. Where verifiable data could not be obtained, estimates of consumption were produced from supplier estimates, pro-rata extrapolation or, where no details of supply/consumption were made available, then benchmark locations of a comparable size and range of services was used or data from the previous year.

The data uncertainty figure for direct combustion of fuel emissions is 0.6% and for electricity emissions is 11.3%.
The DML Group's emissions and energy use data has been independently verified in accordance with the International Organisation for Standardisation ISO 14064-3:2019 to a limited level of assurance.

Materiality

All sources of energy consumption and carbon emissions within scope have been included in the assessment. No sources have been excluded on a materiality basis.

Emissions and energy use

	2022/23	2021/22	2019/20 Base year
Scope 1: Direct GHG Emissions (tCO2e)			
Mobile transport (vessels, fleet vehicles)	128,109	120,984	126,625
Stationary combustion (gas, heating oil, wood chip)	256	336	163
CO2 from biofuels (Out of scope)	93	543	129
Scope 2: Indirect GHG Emissions from imported energy (tCO2e)			
Purchase of electricity	685	765	907
Total Scope 1 and Scope 2 Emissions (tCO2e)	129,050	122,085	127,824
Energy consumption used to calculate Scope 1 and Scope 2 Emissions (kWh)	501,335,011	474,088,488	504,122,609
Scope 3: Indirect GHG Emissions (tCO2e)			
Business travel (air, land, hotel stay)	827	715	684
Electricity transmission and distribution	63	68	-
EV charging points for public use	11	9	2
Waste disposal	417	409	-
Water supply and treatment	13	10	-
Well-to-Tank (vessels, fleet vehicles, gas, heating oil, wood chip, electricity, business travel)	29,602	27,641	-
Total Scope 1, Scope 2 and Scope 3 Emissions (tCO2e)	159,983	150,938	128,510
Intensity Ratio			
kg CO2e / passenger km (vessel emissions only)	0.066	0.100	0.098
kg CO2e / passenger km (whole organization emissions)	0.083	0.124	0.099

The scope of the Group's GHG inventory was broadened in 2022/23 to encompass emissions related to well-to-tank emissions for electricity and business travel. The inclusion of these Scope 3 emissions sources continues to enhance the comprehensiveness of the Group's annual SECR report.

Emissions since the 2019/20 base year shows the impact of the COVID-19 pandemic on energy and fuel consumption and related emissions. Following recovery from the impacts of the pandemic, the data indicates a full return to normal operational activities. In particular, the volume of fuel consumed in the vessel fleet has returned to 2019/20 levels. As a result, the emissions arising from the combustion of fuel in mobile transport has increased by approximately 6% between 2022/23 and 2021/22, and 27% since 2020/21 when non-essential travel was most severely impacted by Government restrictions.

Scope 2 electricity emissions have continued to reduce year on year, decreasing by approximately 10% in comparison to the previous year, and 24% compared to the 2019/20 base year.

The amount of business travel has increased following the end of the pandemic, with a 16% rise in associated emissions in comparison to the previous reporting period. However, when hotel stays are removed to enable comparison with the 2019/20 base year, business travel has not yet returned to pre-pandemic levels.

Comparative analysis of all emissions calculated across Scopes 1, 2 and 3 suggests an approximate 6% increase in overall GHG emissions since the previous year and an 24% increase in emissions arising since the base year. 95% of the latter increase is attributable to the extension of Scope 3 to include electricity transmission and distribution, waste disposal, water supply and treatment, and well-to-tank emissions which have been added to the scope of the GHG inventory since 2019/20.

Intensity Measurement

The Group's primary measure of emissions performance is expressed as kilograms of CO2 equivalent (CO2e) per passenger per kilometre. This ratio allows the organisation to measure its primary, material emissions from vessel and entire operations relative to the primary activity level (passenger volume carried) in a reporting period. It allows for both passenger numbers and cargo weight to be incorporated and provides a relevant and consistent measure of operational efficiency and emissions whilst accommodating normal fluctuations in operational capacity.

The vessel emissions intensity ratio indicates a 33% decrease in emissions per passenger km in comparison with the previous reporting year, and a 32% decrease from the base year.

The whole organisation emissions intensity factor has decreased by 34% in comparison with the previous reporting year and 16% since the base year.

Measures taken to improve energy efficiency

The 2021-23 Environmental Strategy sets a target to reduce vessel fuel consumption by 2% year on year during the period of the strategy.

Measures taken to improve energy efficiency this year have included projects to upgrade vessel engines and rescue vessels, the secondment of a fleet officer into a Fuel Efficiency Manager role to identify and implement operational efficiency measures across the fleet, diversion of additional waste streams from landfill and as part of a Consortium we successfully secured funding to demonstrate retrofitting of vessels to climate neutrality. We have also supported citizen science programmes to monitor marine species and to raise awareness with external stakeholders of related environmental issues.

Employees

The Group has a policy of equal opportunities and non-discrimination in all aspects of employment. The Group 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 Group's policy to ensure that all staff can 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 an organisation, 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.

Our policy for pay and conditions for our employees is to continue to provide a fair and appropriate employment package to all employees regardless of age, hours of work or type of employment contract. We are an accredited living wage employer and do not use zero hours contracts. Our salary packages are enhanced by wider pay and benefits which exceed statutory minimums, including generous pension schemes, maternity and sickness pay, holiday entitlement and an employee bonus scheme. This provides our workforce with an overall employment package that helps to ensure a good work-life balance, supports the Scottish Government's social drivers, enables us to recruit and retain staff in a competitive labour market and supports the welfare of our people.

We publish our Gender Pay Gap annually and work proactively to encourage increased diversity in what is traditionally a very male dominated workforce.

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

Employee Consultation

The Group is committed to effective employee communications, which it maintains through all staff notices, staff newsletters, and briefing sessions.

The Group also provides further engagement through active participation with our Trade Unions. Most 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 Group'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 Group will, where possible, retain the employee for duties commensurate with the employee's abilities following the disablement.

Employment recruitment

Recruitment campaigns undertaken by the Group were carried out based on fair and open competition and selection on merit. The Group companies' recruitment/selection records are subject to regular scrutiny by internal auditors. We are signed up to the Good Recruitment Charter and Partnership for Change.

Investing in Developing our People

We are committed to continually developing our people to ensure they have the skills they need to be effective in their current and future roles. Our training portfolio delivers mandatory training to all staff as required, as well as developmental training. In addition to our officer cadet sponsorship programme, we continue to be a leading employer of maritime modern apprenticeships in deck, engine, and hospitality.

Whilst we have always prioritised Health and Safety learning and development for our staff, we have continued this year to place a particular focus on wellbeing and mental health training. In partnership with RMT and Scottish Trade Union Learning, we have continued to provide training to support our 60 staff from across the organisation in their role as Mental Health First Aiders. We have also delivered Diversity and Inclusion training and various health and wellbeing programmes (e.g., menopause, prostate cancer awareness, health & nutrition).

