ANNUAL REPORT

Group Annual Report and Consolidated Financial Statements

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Year Ended 31 March 2022

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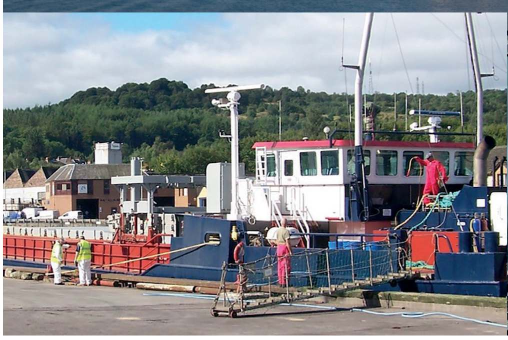
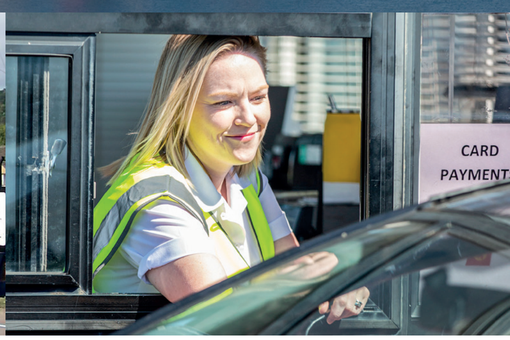
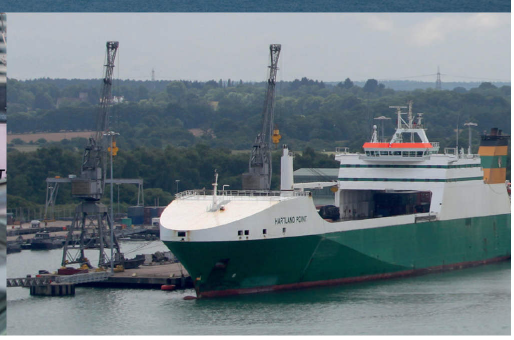
DAVID MACBRAYNE LIMITED







DAVID MACBRAYNE LIMITED SCO15304
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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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.

I understand that our customers who use our ferry service throughout the network have wide ranging expectations and requirements depending on their needs. It is my principal responsibility as Chair of the Board to ensure we meet these to the best of our ability. Ferries offer a lifeline to people living and working across the west coast and the islands. It is vital that we as a Board listen to and talk to the communities we serve.

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.

The average age of the CalMac fleet is now 24 years old, with one third of the vessels we use greater than 30 years of age. It is undeniable that the increasing age of the vessels results in a growing need for repairs and maintenance. In fact, the total investment in vessel maintenance has increased by 64% over five years from £21.0m in 2018 to £34.3m in 2022. This includes asset owner investments of £5.5m in 2022 (2018: £1.4m).

Alongside this, the demand for ferry services is increasing each year and as we recover from the effects of Covid-19, the number of people wanting to travel is expected to rise. While this is a good news story, our capacity levels are not increasing in line with this, so we have a huge amount of pressure on our capacity caused by people wanting to travel but often without sufficient space available for them. This often leads to frustration for our customers – whether they are islanders, business owners, or holidaymakers.

Weather patterns continue to have an increasing effect, particularly in the first couple of months of 2022, when three named storms hit the Western Isles in quick succession. It is a fact that we simply cannot sail for safety reasons during certain types of poor weather and that factors such as vessel and port resilience also play a role when decisions not to sail are taken.

I welcome the work being undertaken to increase capacity. The £580 million investment from the Scottish Government is a welcome addition and will pay for some of the required new harbour, port and vessel facilities over the next decade.

We welcomed MV Loch Frisa to the fleet in June 2022. She will be an extremely helpful addition to the Oban-Mull route and this much needed tonnage will in turn free up another vessel, MV Coruisk, to support elsewhere on the network.

Also joining us 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 future. The Glen Sannox is set to join us in 2023 and we are very much looking forward to the vessel 802 being completed and delivered too. Consideration is now turning to new ferry options for Mull.

Finally, our new ticketing system is set to be introduced which will 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.

Thank you very much and I look forward to working with you in my new role.

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.

Tuigidh mi gum bheil raon dòchais agus iarrtasan farsaing, a rèir an cuid fheumalachdan, aig luchd-cleachdaidh bhon lìon-bheairt sheirbheis aiseig againn. 'S e prìomh dhleastanas dhòmhsa mar Chathraiche a' Bhùird sin a liubhairt mar as fheàrr as urrainn dhuinn. Tha seirbheis aiseagan riatanach dhan t-sluagh a tha a' còmhnaidh agus ag obair air a' chost an iar agus sna h-eileanan. Tha e deatamach dhuinne mar Bhòrd èisteachd agus còmhradh ris na coimhearsnachdan a tha sinn a' frithealadh.

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 dùbhlain, a tha toirt buaidh air ar comas an t-seirbheis as fheàrr a lìbhrigeadh, seachnadh agus bidh sinn a' cur prìomhachas stòrais air na dùbhlain sin ann am planaichean leasachaidh romhainn cho fada 's a dh'fheumar.

Anns an fharsaingeachd tha soithichean chabhlaich Chalmac 24 bliadhna a dh'aois, is an treas cuid de shoithichean a th' againn an sàs còrr air 30 bliadhna. Cha ghabh àicheadh gum bheil aois nam bàtaichean ag adhbharachadh barrachd feum air càradh is leasachadh, gu dearbh tha cosgais cumail suas bhàtaichean air fàs 67% thar chòig bliadhna, bho £20.5m ann an 2018 gu £34.3m ann an 2022. Tha seo a' gabhail a-steach airgead-tasgaidh sealbhadair ann an 2022. (2018: £1.4m).

An cois seo tha iarrtas sheirbheisean aiseig a' dol am meud gach bliadhna agus mar a gheibh sinn seachad air buaidh Covid-19, tha dùil gum fàs àireamh an t-sluaigh a tha airson siubhal. Ged 's e deagh naidheachd a tha seo chan eil na goireasan againne a' fàs dha rèir, agus tha na goireasan againn fo chuideam mòr air sgath dhaoine bhith ag iarraidh siubhal ach glè thric gun àite againn dhaibh. Tha seo bitheanta ag adhbharachadh leamhachas dhar luchd-cleachdaidh – ge b' iad eileanaich, luchd-gnothaich, neo luchd shaor-làithean.

Tha buaidh dhreach na h-aimsire a' dol am meud, gu h-àraid anns a' chiad dà mhìos de 2022 nuair a bhuail, an dèidh a chèile, trì stoirmean comharraichte air na h-Eileanan Siar. 'S e fìrinn cùise, air sgath adhbharan sàbhailteachd, nach fhaod sinn seòladh aig amannan àraid dhroch aimsire, agus tha cuideachd comasan an t-soithich agus nam port na phàirt de cho-dhùnadh sam bith gun seòladh.

Tha mi cur fàilte air an obair-leasachaidh gus comasan a leudachadh, agus air an tasgadh £580 millean bho Riaghaltas na h-Alba a mhaoinicheas cuid de ghoireasan ura air am bi feum do chalaidhean, puirt is bataichean thar an ath dheichead.

Chuir sinn fàilte air MV Loch Friosa chun a' chabhlaich san Ògmhios 2022. Nì ise cuideachadh air leth air an t-slighe eadar Muile 's An t-Òban. Saoraidh an comas giùlan feumail a' chòrr bàta eile, an MV Cor Uisge, airson taic eile san lìon-bheairt.