We have continued to invest in our leadership development programme for both shore-based staff and our crews to ensure they have the soft skills required to lead and support their teams effectively. In total, 219 leaders from all areas of the organisation have been enrolled in our Developing Leaders Programme. This is a significant investment of more than £350,000 in our population of 340+ leaders.

The programme was delivered in partnership with Stirling-based training provider The Leadership Factory and focuses on the following: -

formal workshops covering the role of leaders, leading through change, high performing culture, high performing teams, coaching and personal development planning, personal coaching and personality profiling.

Our training delivery model has continued to evolve to digital solutions (e.g. e-learning, webinars) and has been well received by staff given the greater flexibility, reduction in travel and supports our environmental strategy.

Performance Management

Our performance management framework consists of a cycle of objective setting, personal development planning, mid-year reviews and end of year appraisals. Objectives are set to support achievement of our business plan. A key part of the process is to discuss behaviours and ensure that our staff are operating in accordance with our core competencies and values. Managers are trained in how to manage performance effectively as part of our Management and Leadership Academy Framework, with further support provided through online guidance notes, toolkits and coaching.

Attendance Management

The Group accepts that employees will be prevented from attending work due to illness or injury from time to time. Although the Group recognises that employees need to be properly supported during absences, our priority is to meet our operational objectives. As a result, we take distinct steps to balance the needs of the individual with the needs of the Group and to manage sickness absence effectively. To achieve this balance, we take a positive and pro-active approach to attendance management including: -

- advising all employees and line managers of their roles and responsibilities through appropriate training, guidance, and support,
- consistent application of our Attendance Management Policy, agreed with the support of our trade union partners,
- early intervention and return to work support from a third-party Occupational Health provider in cases of longer-term sickness absence,
- a confidential, third-party Employee Assistance Programme.

The policy provides support for employees via our Occupational Health provider to facilitate a safe and timely return to work. Equally, the policy sets out a series of triggers, warnings, and formal monitoring procedures to manage employees with frequent absences in a fair and consistent manner.

Whistleblowing Policy

A whistleblowing policy has been in place covering all David MacBrayne Limited Group companies since 2012. This policy is in adherence with the guidance published in the Public Interest Disclosure Act 1998 and provides assurances for staff who may wish to raise areas of critical concern. The Group introduced this procedure to enable staff to raise concerns about suspected malpractice at an early stage and in the right way. The whistleblowing procedure is primarily for concerns where the interests of others or of the organisation itself are at risk, as opposed to the grievance procedure, which deals with situations where employees feel aggrieved about their personal positions.

Political and charitable donations

The Group made no political or charitable donations during the year. However, Group companies support a range of local organisations through travel-related sponsorship.

Research and development

The Group does not undertake research and development activities directly. We do work with universities and other supplier parties to support ongoing future innovation.

Financial instruments

The Group's risk management objectives and policy are set out in note 17 of the financial statements.

Disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, as far as they are each aware, there is no relevant audit information of which the Group'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 Group's auditor is aware of that information.

Auditor

A resolution to re-appoint KPMG LLP as Group and Company auditor will be put to the members at the Annual General Meeting.

On behalf of the Board

R L Drummond
Chief Executive Officer
22 March 2024

Directors' Responsibilities

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 Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent company 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 situation of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to: -

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable, relevant, reliable, and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006,
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- assess the Group and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 open to them to safeguard the assets of the Group 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 DAVID MACBRAYNE LIMITED

Opinion
We have audited the financial statements of David MacBrayne Limited ("the Company") for the year ended 31 March 2023 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement, company balance sheet, company statement in 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 Group's and of the parent company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with the UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements 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 Group 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.

Material uncertainty related to going concern
We draw attention to note 1 to the financial statements which indicates that the Group's and the Parent Company's ability to continue as a going concern is dependent on the continuation of the CHFS contract with Transport Scotland beyond its current expiry in September 2024. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation
The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 Group's high-level policies and procedures to prevent and detect fraud, and the Group'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 Group and 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 Group and 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 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 noncompliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group 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 Group 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 the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and 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 the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 36, 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 Group and parent companies' 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 Group or the parent 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

22 March 2024

Group Income Statement
for the year ended 31 March 2023

	Note	**2023 Total £000**	2022 Totals £000
Revenue	2	**250,558**	228,418
Cost of sales		**(221,946)**	(199,017)
Gross profit		**28,612**	29,401
Administrative expenses		**(33,561)**	(30,392)
Operating (Loss)		**(4,949)**	(991)
Finance costs	4	**(767)**	(1,169)
Share of profit/(loss) in joint venture	15	**362**	(143)
Gain on sale of investment	21	**22,378**	-
Profit/(Loss) before tax	3	**17,024**	(2,303)
Taxation	6	**(54)**	(1,407)
(Loss)/Profit for the year		**16,970**	(3,710)

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2023

		2023 £000	2022 £000
Profit/(Loss) for the year		**16,970**	(3,710)
Other comprehensive income, net of tax			-
Change in value of cash flow hedge recognised	18	**(8,527)**	7,229
Tax relating to cash flow hedge	7	**1,620**	(1,374)
Total comprehensive income attributable to equity holders of the parent		**10,063**	2,145

The accompanying notes are an integral part of these financial statements

Group Balance Sheet
as of 31 March 2023

	Note	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	7	**28,253**	43,983
Derivative financial instruments	8	**-**	-
Deferred tax	9	**935**	-
		29,188	43,983
Current assets			
Inventories	10	**3,352**	2,103
Contract assets	2	**10,948**	27,810
Trade and other receivables	11	**10,564**	17,155
Derivative financial instruments	8	**-**	8,527
Cash and cash equivalents	12	**51,268**	14,171
Total current assets		**76,132**	69,766
Total assets		**105,320**	113,749
Current liabilities			
Contract liabilities	2	**(7,122)**	(7,339)
Trade and other payables	13	**(23,160)**	(24,863)
Lease liability	14	**(17,335)**	(16,410)
Deferred Income		**(596)**	(639)
Total current liabilities		**(48,213)**	(49,251)
Creditors: Amounts falling due after more than one year			
Lease liability	14	**(14,538)**	(30,997)
Equity – accounted investees	15	**-**	(245)
Derivative financial liabilities	8	**-**	-
Deferred Tax	9	**-**	(750)
Total liabilities		**(62,751)**	(81,243)
Net assets		**42,569**	32,506
Equity			
Share capital	17	**5,500**	5,500
Hedge reserve	18	**-**	8,527
Retained earnings		**37,069**	18,479
Total equity attributable to equity holders of the parent		**42,569**	32,506

These financial statements were approved by the Board of Directors on 07 February 2024 and signed on 22 March 2024 on its behalf by:

E J Østergaard, Chairman

R L Drummond, Chief Executive Officer

The accompanying notes are an integral part of these financial statements

Group Cash Flow Statement
for the year ended 31 March 2023

	Note	2023	2022
	Note	**£000**	£000
Cash flows from operating activities			
Profit/(Loss) for the year		**18,590**	(3,710)
Adjustments for:			
Depreciation and impairment		**17,146**	18,450
(Gain)/Loss on disposal of investment		**(22,378)**	-
Finance income		**(153)**	(62)
Finance expenditure		**935**	1,232
Income tax (credit)/expense		**(1,539)**	1,407
Share of loss of joint ventures		**(363)**	143
Operating cash flows before movements in working capital		**12,238**	17,460
Decrease/(Increase) in trade and other receivables		**5,634**	(4,400)
Decrease/(Increase) in contract assets		**16,862**	(7,672)
(Decrease)/Increase in contract liabilities		**(217)**	3,678
(Increase)/Decrease in inventories		**(1,249)**	216
(Decrease)/Increase in trade and other payables		**(658)**	4,577
Cash (absorbed by) operations		**32,610**	13,859
Tax paid		**(102)**	(544)
Net cash inflow from operating activities		**32,508**	13,315
Cash flows from investing activities			
Acquisition of property, plant & equipment		**(661)**	(2,031)
Disposal of Shares		**22,355**	(2,000)
Interest received		**153**	62
Net cash inflow from investing activities		**21,847**	(3,969)
Cash flows from financing activities			
Payment of lease liability		**(16,106)**	(15,339)
Capital Grants		**(117)**	(765)
Interest paid & similar charges		**(923)**	(1,237)
Release of joint venture		**(112)**	-
Net cash inflow from financing activities		**(17,258)**	(17,341)
Net increase/(decrease) in cash and cash equivalents		**37,097**	(7,995)
Cash and cash equivalents on 1 April		**14,171**	22,166
Cash and cash equivalents on 31 March	13	**51,268**	14,171

The accompanying notes are an integral part of these financial statements

Group Statement of changes in equity

	Share Capital £000	Hedge Reserve £000	Retained Earnings £000	Total Equity £000
At April 2021	5,500	1,298	22,189	28,987
Profit for the year	-	-	(3,710)	(3,710)
Other comprehensive income	-	7,229	-	7,229
On 31 March 2022	5,500	8,527	18,479	32,506
At April 2022	5,500	8,527	18,479	32,506
Profit for the year *	-	-	16,970	16,970
Other comprehensive income	-	(8,527)	1,620	(6,907)
At 31 March 2023	**5,500**	**-**	**37,069**	**42,569**

* The profit for the current year is made up of the operating loss and exceptional items profit combined.

The accompanying notes are an integral part of these financial statements

Notes to the Group Accounts

1. Accounting policies

David MacBrayne Limited (the "Company") is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Principles, including FRS 101 Reduced Disclosure Framework; these are set out on pages 58 to 67. The parent company financial statements present information about the Company as a separate entity and not about the Group.

Change in accounting policy

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Standards issued but not yet effective

- Amendment to IFRS 17 'Insurance Contracts'
- Amendments to IFRS 16 'Lease Accounting' Lease Liability in a Sale and Leaseback
- Amendments to IFRS 17 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of Financial Statements' classification of liabilities as current or non-current
- Amendments to IAS 1 & IFRS Practice Statement 2' Presentation of Financial Statements' Disclosure of Accounting Policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' Definition of Accounting Estimate
- Amendments to IAS 12 'Income Taxes' Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- Amendments to IAS 1 'Presentation of Financial Statements' Non-current Liabilities with Covenants
- Amendments to IFRS 17 'Insurance Contracts' Initial Application of IFRS 17 and IFRS 9 'Financial Instruments' – Comparative Information
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The future application of this pronouncement is not expected to have a material impact on the Group's accounting policies, financial position, or performance.

Basis of preparation

The consolidated accounts have been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006. The consolidated accounts are prepared in accordance with the accounting policies set out in Note 1. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The consolidated accounts are prepared on the historical cost basis apart from certain financial assets and liabilities measured at fair value.

Going concern

The directors have prepared the financial statements on a going concern basis, which they consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts to March 2025 which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements (the going concern assessment period)

The principal activity of the group is the delivery of the Clyde and Hebrides Ferry Services (CHFS) Contract by its subsidiary CalMac Ferries Ltd (CFL), for which a contract subsidy is received from Transport Scotland via a Public Service Contract, to ensure the ongoing delivery and resilience of ferry services. The existing CHFS contract ends on 30 September 2024. At the date of approval of the financial statements, the Transport Minister has announced that the Scottish Government will explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts (Scotland) Regulations 2015. The final decision on the contract award is due in the Summer of 2024.

Under the CHFS contract, Transport Scotland bears the risk of increases in inflation and fuel prices which are currently significant areas of cost increase. CalMac Ferries bears the risk on all other expenditure including fleet maintenance and the delivery of services. The increasing average age of the fleet and the resulting increase in the volume of technical issues, is driving significant increases in vessel maintenance costs. This has resulted in the level of contractual income being insufficient to cover the costs of delivering CHFS services. CalMac Ferries is consequently forecasting financial losses to the end of the current CHFS contract on 30 September 2024.

The directors' group and company cash flow forecasts reflect current assumptions with respect to passenger demand and cost pressures, including the increasing cost of vessel maintenance. Due to the seasonality of revenues, the delivery of the overhaul programme during the winter months, and the expiry of a former £15m working capital facility in autumn 2022, CalMac Ferries agreed with Transport Scotland, a seasonal phased contract income profile from October 2023 which enables it to more closely match the CHFS contract income with the costs of delivery.

Transport Scotland has also confirmed an additional grant of up to £11.1m to be received by CalMac Ferries during 2023/24 to support emergent vessel resilience and obsolescence costs.

In preparing their assessment of group and company going concern, the directors have considered severe but plausible downside scenarios which could affect the forecasts. These include reduced fare and retail income, increased vessel maintenance and crewing costs, fuel efficiency shortfalls and performance penalties. The directors' forecasts are also based on the assumption that the CHFS contract will be awarded directly to the company from 1 October 2024. While the directors are confident that the contract will be extended or renewed under a direct award, this is outwith their control. Should the contract not be renewed then the group's core trading activity would cease.

Taking these factors into consideration the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the renewal of the CHFS contract represents a material uncertainty that may cast significant doubt on the group and company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities for a period of at least 12 months from the date of approval of the financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Estimates and judgments

The Directors make judgements, estimates and assumptions concerning the future based on experience and various other factors which are reasonable in the circumstances. The actual results may differ from these estimates. The key estimates and assumptions are in relation to the recognition of revenue in respect of contracts with customers and the fair value of any fuel hedges. The basis of assessment of these is explained later in this document under note 1 and 2.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, they have been applied consistently to all periods presented in these Group financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments and derivative financial instruments, where applicable, are stated at fair value.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost. After initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which joint control ceases.

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 fair value through profit or loss (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.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified after 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.

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).

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 because of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

(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 measured 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.

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 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.

Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Vessels acquired by David MacBrayne Limited have a carrying value based on an independent revaluation carried out on 21st March 2022. The useful economic life of the vessels owned by DML will depreciate in line with the 3rd party revaluation performed, in line with the survey life expectancy until 31st March 2037.

Where constituent parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment. The carrying amount of any replaced item of property, plant and equipment is derecognised. All expenditure relating to repairs and maintenance of property, plant and equipment is charged to the income statement as and when incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item or, where appropriate, part of an item of property, plant, and equipment. Land is not depreciated. The estimated useful lives are as follows:

Vessels	30 years
Plant and Equipment	between 3 and 6 years
Motor Vehicles	3 years

Useful lives and residual values are reviewed at each year end.

Leases

At the inception of a contract, the Group 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 Group 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 Group'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 Group 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 Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets

Computer software

Costs relating to the development of computer software which are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are capitalised and are depreciated over the anticipated useful life of the relevant asset.

Costs associated with the maintenance of computer software programmes are treated as an expense as and when incurred.

Inventories

Retail inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. 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 inventories and other costs incurred in bringing them to their existing location and condition.

Foreign currency translation

Day to day transactions, which relate to on board sales turnover, are recorded in sterling at the exchange rates ruling on the dates of those transactions.

Impairment excluding inventories and deferred tax assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; if any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is the greater of their fair values less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividend policy

The Board of Directors may recommend and pay a dividend to the Shareholder, acting in the best interests of the Company, regarding their fiduciary duties outlined in the Companies Act.

Employee benefits

The companies comprising the Group are participating employers in the CalMac Pension Scheme, which is a defined benefit scheme operated by Caledonian Maritime Assets Limited. Certain subsidiary undertakings are also participating employers in the Ensign Retirement plan. The assets of each scheme are held separately from those of the participating employers in independently administered funds. As more fully set out in note 20, the amount charged in the income statement represents the contributions payable to each scheme in respect of the financial year.

New employees are auto enrolled into a stakeholder pension scheme. They can choose to opt out of this scheme and enrol in the existing final salary scheme at appropriate times during the year.

Revenue

Accounting policy for revenue is described in note 2.

Capital grants

Capital grants are deferred and taken to the income statement over the anticipated lives of the assets to which they relate.

Expenses

Maintenance and repair costs

Routine maintenance and repair costs, as well as vessel overhaul costs, are charged in the income statement in the financial year in which the work is performed. Where any Group company charters vessels in providing ferry services under a fixed-term contract, at contract end, independent vessel surveys are carried out to establish any work required and an accrual is made for the estimated cost of any such work.

Finance income and expenses

Finance income comprises interest receivable on funds invested and movements in the fair value of derivative financial instruments.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The Group is elected to tonnage tax. However, certain activities within the Group are liable to corporation tax. Accordingly, the charge for taxation is based partly on ship tonnage and partly on the result for the year and considers tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group 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 Group generates its revenues.

Revenue from passengers comprises ticket sales for individuals, and vehicle ferry passage and associated retail operation.

The Group operates the Clyde and Hebrides ferry service contract on behalf of the Scottish Government, for which it receives subsidy revenue. The CHFS2 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 contracts provide the Group with revenue to subsidise the lifeline services provided.

Products and Services	Nature, timing of satisfaction of performance obligations and significant payment terms.
Fares	The Group 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 day of travel with the deferred element maintained on the balance sheet within contract liabilities.
Contracts with Government	The CHFS2 contract is paid on a straight-line basis, monthly in arrears over the contract year. The Group 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 less revenue plus method. If the Group 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. The table also includes a reconciliation of the disaggregated revenue by reportable segment.

Year to 31 March 2023	**Clyde & Hebrides £000**	**Perth Harbour £000**	**Group Services £000**	**Total £000**
Fares and other associated services transferred at a point in time	76,006	211	3,922	80,139
Government contract – transferred over time	170,493	-	(74)	170,419
Total	**246,499**	**211**	**3,848**	**250,558**

Contract balances

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

	2023 £000	2022 £000
Contract assets	**10,948**	27,810
Contract liabilities	**(7,122)**	(7,339)
Trade receivables	**4,221**	5,092

The contract assets primarily relate to the Group's rights to consideration for services delivered but not billed on 31 March 2023 on the CHFS2 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: -

	2023 Contract assets £000	2022 Contract assets £000	**2023 Contract liabilities £000**	2022 Contract liabilities £000
Revenue recognised that was included in the contract liability balance at the beginning of the year			**(7,339)**	(3,661)
Increases due to cash received, excluding amounts recognised as revenue during the period			**(7,122)**	(7,339)
Changes in the measure of progress	**10,948**	27,810	**-**	-

Transaction price allocated to the remaining performance obligations

The Group 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 before tax is stated after charging/(crediting):		**2023 £000**	2022 £000
Auditor's remuneration	- audit of these financial statements	**45**	25
	- audit of financial statements of subsidiaries pursuant to legislation	**137**	61
	- other services relating to tax	**29**	26
	- other assurance services	**-**	15
	- all other services	**16**	5
Depreciation of property, plant, and equipment		**17,146**	17,058
Net gain on disposal of tangible fixed assets		**(35)**	-
Net gain on sale of investment		**(22,378)**	-
Agency staff costs		**3,795**	3,638
Harbour access charges	- Caledonian Maritime Assets Limited	**16,706**	16,379
	- other	**19,522**	16,852
Interest receivable		**(153)**	(62)
Interest payable		**5**	-
Bank facility fee		**-**	60
Finance interest expense		**920**	1,233

4. Finance income and costs

	2023 £000	2022 £000
Bank interest receivable	**153**	62
Bank interest payable	**-**	-
Finance interest payable	**(920)**	(1,231)
Net finance income and costs	**(767)**	(1,169)

5. Employee information

Staff costs (including Directors)

	2023 £000	2022 £000
Wages and salaries	**89,511**	78,861
Social security costs	**4,604**	3,741
Other pension costs	**19,315**	17,696
	113,430	100,298

Details of Directors' remuneration are given in the Directors' Remuneration Report on page 26.

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 2023 £0.04m (2022: £0.2m) of job retention scheme grants are shown net of wages and salaries.

Employee numbers

The average number of people employed by the Group, including Directors, during the year was 1,918 (2022: 1,844). The year-on-year increase in headcount includes crew associated with Loch Frisa as well as additional resource to support service resilience within our customer and service support teams.