Bidh dà shoitheach ùr airson slighe Ìle a' tighinn thugainn a dh'aithghearr, ann an 2024 agus tràth ann an 2025, cuide ri deich soithichean beaga a bharrachd san àm ri teachd. Tha dùil againn ris an Gleann Sannox ann an 2023 agus tha fiughair ri crìochnachadh an t-soithich 802 agus ise bhith gar ruigheachd cuideachd. Tha beachdachadh a' tòiseachadh a-nise air roghainnean aiseig dha Muile.

Mu dheireadh, tha dùil gun tèid siostam ùr thiogaidean a stèidheachadh nas fhaide am-bliadhna a bheir eòlas seirbheis ro-chlàraidh nas èifeachdaiche, ùr-ghnàthach agus càirdeil, 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.

Mòran taing, agus tha fiughair orm a bhith ag obair cuide ribh na mo dhreuchd ùr.

Erik Østergaard
Catrice - Bòrd DMcB

Chief Executive's Statement

Welcome to the David MacBrayne Limited annual report for the financial period of April 2021 to March 2022. This has been another challenging year for the company, largely due to several issues, including the chaos of Covid, subsequent travel restrictions and vessel breakdowns. I would like to take this opportunity to address these challenges and their effect on DML. I would also like to outline our ongoing plans for the continued development of the company.

The effects of Covid-19 have continued to have an impact on our service delivery across the business during this financial year, but particularly on services provided by CalMac. Up until very recently, sailings on routes across the network were adversely affected by crew shortages resulting from positive Covid-19 cases, while social distancing and the consequent limitations on ferry capacity meant that we could often not meet demand for tickets.

In addition, there were three named storms at the start of 2022 which severely affected sailings and led to several cancellations and disruption. While poor weather only accounts for a small percentage of cancellations it continues to be a theme. In fact, there was more disruption caused by weather in the first seven weeks of 2022 than there was in the whole of 2012.

Over time vessels require an increased level of maintenance which can impact our ability to run the service as effectively as we would like. We are investing record amounts on maintaining the fleet however, the regrettable impact is that breakdowns and unplanned repairs mean that many communities have faced a reduction in service. We are collaborating on several initiatives to drive service improvement by focusing on operational excellence, introducing an upgrade and resilience programme, enhancing supplier relationships by negotiating longer term contracts and targeting more efficient planning activities. All of these initiatives are designed to improve vessel resilience; however, we continue to focus on ensuring we have a community centred approach when disruption does occur. Despite challenges our service levels remain high in the face of changing weather patterns and the impacts of unplanned maintenance.

In addition to the existing fleet initiatives, the good news is that new vessels are on the way, including MV Loch Frisa, our latest addition to the fleet, which is running on the Oban-Craignure route as a dedicated, year-round vessel for the Isle of Mull. We have also seen the start of work on the construction of the two new vessels for Islay which was quickly followed by the welcome announcement from the Transport Minister of a further two new large vessels. We welcome any tonnage which is safe and suitable for our routes and of course any increase in the fleet strengthens its resilience.

The communities we serve are as always, our top priority and I wish to highlight the tremendous commitment of the CalMac staff who strive to serve all of the communities on the network. I cannot commend highly enough the work they do and the dedication they show throughout the year.

In other areas of the business our other contracts continue to progress well. Solent Gateway Limited, which is a joint venture between DML and GBA (Holdings) Limited to develop and manage Marchwood Port continues to provide an excellent service, underpinned by a strong relationship with the Ministry of Defence. Planning consent was recently granted for our ambitious plans to develop the facility into a high-quality port-centric logistical hub with outstanding connectivity by sea, rail and road.

Further north, Perth Harbour has continued to build relationships with shipping agents investigating the export of cargos from the port. The Harbour has further developed offshore wind related opportunities supporting the SeaGreen Offshore Wind farm in the North Sea.

The publication of the 'Project Neptune' report on future structures is a welcome initiative and we are committed to engaging fully with the process to develop the future shape of ferry services across the west of Scotland. The Clyde and Hebrides Ferry Services (CHFS) contract is of foremost importance to DML. In recent years, the company's strategic focus has included offshore windfarms, ferry services, port and harbour services and ship management. While we will continue to monitor opportunities like these, DML's main priority for the moment is the vital CHFS contract and bidding for the next contract due to commence 1 October 2024.

On behalf of the Board

R L Drummond
Chief Executive Officer
19 December 2022

Background & History

David MacBrayne Limited is one of the largest logistics companies in Scotland. A multi-award-winning ferry operator, harbour, and ship management specialist, it is one of Scotland's biggest headquartered firms employing around 1,800 people.

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.

Through a 50/50 Joint Venture with GBA (Holdings) Limited, DML also operate the Marchwood Port facility in Southampton.

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:

- Safety – at the heart of our operation.
- Operational excellence – efficient and effective operations offering value for money.
- Customer focus – deliver excellence in customer service, with customers at the heart of all we do.
- People – a socially responsible employer valuing and investing in our people.
- Sustainability – reduce our impact on the environment.

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.

New 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
Engaging employees to embed even more firmly a 'safety first' and continuous improvement approach in the workplace.

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 Review

Covid-19 – Impact on 2022

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

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

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

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

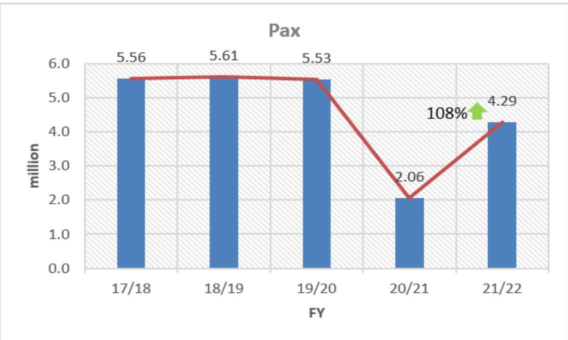
We received additional Covid-19 funding in the year of £11.7m from Transport Scotland as a variation to our Clyde and Hebrides Ferry contract and £0.2m of furlough funding from HMRC. We remain incredibly grateful for the public funding which enabled us to protect jobs, staff who needed to isolate and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

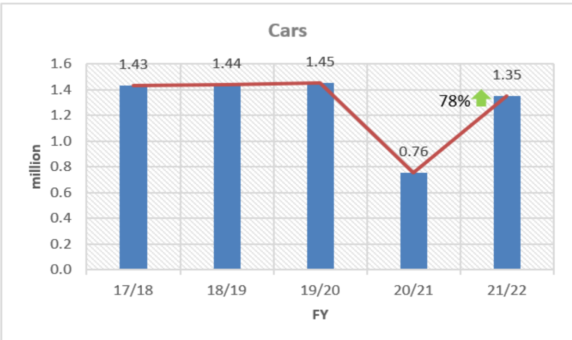
KPIs

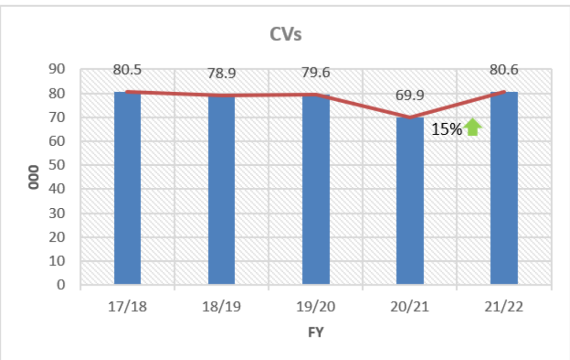
CHFS Reliability and Punctuality 2020 to 2022