	2023	2022
Head office	**387**	359
Port	**371**	372
Vessel	**1,160**	1,113
	1,918	1,844

6. Taxation

Recognised in the income statement

	2023 £000	2022 £000
Current tax		
UK corporation tax profit for the period	**7**	113
Adjustment in respect of prior periods	**(29)**	39
Current tax expense	**(22)**	152
Deferred tax		
Origination and reversal of temporary differences	**(43)**	44
Impact of tax rate change	**(36)**	(189)
Adjustment in respect of prior periods	**14**	(8)
Deferred tax charge	**(65)**	(153)
Share of joint venture tax	**141**	34
Total tax charge	**54**	33

Income tax recognised in other comprehensive income

	2023 £000	2022 £000
Tax relating to cash flow hedge	**(1,620)**	1,374

Reconciliation of effective tax rate

	2023 £000	2022 £000
Profit/(Loss) before tax	**17,024**	(2,303)
Tax using the UK corporation tax rate of 19% (2022:19%)	**3,235**	(438)
Tax effects of:		
Tonnage tax	**1,030**	552
Fixed Asset Difference	**(17)**	-
Expenses not deductible for tax purposes	**82**	289
Non-taxable income	**(3,822)**	(274)
Adjustments to brought forward values	**21**	-
Amounts (Charged)/credited directly to SORIE	**(8)**	-
Exclusion of joint ventures' profits/losses	**-**	62
Adjustment in respect of prior years	**(16)**	31
IFRS16 Adjustment	**92**	-
Impact of rate change	**(36)**	(189)
Non-taxable disposal of investment	**(507)**	-
Total tax charge	**54**	33

The Group is elected to tonnage tax. However, certain activities within the Group are liable to corporation tax. Tonnage tax is levied wholly on the net tonnage of certain vessels operated by the Group. Accordingly, the amount of tonnage tax payable is not affected by the amount of accounting profits or losses related to the associated entities. An increase in the UK corporation rate 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 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2022:19%).

7. Property, plant, and equipment

	Assets Under Construction £000	**Ships £000**	**Buildings £000**	**Vehicles & Equipment £000**	**Leasehold Improvements £000**	**Total £000**
Cost						
At 1 April 2022	679	92,853	2,049	1,235	-	96,816
Additions in the year	612	-	803	-	-	1,415
Disposals in the year	-	-	-	-	-	-
Transfers in the year	(1,291)	-	-	-	1,291	-
At 31 March 2023	**-**	**92,853**	**2,852**	**1,235**	**1,291**	**98,231**
Depreciation and impairment						
At 1 April 2022	-	50,859	1,151	822	-	52,832
Charge for the year	-	16,405	416	197	128	17,146
Disposals in the year	-	-	-	-	-	-
At 31 March 2023	**-**	**67,264**	**1,567**	**1,019**	**128**	**69,978**
Net book value at 31 March 2023	**-**	**25,589**	**1,285**	**216**	**1,163**	**28,253**
Net book value at 31 March 2022	679	41,993	898	413	-	43,983

Property, plant, and equipment includes right-of-use assets with carrying amounts as follows:

Right of use assets – IFRS16

	Ships £000	Buildings £000	Vehicles & Equipment £000	Total £000
Cost				
At 1 April 2022	89,653	2,049	915	92,617
Additions during period	-	803	-	803
At 31 March 2023	**89,653**	**2,852**	**915**	**93,420**
Depreciation and impairment				
At 1 April 2022	48,835	1,151	508	50,494
Charge for the year	16,327	417	190	16,934
At 31 March 2023	**65,162**	**1,568**	**698**	**67,428**
Net book value at 31 March 2023	**24,491**	**1,284**	**217**	**25,992**
Net book value at 31 March 2022	40,819	898	407	42,124

8. Derivative financial Instruments

	2023				2022			
	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	-	-	-	-	8,527	-	-	-

9. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets 2023 £000	**Liabilities 2023 £000**	Assets 2022 £000	Liabilities 2022 £000	**Net 2023 £000**	Net 2022 £000
Property, plant, and equipment	**697**	**-**	780	-	**697**	780
Financial assets	**-**	**-**	-	(1,620)	**-**	(1,620)
Other timing differences	**238**	**-**	90	-	**238**	90
	935	**-**	870	(1,620)	**935**	(750)

Movements in deferred tax during the year

	1 April 2022 £000	Recognised in income £000	31 March 2023 £000
Property, plant, and equipment	780	(83)	697
Financial assets	(1,620)	1,620	-
Other timing differences	90	148	238
Net asset	(750)	1,685	935

Movements in deferred tax during the previous year

	1 April 2021 £000	Recognised in income £000	31 March 2022 £000
Property, plant and equipment	646	134	780
Financial assets	(247)	(1,373)	(1,620)
Other timing differences	71	19	90
Net asset	470	(1,220)	(750)

10. Inventories

	2023 £000	2022 £000
Fuels and lubricants	**957**	530
Consumable stores	**2,186**	1,409
Retail inventories	**209**	164
	3,352	2,103

Fuels and lubricants, consumable stores and retail inventories recognised in cost of sales £28.8m (2022: £17.7m).

Non-retail inventories are held for the operating requirements of the Group 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.

11. Trade and other receivables

	2023 £000	2022 £000
Trade receivables	**4,221**	5,092
Other receivables	**2,952**	6,536
Prepayments and accrued income	**3,340**	5,527
Corporation tax	**51**	-
	10,564	17,155

Trade receivables are shown net of the expected credit loss as detailed in Note 16.

The carrying amount of the Group's trade and other receivables are all expressed in £ sterling.

Other receivables include insurance claims, fuel tax and value added tax recoverable.

12. Cash and cash equivalents and short-term deposits

	2023 £000	2022 £000
Cash and cash equivalents	**51,268**	14,171
Bank balances and cash in hand	**51,268**	14,171

13. Trade and other payables

	2023	2022
	£000	£000
Trade payables	**7,311**	7,729
Other payables and accruals	**15,821**	17,036
Corporation tax	**28**	98
	23,160	24,863

All trade and other payables were expected to be settled within 12 months in relation to both this and the previous year.

14. Leases

Leases as a lessee

Right-of-use assets
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 7.

	Buildings £000	**Vehicles & Equipment £000**	**Ships £000**	**Total £000**
Balance at 1 April 2022	898	407	40,818	42,123
Additions during the period	803	-	-	803
Depreciation charge for the year	(417)	(190)	(16,327)	(16,934)
Balance at 31 March 2023	**1,284**	**217**	**24,491**	**25,992**

Amounts recognised in profit or loss

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

Leases under IFRS 16

	2023	2022
	£000	£000
Interest expense on lease liabilities	**930**	1,231

Amounts recognised in statement of cash flows

	2023	2022
	£000	£000
Total cash outflow for leases	**(16,106)**	(15,339)

	Vessels £000	**Property £000**	**Vehicles & plant £000**
Lease liability maturity schedule			
Within 1 year	16,741	464	130
1 - 2 years	13,540	902	91
2 - 3 years	-	-	5
3 - 4 years	-	-	-
	30,281	1,366	226

15. Equity - Accounted investees

	2023 £000	2022 £000
Interest in joint venture	**-**	(245)
Balance at 1 April	**(245)**	(2,039)
Share of purchase	**-**	2,000
Share of profit/(loss)	**362**	(143)
Sale of joint venture	**24**	-
Tax	**(141)**	(63)
Balance at 31 March	**-**	(245)

	2023 %	2022 %
Percentage ownership interest	**50**	50

	2023 £000	2022 £000
Fixed assets	**-**	38,782
Current assets	**-**	7,807
Current liabilities	**-**	(3,180)
Amounts falling due after more than one year	**-**	(43,899)
Net liabilities (100%)	**-**	(490)
Group's share of net liabilities (50%)	**-**	(245)
Carrying amount of interest in joint venture	**-**	(245)

	2023 £000	2022 £000
Revenue	**10,060**	9,148
Cost of sales	**(7,444)**	(6,931)
Administration expenses	**(802)**	(1,106)
Finance expenditure	**(1,090)**	(1,397)
Profit/(loss) & total comprehensive income (100%)	**724**	(286)
Group's share of profit/(loss) & total comprehensive income (50%)	**362**	(143)

Solent Gateway Limited was a joint venture owned and controlled 50% by David MacBrayne Limited and 50% by GBA (Holdings) Limited until 31st January 2023 when it was divested.

Year-end profit reflects the inclusion of IFRS16 lease accounting in relation to the guaranteed rental lease within Solent Gateway Limited.

16. Financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.
The Board has overall responsibility for the establishment and overview of the Group's risk management framework.

The Audit & Risk Committee oversees management procedures in monitoring compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts included in the balance sheet are net of the expected credit loss, which have been estimated by management based on prior experience and known factors at the balance sheet date, which may indicate that a provision is required.

Counterparties for cash and short-term deposits are limited to financial institutions which have a high credit rating.

Trade receivables

There are well-established systems of credit control in place throughout the Group. These incorporate formal credit application procedures including credit checks, regular monitoring of customers' accounts by dedicated credit controllers and, where considered appropriate, the use of credit insurance facilities.

Other receivables

Other receivables consist of fuel tax recoverable and vessel damage insurance claims.

Liquidity risk

The Group's liquidity risk is that it will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liability when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. An agreement was reached with Transport Scotland during 2023 to rephase the drawdown in line with seasonal carrying levels to ensure that the apportionment of subsidy meets the requirements of the business.

Market risk

Derivative financial instruments

The Group's market risk is primarily that changes in market prices, such as fuel prices, will affect the Group's cost base or the value of its holdings of financial instruments which the Group may seek to minimise through hedge arrangements designed to manage a substantial proportion of the Group's overall exposure. The hedge arrangements take account of the different fuel types which the Group purchases.

Due to the volatility of the Fuel price, we have not re-entered a financial instrument at this time. Under the terms of the respective public service contracts, under which the main operating companies provide ferry services, the risk related to the material movement on fuel prices at any time is taken by Transport Scotland.

The Directors consider that these arrangements provide appropriate stability of the Group's cost base in this significant expense area.

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	**Carrying amount**	
		2023	2022
		£000	£000
Trade and other receivables	11	**4,221**	5,092
Cash and cash equivalents	12	**51,268**	14,171
		55,489	19,263

The balance of trade and other receivables shown excludes prepayments and statutory receivables which are not classified as financial instruments. The Group has no significant concentration of credit risk, with exposure spread across many customers.

Expected credit loss

The ageing of trade receivables (all of which relate to UK counterparties) at the reporting date was:

	2023 Gross £000	**2023 Impairment £000**	2022 Gross £000	2022 Impairment £000
Not past due	**3,116**	**-**	4,207	-
Past due 0-30 days	**1,088**	**-**	416	1
Past due 31-120 days	**6**	**-**	462	4
More than 120 days	**11**	**1**	7	-
	4,221	**1**	5,092	5

The individually impaired receivables relate to customers facing cash flow problems because of the current difficult trading conditions. All other receivables are expected to be recovered within six months from the year end date.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2023 £000	2022 £000
Balance at beginning of year	**5**	7
Expected credit loss during year	**(4)**	(2)
Balance at end of year	**1**	5

Impairment losses are accounted for separately unless the Group is satisfied that there is no likelihood of recovery of the amount owing, in which case the amount is considered irrecoverable and is written off against the financial asset directly.

Liquidity risk

The following are the contractual maturities of financial liabilities at the year-end date.

31 March 2023

	Carrying amount £000	**Contractual cash flows £000**	**6 months or less £000**
Non derivative financial liabilities			
Trade and other payables	**35,633**	**35,633**	**35,633**

31 March 2022

	Carrying amount £000	Contractual cash flows £000	6 months or less £000
Non derivative financial liabilities			
Trade and other payables	36,006	36,006	36,006

The balance of trade and other payables shown above excludes deferred income and statutory liabilities which are not classified as financial instruments.

Fair Values

Fair values and carrying amounts

The fair values of financial assets and liabilities and the carrying amounts included in the Balance sheet are as follows:

	31 March 2023		31 March 2022	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables	**4,221**	**4,221**	5,092	5,092
Cash and cash equivalents	**51,268**	**51,268**	14,171	14,171
Contract assets	**10,948**	**10,948**	27,810	27,810
Trade and other payables	**(35,633)**	**(35,633)**	(36,006)	(36,006)
Derivative financial instruments	**-**	**-**	8,527	8,527
	30,804	**30,804**	19,594	19,594

The financial instruments, noted in the table above, are all valued as level 1 fair values. The definition of a level 1 financial instrument meets the following criteria – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables and cash and cash equivalents – the fair value of receivables and payables with a remaining life of less than one year, and the fair value of cash and cash equivalents, all of which have short term maturities, is deemed to be the same as the book values.

17. Share capital

	2023 £000	2022 £000
Allotted issued and fully paid		
5,500,002 Ordinary shares of £1 each	**5,500**	5,500

18. Analysis of movements in equity attributable to equity holders of David MacBrayne Limited

	Commodity derivatives £000	**Tax effect £000**	**Total £000**
Cash flow hedges			
At 1 April 2022	**8,527**	**(1,374)**	**7,153**
Effective portion of changes in fair value of cash flow hedges	**3,623**	**-**	**3,623**
Tax relating to cash flow hedge	**-**	**1,374**	**1,374**
Net change in fair value of cash flow hedges reclassified to profit or loss	**(12,150)**	**-**	**(12,150)**
At 31 March 2023	**-**	**-**	**-**

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

19. Pension arrangements

Many the Group's employees are members of the CalMac Pension Fund (the 'Scheme' or the 'CalMac Scheme'), which is a defined benefit scheme that shares risk between entities under common control. The CalMac Scheme is operated by Caledonian Maritime Assets Limited (CMAL), a company also wholly owned by Scottish Ministers. As CMAL is legally considered to be the sponsoring employer for the Scheme and is responsible for past deficit repair obligations in relation to the Scheme, the Company and its subsidiary undertakings who are members of the Scheme make contributions in accordance with an agreed schedule, and pension liability arising during the period of the grant is indemnified by Scottish Ministers. The Company and subsidiary undertakings account for the Scheme in their respective financial statements as if the Scheme were a defined contribution scheme in accordance with paragraph 41 of IAS 19 – *Post employment benefits defined benefits plans.*

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. Several of the Group'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.