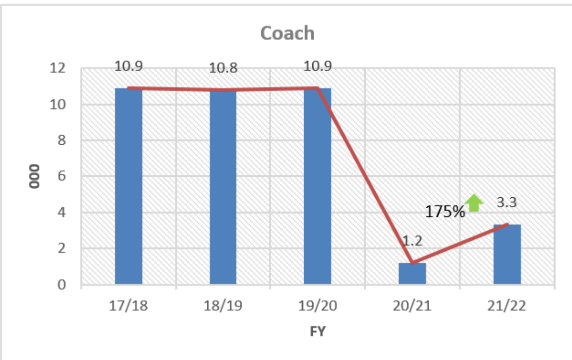
Fiscal Year Name	Contractual Reliability %	Contractual Punctuality %	Operated Sailings
FY 2019/20	99.58%	99.69%	159,888
FY 2020/21	99.58%	99.89%	117,039
FY 2021/22	98.76%	99.63%	152,275

CHFS Carryings 2018 to 2022









Fiscal Year	Passengers	Cars	Commercials	Coaches
FY 2017/18	5,561,555	1,429,744	80,469	10,914
FY 2018/19	5,605,077	1,439,619	78,878	10,804
FY 2019/20	5,533,751	1,450,325	79,612	10,876
FY 2020/21	2,059,331	755,602	69,868	1,223
FY 2021/22	4,289,322	1,351,272	80,574	3,347

CSAT (Customer Satisfaction) score 2022: 85% (Target: 85%)

Our 85% CSAT score is derived from regularly surveying our customers about their onboard experience. In what has been another challenging year, with frequent disruption, pressure on capacity and occasions when the retail offering has been reduced/removed, the score has again held up well. We also measure other metrics which are more sensitive to disruption and capacity issues such as 'trust' and 'ease of journey'.

Financial Performance Highlights

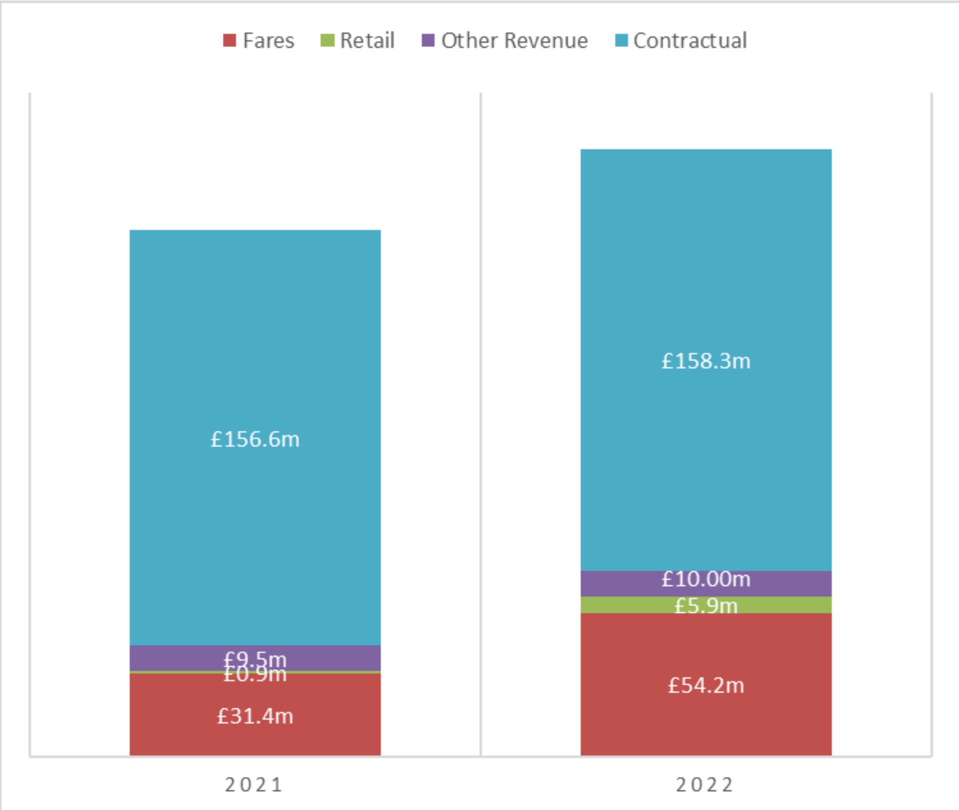
Financial Stats/KPIs:

Group Revenue £228.4m (2021: £198.7m).

- Fares revenue increased by £22.8m to £54.2m (2021: £31.4m).
- Retail revenue increased by £5.0m to £5.9m (2021: £0.9m).

Cost of Sales £199.0m (2021: £168.4m)

Administrative Expenditure £30.4m (2021: £25.3m)



Group Profit

Farebox, Retail and Other Revenue

As the Covid-19 pandemic eased we have seen a growth in revenue during the financial year with Farebox revenues of £54.2m (2021: £31.4m), Retail revenue £5.9m (2021: £0.9m) and other income £10.0m (2021: £9.5m).

We received funding from Transport Scotland of £11.7m, to mitigate the ongoing financial impact of Covid-19 restrictions on CHFS services and carryings.

Cost of Sales and Administrative Expenditure

Direct expenditure increased as Covid-19 travel restrictions were relaxed, as services increased by 30% on 2021. The increase in services directly impacted fuel, harbour dues and staff costs.

The cost of maintaining our fleet continues to increase, as well as impact service resilience due to unplanned maintenance incidents. This is presenting a significant financial challenge for DML in both maintenance and performance penalties. CFL maintenance spend in the current financial year at £27.7m, increased by £10.7m compared with 2021.

The Group reported a net loss after tax of £3.7m.

Balance Sheet

The net asset position of the Group at March 2022 is £32.5m (2021: £29.0m), an increase of £3.5m. This includes the positive valuation of the fuel hedge at 31 March 2022 (£8.5m asset), compared with 31 March 2021 (£1.3m asset), as well as the Loss after Tax of £3.7m (2021: Profit £2.7m).

The cash position of the Group at 31 March 2022 is £14.2m (2021 £22.2m). Payments during 2022 were in line with contractual cashflows.

Dividend

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

Service Resilience

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

In 2022 we continued to invest in the vessels and delivered a £5.5m programme on behalf of Transport Scotland via CMAL to address vessel resilience. The programme included replacing equipment that was obsolete or at the end of economic life and upgrades of equipment to improve environmental performance and reliability. In addition, this programme involved statutory upgrades where equipment replacement was required to support changes in certification requirements.

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

We are continuing to develop the use of data to support better understanding of the technical risks associated with the fleet and are investing in excess of the statutory and class minimum requirement to identify areas of risk and reduce the probability of in-service failure and overhaul overrun. We use continuous improvement techniques to identify trends and guide our preventative maintenance activity.

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

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

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

With the increasing average age of the fleet, it is important to look at modern and innovative ways to manage fleet resilience, upgrades, annual vessel overhauls and preventative maintenance. The board has approved the investment project to procure a modern maritime engineering support software solution that will facilitate improvement in the way we manage our vessel assets. We have commenced work on the project to replace the current maintenance system to allow us to better track and ensure all aspects of fleet maintenance and parts management are scheduled efficiently.

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

Fleet Key statistics (February 2022)

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

Our People and Staff Engagement

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

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

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

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

Change and Continuous Improvement

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

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

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

Our Customers

Developing our knowledge of what our customers think, and how they feel about their journey with Caledonian MacBrayne is a continuing focus for the business. Over the last year, we have invested in research, technology and our brand to continue to not only understand, but to improve their experience at each touchpoint.

<u>Ticketing and Reservations</u>

We are in the final stages of implementing a new ticketing system via the Ar Turas (Our Journey) programme. Designed to improve the booking and ticketing experience for our customers, it offers greater choice over the purchase, management and use of tickets, including the ability to carry tickets on a smart device, booking multiple vehicles on a single reservation and being able to purchase selected concession fares online for the first time.