Certain of the Company's subsidiary undertakings are participating employers in the Merchant Navy Officers' Pension Fund (MNOPF) which is closed to new members. The Company could still be required to make contributions against any deficit. The actuarial valuation, which was 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.

In March 2016, the MNOPF scheme closed to future accrual. Employees who were members of the scheme were transferred to the Ensign Retirement Plan, an industry-wide defined contribution scheme.

As the Trustees of the MNOPF are unable to identify the Group's share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company's subsidiary undertakings who are participating employers in the MNOPF are accounting for the Scheme in their respective financial statements as if the Scheme was a defined contributions scheme.

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 are 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 amount charged to the income statement in respect of employer contributions to Pension Schemes is:

	2023 £000	2022 £000
CalMac Pension Fund	**18,472**	17,004
Ensign	**129**	129
Other schemes	**714**	563
	19,315	17,696
Contributions to be paid to pension schemes included in payables	**623**	550

20. Related party transactions

Identification of related parties

The following have been identified as related parties of the Group:

- Scottish Ministers as sole shareholder of the Company
- Caledonian Maritime Assets Limited due to common ownership by the Scottish Ministers
- Key management personnel

Transactions between the Company and its subsidiaries have been eliminated on consolidation and do not require to be disclosed.

During the year, Group subsidiaries entered the following transactions with related parties who are not members of the Group:

	2023 £000	2022 £000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- revenue subsidy	**165,424**	150,021
- vessel life extension subsidy	**4,953**	1,436
- consultancy services	**2,658**	2,391
Caledonian Maritime Assets Limited		
- vessel leasing charges	**(16,446)**	(15,933)
- harbour services	**(11,981)**	(11,121)
- vessel new build, modification and other costs	**6,951**	6,348
- ferry travel costs	**27**	10

Solent Gateway Limited		
- management charge	**307**	364

Amounts due at end of year – receivable/(payable):

Scottish Ministers		
- revenue subsidy	**11,380**	28,633
- vessel life extension subsidy	**-**	832
- consultancy services	**659**	712
Caledonian Maritime Assets Limited		
- harbour services	**(1,791)**	(532)
- vessel new build, modification, and other costs	**2,121**	2,314
- ferry travel costs	**2**	1

During the year, CalMac Ferries Limited acted as agent for Caledonian Maritime Assets Limited in relation to certain elements of vessel upgrade and modifications. The associated funds were paid to third parties and recovered from Caledonian Maritime Assets Ltd.

Remuneration of key management personnel

Key management personnel are defined as the Executive Directors of the Company and their remuneration is disclosed in the Report on Directors' Remuneration on page 26. There were no other transactions or amounts due at year end relating to key management personnel.

21. Joint Venture Divestment

On 31st January 2023 the group sold their 50% Shareholding in Solent Gateway Limited. This has resulted in a £22,378k gain on sale of investments which is broken down as follow:

	£000
Sale Proceeds	**22,355**
Investment	**(2,500)**
50% Share of SGL Ltd Retained Losses	**2,523**
	22,378

Company Balance Sheet
as at 31 March 2023

	Note	**2023 £000**	2022 £000
Fixed assets			
Tangible assets	2	**1,097**	1,175
Investments	3	**74**	2,574
Deferred tax	7	**243**	258
		1,414	4,007
Current assets			
Debtors and prepayments	4	**-**	889
Cash and cash equivalents		**28,795**	4,804
		28,795	5,693
Creditors: amounts falling due within one year	5	**(618)**	(506)
Net current assets		**28,177**	5,187
Creditors: amounts falling due after one year	6	**(596)**	(596)
Total assets less liabilities		**28,995**	8,598
Net assets		**28,995**	8,598
Capital and reserves			
Share capital	9	**5,500**	5,500
Profit and loss account		**23,495**	3,098
Shareholder's funds		**28,995**	8,598

These financial statements were approved by the Board of Directors on 07 February 2024 and signed on 22 March 2024 on its behalf by:

E J Østergaard, Chairman

R L Drummond, Chief Executive Officer

The accompanying notes are an integral part of these financial statements

Company Statement of changes in equity

	Called Up Share Capital £000	Profit and Loss Account £000	Total Equity £000
Balance at 1 April 2021	5,500	2,977	8,477
Total comprehensive income for the year			
Profit for the year	-	121	121
Balance at 31 March 2022	**5,500**	**3,098**	**8,598**

	Called Up Share Capital £000	Profit and Loss Account £000	Total Equity £000
Balance at 1 April 2022	5,500	3,098	8,598
Total comprehensive income for the year			
Profit for the year	-	20,397	20,397
Balance at 31 March 2023	**5,500**	**23,495**	**28,995**

The accompanying notes are an integral part of these financial statements

Notes to the FRS 101 parent company financial statements

1. Accounting policies

David MacBrayne Limited is a company incorporated and domiciled in the UK.

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 IFRSs") but makes amendments where necessary 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
- 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.

After the end of the Brexit transition period (31 December 2020) the UK ceased to be subject to EU law. Under the European Union (Withdrawal) Act 2018, all existing IFRSs adopted by the EU at that time have been 'frozen' into UK law thus were considered as in force in the UK at the end of the transition period. Adoptions, interpretations, and amendments of IFRS adopted by the EU after the end of the transition period will no longer apply in the UK. For subsequent financial years, companies must use UK-adopted IFRS. At the end of the transition period, those standards will be identical to the EU-adopted IFRS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IFRS, interpretations and amendments of IFRS. For the year ended 31 March 2021, UK companies therefore have the option to use any standards which have been adopted for use within the UK in addition to the frozen EU-adopted IFRS. In previous years, the Accounts have been prepared in accordance with FRS 101 applying the recognition, measurement, and disclosure requirements of IFRS as adopted by the EU at the date of approval of the Accounts and which were mandatory for each financial year. In line with the above, the Accounts for the year ended 31 March 2021 have been prepared in accordance with FRS 101 applying the 'frozen' IFRS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Accounts for financial year beginning 1 April 2021, will be prepared in accordance with FRS 101 applying the recognition, measurement and disclosure requirements of IFRS as adopted by the UK. The changes in the way that IFRS are described because of the UK's exit from the EU, including the move to UK adopted IFRS for accounting periods starting on or after 1 April 2021, do not represent a change in the basis of preparation which would necessitate a prior year restatement.

(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 IFRSs")] but makes amendments where necessary to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements.

Going concern
The Company has recorded a profit after tax in the current financial year and the Company's balance sheet shows that it has net current assets of £28.2m as at 31 March 2023.

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 18 months from the date of approval of these financial statements.

The principal contract for the Group is the delivery of the Clyde and Hebrides Ferry Services (CHFS) Contract by its subsidiary CalMac Ferries, 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 existing CHFS contract ends on 30 September 2024. At date of signing, the Transport Minister announced that Scottish Government will explore awarding the next contract to operate the Clyde and Hebrides Ferry Services directly to CalMac Ferries Ltd. A due diligence process has been launched to establish the feasibility of a direct award using the "Teckal exemption" in accordance with the Public Contracts Scotland Regulations 2015.

The Directors have assessed that these accounts are prepared on a going concern basis.

(b) Fixed assets
Fixed asset investments represent interests in subsidiary undertakings and joint ventures which are carried at historical cost.

(c) Tangible fixed assets
Gross book values of tangible assets are stated at the revalued amount as per 3rd party assessment on 21st March 2022. No depreciation is charged until an asset is brought into use. Depreciation is provided by equal instalments calculated to write off the cost (taking account of estimated residual values) over their useful lives as follows:

Vessels	-	30 years

Vessels acquired by David MacBrayne Limited have a carrying value based on the revaluation carried out on 31 March 2022. The useful economic life of the vessels owned by DML will depreciate in line with the independent value assessment performed during March 2022, the assessed life expectancy will end at March 2037.

(d) Impairment excluding inventories and deferred tax assets
The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; if any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is the greater of their fair values less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

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 fair value through profit or loss (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.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified after 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.

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) 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.

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 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 12 months after the reporting date, or a shorter period if the expected life of the instrument is less than 12 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.

(e) Operating leases

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

(f) Dividends

Where circumstances permit, a dividend is payable annually to the Company by each of the main operating companies. The quantum of the dividend is dependent on the estimated profit which is expected to be achieved for the financial year and the cash position of each company. Dividends are included in the financial statements as a liability/receivable only after they have been declared by the Board of the relevant company.

2. Tangible assets

	Ships £000
Cost	
At 1 April 2022	3,200
Additions in the year	-
Revaluation in the year	-
	3,200
Depreciation	
At 1 April 2022	2,025
Charge for the year	78
At 31 March 2023	**2,103**
Net book value at 31 March 2023	**1,097**
Net book value at 31 March 2022	1,175

David MacBrayne Limited assets are in relation to two vessels owned and leased to CalMac Ferries Limited.

3. Investments

	2023 £000	2022 £000
Shares in subsidiary undertakings	**74**	74
Investment in joint venture	**-**	2,500
	74	2,574

The Company owns the whole of the issued ordinary share capital of its subsidiary undertakings CalMac Ferries Limited, NorthLink Ferries Limited, Argyll Ferries Limited and David MacBrayne HR (UK) Limited, all of which are incorporated in Scotland. Registered office address: The Ferry Terminal, Gourock, PA19 1QP.

CalMac Ferries Limited operates the Clyde and Hebrides ferry services, Argyll Ferries Limited operated the Gourock - Dunoon ferry service until 20 January 2019 when it was transferred to CalMac Ferries Limited and David MacBrayne HR (UK) Limited provides human resource services to the companies within the Group.

CalMac Ferries Limited owns the whole of the issued ordinary share capital of Caledonian MacBrayne Crewing (Guernsey) Limited, which administers its offshore crewing arrangements. NorthLink Ferries Limited owns the whole of the issued ordinary share capital of NorthLink Crewing (Guernsey) Limited which administered its offshore crewing arrangements. Both companies are incorporated in Guernsey. Registered office address: PO Box 287, 4th Floor, West Wing, Trafalgar Court, Admiral Park, St. Peter Port, Guernsey, GY1 3RL.

The Company owns the whole of the issued share capital of three other companies, all are incorporated in Scotland and currently non-trading. The companies are NorthLink Ferries Limited, Cowal Ferries Limited and Rathlin Ferries Limited. Registered office address, The Ferry Terminal, Gourock, PA19 1QP.

The Company also owned 50% of the issued share capital of Solent Gateway Limited until 31 January 2023 when the shares were sold. Registered office address: Meridean House, Alexandra Dock North, Grimsby, DN31 3UA. The joint venture will operate the port at Marchwood under a 35-year contract with the Ministry of Defence.

4. Debtors and prepayments

	2023	2022
	£000	£000
Other debtors	**-**	834
Amounts due from subsidiaries	**-**	55
	-	889

5. Creditors: amounts falling due within one year

	2023	2022
	£000	£000
Trade creditors	**50**	40
Other creditors and accruals	**540**	413
Corporation tax	**28**	10
Deferred Income	**-**	43
	618	506

6. Creditors: amounts falling due after one year

	2023	2022
	£000	£000
Deferred Income	**596**	596
	596	596

7. Deferred tax

The main components of deferred tax at 19% (2022: 19%) are:

Recognised deferred tax assets and liabilities

	Assets 2023 £000	Assets 2022 £000	**Net 2023 £000**	Net 2022 £000
Tangible fixed assets	**243**	257	**243**	257
Other	**-**	1	**-**	1
Net assets	**243**	258	**243**	258

Movement in deferred tax during the year

	1 April 2022 £000	Recognised in income £000	31 March 2023 £000
Tangible fixed assets	257	(14)	**243**
Other	1	(1)	**-**
	258	(15)	**243**

Movement in deferred tax during the prior year

	1 April 2021 £000	Recognised in income £000	31 March 2022 £000
Tangible fixed assets	202	55	**257**
Other	1	-	**1**
	203	55	**258**

8. Leases as lessor

During the year, £299,000 (2022: £291,000) was recognised as rental income by the Company in respect of vessel leases between David MacBrayne Limited and CalMac Ferries Limited.

The following table sets out a maturity analysis of lease payments to be received, showing the undiscounted lease payments to be received after the reporting date:

Operating leases under IFRS 16

	2023 £000	2022 £000
Less than 1 year	**308**	299
Between 1 and 2 years	**159**	308
Between 2 and 3 years	**-**	159
Between 3 and 4 years	**-**	-
Between 4 and 5 years	**-**	-
More than 5 years	**-**	-

9. Share capital

	2023 £000	2022 £000
Allotted issued and fully paid		
5,500,002 Ordinary shares of £1 each	**5,500**	5,500

10. Ultimate controlling party

The Company is wholly owned by the Scottish Ministers, who are regarded as the ultimate controlling party. The only Group in which the results of this Company are consolidated, is this set of financial statements. The Company's related undertakings are its subsidiaries and joint venture as disclosed in note 3.

Corporate information

Parent company

Registered office	The Ferry Terminal Gourock PA19 1QP

Principal Group advisors

Auditor	KPMG LLP
Solicitor	Pinsent Masons
Banker	The Royal Bank of Scotland plc
Insurers	The North of England Protecting & Indemnity Association
Websites	www.david-macbrayne.co.uk www.calmac.co.uk