Greater data and capacity management will help us improve how we utilise capacity across our major vessels, which is key given growing demand.

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

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

As part of our Network Improvement Project, we have upgraded the equipment on all vessels, providing enhanced connectivity for our customers and staff. The upgrade of our network infrastructure at our ports and unmanned slipways is also complete, in support of our new ticketing and reservations system. These upgrades will enable both customers and staff to have an improved and seamless experience. Following completion, our focus will turn to enhancing the resilience of the network infrastructure.

The Digital Refresh Project

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

Caledonian MacBrayne Brand Mark

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

Customer brand strategy

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

Oran Mor and our retail strategy

Following the introduction of our new stock management system '*Saffron'* in 2021, we have been able to use the data to analyse the performance of our customer offer, by individual outlet and vessel. This insight has allowed us to shape our retail vision and strategy, while also tapping into significant input from our frontline colleagues – those members of our team who are closest to our customers on a day-to-day basis – to help refine the offer further.

The result has been the development of new retail ranges, an enhanced our food and drink offer which builds on local provenance and quality and plans for the refurbishment of our customer environments as well as the overall refinement of how we market our on-board services to customers.

Customer Experience Measurement

As part of our work to collate actionable insights to improve the customer experience, we have developed an 'always on' method of gathering customer data. This is thanks to our introduction of an industry leading Customer Experience Measurement solution, which uses sophisticated technology to monitor, analyse and deep dive into customer sentiment. We are capturing feedback from all customer touchpoints, giving us an holistic view of the entire customer journey. Using this data, we are delivering customer insight driven change, making us more responsive through faster and more focused action planning.

Non-leisure customer behaviour tracking

To better understand the travel habits of commuters, islanders and business travel customers – and how they changed as a result of the pandemic, we introduced a non-leisure behaviour tracker survey in May 2021. We completed three surveys in 2021, and a fourth in March 2022.

An onboard survey programme for non-bookable routes also began in mid-2022 capturing feedback from this customer group, which given its nature, is often difficult to reach. This provides us with a holistic view of the experience for this customer type.

In December 2021, we launched the Commercial/Business to Business Customer Research project, which takes a more targeted approach with this customer group, involving in-depth interviews along with the introduction of a quarterly key metrics tracking programme.

Review of disruption handling

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

Communities

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

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

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

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

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

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

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

Environment

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

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

The intensity ratio of kg CO2e per passenger km (vessel emissions) has reduced by 13% in comparison to the previous year and increased by 2% compared to the 2019/20 baseline year. The intensity ratio of kg CO2e per passenger km (whole organisation emissions) has increased by 6% in comparison to the previous year and increased by 26% compared to the 2019/20 baseline year.

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

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

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

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

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

Marchwood Port

Solent Gateway Limited (SGL) was formed in 2016 and is a joint venture between DML and GBA (Holdings) Limited to develop and manage Marchwood Port for 35 years.

SGL has unveiled ambitious plans to develop the facility into a high-quality port-centric logistic hub with excellent connectivity by sea, rail, and road.

The company submitted a planning application on 6 August 2021 and planning consent was granted on 9 February 2022, subject to the completion of Section 106. The achievement of this critical milestone was key to unlocking the port's commercial potential. A preferred bidder for the Principal Contractor to deliver the port construction work will be selected in due course, subject to confirmation and timing of funding for the port development.

SGL is a key element of the Solent Freeport, which is one of eight UK Government freeport sites. Freeports are a key part of the UK Government's economic plans for the UK which are designed to boost trade, employment and innovation in each area. SGL is one of very few sites to be awarded both Tax and Customs Site status which is beneficial for businesses taking advantages of tariff, tax and other financial benefits. SGL is the only customs site within the Solent Freeport and as all Freeports must have at least one customs site, SGL is therefore a critical element of the Solent Freeport. Being both a tax and custom site greatly increases the commercial attractiveness of Marchwood Port. This is reflected in the continually growing interest in access to the port and gives increased confidence in SGL's revenue potential.

The first phase of development will deliver a new port entrance and security facility, on-and off-site ecological mitigation to deliver the mandated bio-diversity net gain of +10%, site enabling works and 35 acres of reinforced concrete for commercial activity and port operations. Subsequent phases will see further areas of the port developed for open and closed storage facilities.

In addition to the area used for commercial import and export activities, SGL is engaged in several negotiations with clients for long-term tenant arrangements. The assured income from longer-term agreements, augmented by the commercial revenue from other shorter-term clients, will give SGL a solid and secure financial platform from which it can target further revenue growth.

Perth Harbour

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

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

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

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

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

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

CMAL Harbours

Our CMAL harbour operations continue to thrive following a significant reduction in traffic throughout the pandemic. From a pre-pandemic position of 184 cruise ships arriving in 2020, the number reduced to 52 in 2021 due to restrictions, but with the removal of these restrictions in 2022, CFL actively engaged with cruise agents which saw the number of ships rise back up to 140. CFL is working closely with industry partners to promote the harbours, supporting growth for both commercial cargos and cruise activity, which in turn supports the local island communities. In 2023 the forecast is to receive 321 ships which is an impressive increase on our pre-pandemic levels.

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

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

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. The Group has set out its risk appetite and the approach to dealing with barriers to achieving the corporate objectives through its comprehensive Risk Management Policy and the associated risk registers.

The Corporate Risk Register records those risks that may affect the organisation and may prevent the achievement of the strategic goals and objectives. The Register is linked to corporate objectives and all risks are assigned a value to measure likelihood and impact. This enables them to be assessed in line with the organisation's risk appetite. The Register is reviewed and assessed by the Executive team and Board members.

The Group have a risk management process which has proved itself effective in the implementation of mitigations to bring risks within appetite or eliminate the risk. The key risks facing the organisation are typically longer-term strategic risks.

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 and that ongoing reviews are carried out to identify new risks.

Key Risks Facing the Organisation

Ref	Risk	Key Mitigations
Fleet Reliability	There is a risk that some of our vessels may be unavailable for an extended 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. 13 Vessels are over design life (30 years in age); 17 Vessels are 25 years or older	We are collaborating with CMAL (vessel owner) on several initiatives that will improve vessel reliability: • Delivery of Upgrade and Resilience programme of work for the fleet. • Provide input and support to develop the Major Vessel Replacement Programme which is in progress. • Provide support for Transport Scotland to develop the vessel strategy for SG Ferries Plan. 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 a condition monitoring programme for major vessel equipment. • Embedding learning and improvements because of our experience, vessel technical events and investigations.
Island Community Expectations	There is a risk that the CalMac issued timetable does not meet the requirements of our island communities. This may result in reputational damage and a deterioration of staff wellbeing following negative interactions with passengers.	• Actively engaging with Island communities to explore the options, where feasible, to shape the decisions on services. • Ongoing management of island community expectations through regular communication. • Articulating the decision-making process that exists between Transport Scotland, CMAL and CalMac Ferries Ltd. • Promotion of the positive work and activity undertaken by CalMac Ferries to best meet the needs of the communities we serve.
Geo-political events and the impact on the supply chain	There is a risk that the impacts of Covid-19, specifically the current situation effecting Chinese manufacturing and world shipping, reduces the availability of key components for vessel maintenance. Additionally, there is a risk that the Russia-Ukraine war continues to drive up the costs of raw materials and disrupts the supply chain.	• Review of key vessel components, associated lead times and requirement for spares. • Demand planning for 2022-23 and then subsequent years. • Utilising our new modern workshop and logistics hub to increase stock holding of critical parts that may become challenging to source.
Negative Press surrounding new vessels	There is a risk that CalMac experiences sustained reputational damage as a result of delayed vessels joining the fleet.	• Ongoing engagement with Transport Scotland and Scottish Government Ministers. • Media campaigns that articulate the challenges faced by the organisation and highlighting positive examples of our service. • A robust communications strategy is in place to be delivered throughout 2022/23 which clarifies CalMac's relationship in new vessels coming into service.
Climate Change	There is a risk that climate change could have critical impacts on CFL operations affecting service provision and our island communities	• A Climate Change Risk Assessment and Adaptation Plan has been developed and work is ongoing to embed the recommendations of the plan in the business. • We will continue to work in partnership with the owners of the vessels and ports that we operate and use, to improve resilience to the impacts of climate change • A core priority of our Environmental Strategy is to provide ferry and port operations that are resilient to climate change. Actions to help deliver this core priority are monitored and progress reported on a quarterly basis.

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>

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

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

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

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

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

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

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

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

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

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

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

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

Client (Transport Scotland)

<u>Key Issues</u>

Transport Scotland's vision is for a sustainable, inclusive, safe and accessible transport system helping deliver a healthier, fairer and more prosperous Scotland. The key issues in relation to the CHFS contract are;

Resilience: the technical resilience of the current fleet to deliver reliable services.
Community Engagement: effective community engagement.
Infrastructure strategy: the development of a long-term strategy for vessels and ports.

Engagement in 2022
We attend monthly contract meetings where detailed KPIs and performance are reviewed. We are an active participant in the Ferry Division's monthly Network Strategy Group and Project Steering Committees, to support the client make procurement choices and build the long-term strategy. We also support the client in community engagement either on their behalf or in collaboration.

We are working collaboratively with Transport Scotland, aligning ourselves to the principles set out in the of the Miller Heiman, Large Account Management Process, to build our relationship as a strategic partner.

Suppliers

Key Issues

Brexit:
We have worked closely with our suppliers during the period to mitigate post-Brexit issues, to ensure continuity of supply for the business and negotiate effectively to limit cost increases.

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

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

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

Engagement in 2022
Supplier Relationship Management (SRM)
We effectively deployed SRM methodology during 2021 and are continuing to enforce this approach, which included regular supplier review meetings to identify key actions for improvement. Processes and procedures have been established to enable the work stream, supporting the delivery of high-quality goods and services.

Supplier Score-carding
This has successfully been implemented for an identified range of critical suppliers. This includes scoring suppliers across essential criteria for quality, cost, sustainability, and service. This initiative is now an established part of our business as usual processes, with buy in from our internal stakeholders, and supply chain.

Where appropriate, the Competitive Procedure with Negotiation (CPN) continues to be used as the route to market. In our regulated procurement environment, this continues to support engagement with suppliers during the procurement process to enable the award of robust, commercially viable contracts that have delivered high quality goods and services.

Employees

Key Issues

Staff welfare and wellbeing
In support of ongoing staff wellbeing, we have established an Employee Wellbeing Group and an Inclusive CalMac Group, with representatives from across our network. In addition to our Occupational Health service, we have provided an enhanced Employee Assistance Programme via access to a wellbeing app. This app offers a wealth of resources to support health and wellbeing, in addition to one to one counselling if required.

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

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

Engagement in 2022
Our People Steering Group is now well established, providing a forum for colleagues from across all areas of our business to discuss and provide feedback on issues impacting our people. More generally, we have focused on building understanding of our goals, values and behaviours and have promoted our values through the launch of our new People Behind the Journey campaign, aimed at highlighting and celebrating our people.

Local Communities

Key Issues

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

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

Engagement in 2022

We have regular meetings with partner agencies, local authorities, supply chain and commercial customers.

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

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

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

Environment

Key Issues

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

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

Carbon emissions

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

Waste

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

Engagement in 2022

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

Shareholder

Key Issues

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 2022

Annual Report

The Annual report provides details of Group financial performance, as well as progress against key priorities, with clear and transparent messaging.

DML Board meetings are held throughout the year with our Sponsor (Shareholder representative) in attendance. Shareholder engagement meetings were held throughout the year to discuss Group growth and operational strategy.

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

Asset Management Technology

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

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

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

Financial Planning

Financial Planning, funding allocation and dividend policy decisions.
In line with our agreed policies this year's plan was approved by the Board following a comprehensive review of our strategic priorities and risks. We regularly review how we are performing against plan and report monthly and year to date financial results compared with the Board approved plan. This is in addition to reviewing the financial forecast outlook for the year. There is a process in place to assess this performance and the opportunity to take decisions to ensure that funding is allocated appropriately and to address any emerging risks, e.g., fleet maintenance driven by the increasing average age of vessels.

During the annual planning process and as part of our regular strategy reviews, we look at our funding requirements. This ensures that our financial planning supports our strategy with consideration to invest in the capability, scale of the Group, and meet shareholder expectations by paying dividends when appropriate. Our strategy is ambitious but will position DML well for our long-term prospects and growth ambitions, while honouring commitments to our stakeholders.

Agile Working

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

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

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

<u>Governance</u>

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 Boot School of Business, University of Chicago from where he earned a degree as Master of 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.

David McGibbon
Chairman (Resigned 31 January 2021)
David McGibbon is a qualified accountant and an independent business consultant. He is a former Board member of Historic Scotland and is a former independent Chair of the Audit and Risk Committee of Historic Environment Scotland. He formerly served as Chairman of the London Stock Exchange, Scottish Council and held the post of Finance Director and Company Secretary with Grampian Holdings plc., the then parent company of the Malcolm Group. David is a former Chair of the Scottish Group of the Pensions and Lifetime Savings Association (formerly NAPF).

Duncan Mackison (Resigned 16 September 2022)
Chief Executive
Duncan Mackison is CEO 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. He is 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.

Robert Drummond
Chief Executive Officer
Robert Drummond is Chief Executive Officer for CalMac Ferries Limited and Executive Board Director for the David MacBrayne Group. In 2016 he led the successful £1bn bid for Clyde and Hebrides ferry services and is now leading the delivery of our services across 34 vessels, 51 ports and over 1,650 staff as at 31 March 2022. His previous roles in the Group include Group Finance Director, Transformation Director, Bid Director and Operations Director. He is also a Director of Solent Gateway Limited, a joint venture set up by David MacBrayne Limited and GBA (Holdings) Limited under contract with the MoD to operate and commercially develop the Marchwood military port and is a member of Interferry's Operator Policy Committee.

Robert 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.

Timothy Ingram
Non-Executive Director
Tim Ingram brings a range of health and safety, enterprise risk management and governance skills together with a wealth of energy industry, marine and port operations experience. He is a Non-Executive Director of Western Isles NHS Board, sitting on various Committees including the Healthcare Governance and Audit Committee, which he chairs. He worked in the offshore oil and gas industry and joined the Health and Safety Executive in 1992 as a Specialist Inspector becoming the Principal Inspector responsible for the inspection of gas and pipeline facilities across Scotland. Latterly he held corporate and director level health and safety and assurance roles in Maersk Oil, the Wood Group, Dana Petroleum and the Port of Tyne. He now runs a specialist health and safety consultancy and is voluntary guest lecturer at Imperial College, London.

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 and tourism. Ms O'Connor serves on the Accounts Commission for Scotland; is a Board member of the Sustainable Energy Authority of Ireland (SEAI); and the NI Transport Holding Company (Translink).

Albert Tait
Non-Executive Director (Resigned 28 February 2022)
Albert Tait OBE has over 40 years of experience at senior management, Director and Board level in the private and public sector. He was formerly Chief Executive of the Convention of Scottish Local Authorities (CoSLA) and Orkney Islands Council. He was also previously Director of Finance and Housing at Orkney Islands Council and a member of the Standards Commission for Scotland. A qualified accountant (FCCA, CPFA), he has been actively engaged in strategic planning,

resource allocation, business case development and performance management covering transportation and economic development activities. He has extensive knowledge and experience of public sector finance in general and local government in particular.

Stephen Hagan
Non-Executive Director (Resigned 20 November 2021)
Stephen Hagan has farmed in Orkney for over 30 years, since working as a chartered Civil Engineer with the Northern Ireland Civil Service. He retired as a councillor with Orkney Islands Council in 2017, where he served as Transportation Chairman between 1999 and 2003 and as Convener of the Council from 2003 to 2012. During his final Council term, he was the spokesperson for Development, Economy and Sustainability with CoSLA (Convention of Scottish Local Authorities). He is a Non-Executive Director with Visit Scotland. Previous posts include Chairman of Orkney Ferries, Board member with the North of Scotland Water Authority and Vice-Chairman of both Orkney Enterprise and Orkney Auction Mart. He brings extensive experience of working with national and local government, along with many communities throughout Scotland.

James Stirling
Non-Executive Director (Resigned 20 November 2021)
Jim Stirling OBE works as an advisor, mentor, and consultant across a range of business sectors. A chartered engineer, he brings extensive experience of working with national and local governments, passionate customers, and wider stakeholders. Jim was Technical Director of Canal and River Trust, the new body responsible for the canal network in England and Wales. Previously, as Technical Director of the government-owned British Waterways, he was Project Director for the transfer of the canals to the charitable sector and was on the team negotiating with UK Government. Between 1992 and 2006 he led British Waterways in Scotland building partnerships to safeguard the canals, culminating in the reopening of the Lowland Canals and the creation of The Falkirk Wheel. Prior to joining the public sector, he worked in engineering and construction both in the UK and abroad. Jim has an MBA, is a Fellow of The Institution of Civil Engineers, a Fellow of The Institution of Royal Engineers and a Member of The Institution of Structural Engineers.

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 the Clyde and the Hebrides. DML is a holding company.

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.

Solent Gateway Limited, a joint venture between DML with GBA (Holdings) Limited, delivers the Marchwood Military Port management contract in Southampton.

Purpose Statement and Values

DML will be a world class vessel and port service company driven by delighting its customers, enriching the communities in which it operates and earning fair shareholder returns.

Our principles and values that will accelerate delivery of this Purpose are:

People First – we help each other thrive
Locality – we act in the best interest of the places we serve
Bravery – we think and act with courage and conviction

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 19 to 21.

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 the Executive Directors.

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 six Non-Executive Directors (including the Chair) and two Executive Directors. 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 accreditation, 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 a reasonable expectation that the Group has adequate resources, with the continued support of Transport Scotland, to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

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 Browell
S O’Connor

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 and the Scottish Ministers 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,
- 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 of Executive and Non-Executive Directors,
- any policy matters concerning benefits for 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 Browell (Chair)
G Macrae
M Comerford

Health, Safety & Environment (HS&E) Committee

The Group Health, Safety & Environment (HS&E) 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 and Security policies and procedures adopted in compliance with all legislation and other requirements of safety, health and environmental 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:

M Comerford (Chair)
T Ingram
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 2022, was as follows (figures in brackets denote the number of meetings which members were eligible to attend):

	Board	**Audit & Risk**	**Remuneration**	**HS&E***
Erik Østergaard	1(1)	-	-	-
D C McGibbon	5(5)	-	-	-
D Mackison	6(6)	-	-	-
R L Drummond	5(6)	-	-	-
S Browell	6(6)	4(4)	4(4)	4(4)
M Comerford	6(6)	-	-	5(5)
S Hagan	4(4)	-	3(3)	4(4)
J Stirling	3(4)	5(5)	-	4(4)
A V Tait	6(6)	4(4)	4(4)	-
T Ingram	2(2)	-	-	2(2)
G Macrae	1(2)	1(1)	1(1)	1(1)
S O'Connor	0(0)	1(1)	-	-

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 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 are as follows: -

	Salary £000	Fees £000	Performance Payment £000	Benefits in kind £000	Total 2022 £000	Total 2021 £000	Employer's Pension Contribution 2022 £000	Employer's Pension Contribution 2021 £000
Executive Directors								
D Mackison	175	-	3	12	**190**	190	**22**	21
R L Drummond	143	-	2	11	**156**	154	**43**	41
Non-Executive Directors								
D C McGibbon	-	20	-	-	**20**	28	**-**	-
E Østergaard	-	9	-	-	**9**	-	**-**	-
S Browell	-	11	-	-	**11**	7	**-**	-
M Comerford	-	16	-	-	**16**	26	**-**	-
S Hagan	-	7	-	-	**7**	9	**-**	-
J Stirling	-	6	-	-	**6**	8	**-**	-
A V Tait	-	14	-	-	**14**	13	**-**	-
G Macrae	-	2	-	-	**2**	-	**-**	-
T Ingram	-	2	-	-	**2**	-	**-**	-
S O'Connor	-	1	-	-	**1**	-	**-**	-
	318	88	5	23	**434**	435	**65**	62

D Mackison employer's pension contributions were paid in lieu of pension fund contributions.

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 2022 £000	2021 £000	After taking account of inflation during the year, the increase in annual pension is 2022 £000	2021 £000	The effect on the transfer value of the movement in annual pension is 2022 £000	2021 £000	Transfer value based on accrued pension 2022 £000	2021 £000
R L Drummond	**22**	19	**3**	3	**36**	43	**382**	338

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
D Mackison	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 our communities by supporting non-profit groups achieve their goals. When designing this year's Fund we listened to our communities and shaped our Fund to address mental health, improved well-being and social isolation including encouraging re-engagement with community activity. Issues directly related to COVID recovery.

We seek to generate and return social value through the CalMac Community Fund, which exists to benefit the lives of people living in our communities. Since its launch in 2019 the CalMac Community Fund has now supported 195 projects delivering:

·Health and Wellbeing outcomes including improved mental health, improved self-esteem and increased physical activity.

·Social and Community outcomes including greater access to local community and social activities, development of new friendships and development of new life skills.

·Education and Skills outcomes including improved teamwork and communication.

·Employment and Volunteering outcomes including the generation of 903 volunteering hours.

Projects supported by the Fund have engaged with over 4,500 people living in our communities. Recent research has forecasted that for every pound awarded through the CalMac Community Fund, communities' benefit from a social return of £7.32. It is expected to deliver £965,467.88 of value over two years.

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.

2022 will see the Perth Harbour Community fund offer another round of awards, this time focused on the river use and surrounding areas, supporting the health and wellbeing of all users.

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 2022 comprise pages 27-33.

Directors and their interests

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

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

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.

Streamlined Energy and Carbon Reporting

Environmental Policy

The Group is committed to its ISO14001 certified Environmental Management System and recognise that protection of the environment, of its employees, customers, the coastal communities, and contractors affected by its operations, is an integral part of the organisation's business performance and is a management priority. The Group recognises that its activities and services can be directly and indirectly responsible for environmental impacts, which we aim to eliminate and reduce to a practicable minimum.

The Group 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.

Climate Resilience

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

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

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 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. The additional subsidiaries are excluded from the organisational boundary under the Operational Control approach.

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 2021 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 7.7%.

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.

	2021/22	2020/21
Scope 1: Direct GHG Emissions (tCO2e)		
Mobile transport (vessels, fleet vehicles)	120,984	100,587
Stationary combustion (gas, heating oil, wood chip)	336	97
CO2 from biofuels (Out of scope)	543	88
Scope 2: Indirect GHG Emissions from imported energy (tCO2e)		
Purchase of electricity	765	863
Total Scope 1 and Scope 2 Emissions (tCO2e)	122,628	101,635
Energy consumption used to calculate Scope 1 and Scope 2 Emissions (kWh)	474,088,488	401,308,620
Scope 3: Indirect GHG Emissions (tCO2e)		
Business travel (air, land, hotel stay)	715	537
Electricity transmission and distribution	68	-
EV charging points for public use	9	2
Waste disposal	409	298
Water supply and treatment	10	-
Well-to-Tank (vessels, fleet vehicles, gas, heating oil, wood chip)	27,641	-
Total Scope 1, Scope 2 and Scope 3 Emissions (tCO2e)	150,938	102,472
Intensity Ratio		
kg CO2e / passenger km (vessel emissions only)	0.100	0.115
kg CO2e / passenger km (whole organization emissions)	0.124	0.117

There has been one change to the operational boundary during the period, with the addition of our modern workshop and logistics hub in Gourock resulting in additional emissions from gas and electricity use. This change from the previous reporting periods is not considered significant and does not prevent comparison.

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

Notably, the organisation's calculations indicate Scope 1 mobile transport emissions (vessel and fleet vehicles) increased by 20% and stationary combustion (gas, heating oil, and woodchip) increased by 247% in comparison to 2020/21, the latter mainly attributable to direct combustion of gas to heat the Fauld's Park facility.

In contrast, Scope 2 electricity emissions reduced by 11% in comparison to the previous year, and 16% compared to the 2019/20 baseline year.

The scope of the GHG inventory reported has expanded this year to include business travel – hotel stays, electricity transmission and distribution, water supply and treatment and well-to-tank Scope 3 emissions.

Intensity Measurement

The Group's primary measure of emissions performance is expressed as kilograms of CO2 equivalent (CO2e) per passenger per kilometer. This ratio allows the organisation to measure its primary, material emissions from vessels 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 intensity ratio of kg CO2e per passenger km (vessel emissions) has reduced by 13% in comparison to the previous year and increased by 2% compared to the 2019/20 baseline year. These changes can be explained by the impact of the COVID-19 pandemic and the subsequent recovery on passenger numbers and operated sailings.

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

Measures taken to improve energy efficiency

The 2019-21 Environmental Strategy sets a target to reduce vessel fuel consumption by 2% year on year during the period of the strategy.

Current environmental programmes supporting the strategy include projects to upgrade vessel engines, improve the operational efficiency of our vessels, transition to a low emission light commercial vehicle fleet, reduce business mileage, minimise waste, support 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, the 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 crew 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,
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 and 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. CalMac Ferries Limited were the main commercial supporter of the Royal National Mod.

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.

The Group utilises commodity derivatives to mitigate the pricing risk in relation to vessel fuel costs (on behalf of Transport Scotland).

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
19 December 2022

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.

Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DAVID MACBRAYNE LTD

Opinion

We have audited the financial statements of David MacBrayne Limited ("the Company") for the year ended 31 March 2022 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 of 31 March 2022 and of the Group's loss 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 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.

Going concern

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

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

Our conclusions based on this work:

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

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

• Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, 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.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those including key words in description and those posted to unrelated accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the 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.

<u>Strategic report and directors' report</u>

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.

- 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 33, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the 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

19 December 2022

Group Income Statement
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Revenue	2	**228,418**	198,657
Cost of sales		**(199,017)**	(168,371)
Gross profit		**29,401**	30,286
Administrative expenses		**(30,392)**	(25,255)
Operating (Loss)/Profit		**(991)**	5,031
Finance costs	4	**(1,169)**	(1,494)
Share of (loss) in joint venture	15	**(143)**	(87)
(Loss)/Profit before tax	3	**(2,303)**	3,450
Taxation	6	**(1,407)**	(747)
(Loss)/Profit for the year		**(3,710)**	2,703

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2022

		2022 £000	2021 £000
(Loss)/Profit for the year		**(3,710)**	2,703
Other comprehensive income, net of tax		**-**	-
Change in value of cash flow hedge recognised	18	**7,229**	8,424
Tax relating to cash flow hedge	6	**(1,374)**	-
Total comprehensive income attributable to equity holders of the parent		**2,145**	11,127

The accompanying notes are an integral part of these financial statements

Group Balance Sheet
as of 31 March 2022

	Note	**2022** **£000**	2021 £000
Non-current assets			
Property, plant and equipment	7	**43,983**	59,658
Derivative financial instruments	8	**-**	465
Deferred tax	9	**-**	470
		43,983	60,593
Current assets			
Inventories	10	**2,103**	2,319
Contract assets	2	**27,810**	20,138
Trade and other receivables	11	**17,155**	11,867
Derivative financial instruments	8	**8,527**	833
Cash and cash equivalents	12	**14,171**	22,166
Total current assets		**69,766**	57,323
Total assets		**113,749**	117,916
Current liabilities			
Contract liabilities	2	**(7,339)**	(3,661)
Trade and other payables	13	**(24,863)**	(19,702)
Lease liability	14	**(16,410)**	(15,537)
Deferred Income		**(639)**	(724)
Total current liabilities		**(49,251)**	(39,624)
Creditors: Amounts falling due after more than one year			
Lease liability	14	**(30,997)**	(47,266)
Equity – accounted investees	15	**(245)**	(2,039)
Deferred Tax	9	**(750)**	-
Total liabilities		**(81,243)**	(88,929)
Net assets		**32,506**	28,987
Equity			
Share capital	17	**5,500**	5,500
Hedge reserve	18	**8,527**	1,298
Retained earnings		**18,479**	22,189
Total equity attributable to equity holders of the parent		**32,506**	28,987

These financial statements were approved by the Board of Directors and signed on 19 December 2022 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 2022

	Note	**2022**	2021
		£000	£000
Cash flows from operating activities			
(Loss)/Profit for the year		**(3,710)**	2,703
Adjustments for:			
Depreciation and impairment		**18,450**	17,057
Finance income		**(62)**	(91)
Finance expenditure		**1,232**	1,585
Income tax (credit)/expense		**1,407**	747
Share of loss of joint ventures		**143**	87
Operating cash flows before movements in working capital		**17,460**	22,088
(Increase) in trade and other receivables		**(4,400)**	(3,112)
(Increase) in contract assets		**(7,672)**	(11,579)
Increase/(decrease) in contract liabilities		**3,678**	(420)
Decrease/(increase) in inventories		**216**	(528)
Increase/(decrease) in trade and other payables		**4,577**	(699)
Cash (absorbed by) operations		**13,859**	5,750
Tax paid		**(544)**	(413)
Net cash inflow from operating activities		**13,315**	5,337
Cash flows from investing activities			
Acquisition of property, plant & equipment		**(2,031)**	-
Acquisition of Shares		**(2,000)**	
Interest received		**62**	91
Net cash inflow from investing activities		**(3,969)**	91
Cash flows from financing activities			
Payment of lease liability		**(15,339)**	(14,590)
Capital Grants		**(765)**	(232)
Interest paid & similar charges		**(1,237)**	(1,585)
Dividends paid		**-**	(5,000)
Net cash inflow from financing activities		**(17,341)**	(21,407)
Net (decrease) in cash and cash equivalents		**(7,995)**	(15,979)
Cash and cash equivalents on 1 April		**22,166**	38,145
Cash and cash equivalents on 31 March	12	**14,171**	22,166

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
On 1 April 2020	5,500	(7,126)	24,486	22,860
Profit for the year	-	-	2,703	2,703
Dividends paid in the year	-	-	(5,000)	(5,000)
Other comprehensive income	-	8,424	-	8,424
On 31 March 2021	5,500	1,298	22,189	28,987
On 1 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**

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

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' Onerous Contracts - Cost of fulfilling a contract
- Amendments to IAS 16 'Property, Plant and Equipment' Proceeds before Intended Use
- Amendments to IFRS 3 'Business Combinations' Reference to the Conceptual Framework
- 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 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.

Several new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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 and consider this appropriate for the following reasons.

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

Under the contract, Transport Scotland hold the risk for increases in inflation and fuel prices which are currently significant areas of cost increase. Fuel price increases were mitigated by entering into a 2 year fuel hedge as agreed with Transport Scotland. This hedge ended 30th September 2022. CalMac Ferries will continue to engage with Transport Scotland to agree the timing of a further hedge, if this is required. Fuel price risk is funded under the CHFS2 contract, so there is not considered to be a risk to CalMac Ferries or the Group.

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

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

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 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 will complete at 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:

ships	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 of 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 2022	**Clyde & Hebrides £000**	**Perth Harbour £000**	**Group Services £000**	**Total £000**
Fares and other associated services transferred at a point in time	66,702	183	3,241	70,126
Government contract – transferred over time	156,771	-	1,521	158,292
Total	**223,473**	**183**	**4,762**	**228,418**

Contract balances

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

	2022 £000	2021 £000
Contract assets	**27,810**	20,138
Contract liabilities	**(7,339)**	(3,661)
Trade receivables	**5,092**	5,015

The contract assets primarily relate to the Group's rights to consideration for services delivered but not billed on 31 March 2022 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: -

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

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):		**2022 £000**	2021 £000
Auditor's remuneration	- audit of these financial statements	**25**	27
	- audit of financial statements of subsidiaries pursuant to legislation	**61**	73
	- other services relating to tax	**26**	24
	- other assurance services	**15**	33
	- all other services	**5**	8
Depreciation of property, plant, and equipment		**17,058**	17,057
Agency staff costs		**3,638**	1,776
Harbour access charges	- Caledonian Maritime Assets Limited	**16,379**	14,898
	- other	**16,852**	12,204
Interest receivable		**(62)**	(91)
Interest payable		**-**	7
Bank facility fee		**60**	72
Finance interest expense		**1,233**	1,585

4. Finance income and costs

	2022 £000	2021 £000
Bank interest receivable	**62**	91
Bank interest payable	**-**	-
Finance interest payable	**(1,231)**	(1,585)
Net finance income and costs	**(1,169)**	(1,494)

5. Employee information

Staff costs (including Directors)

	2022 £000	2021 £000
Wages and salaries	**78,861**	72,344
Social security costs	**3,741**	3,415
Other pension costs	**17,696**	17,276
	100,298	93,035

Details of Directors' remuneration are given in the Directors' Remuneration Report on page 24.

Amounts claimed and receivable or received by the company under the Job Retention Scheme, having met the conditions for payment, are Government grants which are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. In 2022 £0.2m (2021: £1.1m) of job retention scheme grants are shown net of wages and salaries.

Employee numbers

The average number of people employed by the Group, including Directors, during the year was 1,844 (2021: 1,761).

	2022	2021
Head office	**359**	318
Port	**372**	366
Vessel	**1,113**	1,077
	1,844	1,761

The increase in employee numbers within the head office is primarily due to insourcing of the asset management function and the increase in vessels is in relation to investment in vessel resilience and increased services.

6. Taxation

Recognised in the income statement

	2022	2021
	£000	£000
Current tax		
UK corporation tax profit for the period	**113**	519
Adjustment in respect of prior periods	**39**	23
Current tax expense	**152**	542
Deferred tax		
Origination and reversal of temporary differences	**44**	311
Impact of tax rate change	**(189)**	-
Adjustment in respect of prior periods	**(8)**	(79)
Deferred tax charge	**(153)**	232
Share of joint venture tax	**34**	(27)
Total tax charge	**33**	747

Income tax recognised in other comprehensive income

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

Reconciliation of effective tax rate

	2022	2021
	£000	£000
Profit/(Loss) before tax	**(2,303)**	3,450
Tax using the UK corporation tax rate of 19% (2020:19%)	**(438)**	655
Tax effects of:		
Tonnage tax	**552**	(124)
Expenses not deductible for tax purposes	**289**	43
Non-taxable income	**(274)**	(8)
Exclusion of joint ventures' profits/losses	**62**	(10)
Adjustment in respect of prior years	**31**	(56)
Deferred tax previously unrecognised	**-**	-
Impact of rate change	**(189)**	-
Reversal of deferred tax asset previously not recognised	**-**	247
Total tax charge	**33**	747

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.

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

An increase in the UK corporation 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 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2020:19%).

7. Property, plant, and equipment

	Assets Under Construction £000	Ships £000	Buildings £000	Vehicles & Equipment £000	Total £000
Cost					
On 1 April 2021	-	92,214	2,050	1,170	95,434
Additions in the year	679	2,031	-	65	2,775
Disposals in the year	-	-	-	-	-
Items revalued during year	-	(1,392)	-	-	(1,392)
At 31 March 2022	**679**	**92,853**	**2,050**	**1,235**	**96,817**
Depreciation and impairment					
At 1 April 2021	-	34,469	792	515	35,776
Charge for the year	-	16,391	360	307	17,058
Disposals in the year	-	-	-	-	-
At 31 March 2022	**-**	**50,860**	**1,152**	**822**	**52,834**
Net book value at 31 March 2022	**679**	**41,993**	**898**	**413**	**43,983**
Net book value at 31 March 2021	**-**	57,745	1,258	655	59,658

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 2021	89,653	2,050	850	92,553
Additions during period	**-**	-	65	65
At 31 March 2022	**89,653**	**2,050**	**915**	**92,618**
Depreciation and impairment				
At 1 April 2021	32,508	792	307	33,607
Charge for the year	16,326	360	201	16,887
At 31 March 2022	**48,834**	**1,152**	**508**	**50,494**
Net book value at 31 March 2022	**40,819**	**898**	**407**	**42,124**
Net book value at 31 March 2021	57,145	1,258	543	58,946

8. Derivative financial Instruments

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

9. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets 2022 £000	**Liabilities 2022 £000**	Assets 2021 £000	Liabilities 2021 £000	**Net 2022 £000**	Net 2021 £000
Property, plant, and equipment	**780**	**-**	646	-	**780**	646
Financial assets	**-**	**(1,620)**	-	(247)	**(1,620)**	(247)
Other timing differences	**90**	**-**	71	-	**90**	71
	870	**(1,620)**	717	(247)	**(750)**	470

Movements in deferred tax during the 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)

Movements in deferred tax during the previous year

	1 April 2020 £000	Recognised in income £000	31 March 2021 £000
Property, plant and equipment	669	(23)	646
Financial assets	-	(247)	(247)
Other timing differences	36	35	71
Net asset	705	(235)	470

10. Inventories

	2022 £000	2021 £000
Fuels and lubricants	**530**	432
Consumable stores	**1,409**	1,816
Retail inventories	**164**	71
	2,103	2,319

Fuels and lubricants, consumable stores and retail inventories recognised in cost of sales £17.7m (2021: £15.3m). Consumable stores inventories in prior year included purchase of replacement parts for the vessels of £0.6m.

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

	2022	2021
	£000	£000
Trade receivables	**5,092**	5,015
Other receivables	**6,536**	2,319
Prepayments and accrued income	**5,527**	4,533
	17,155	11,867

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

	2022	2021
	£000	£000
Cash and cash equivalents	**14,171**	22,166
Bank balances and cash in hand	**14,171**	22,166

13. Trade and other payables

	2022	2021
	£000	£000
Trade payables	**7,729**	8,938
Other payables and accruals	**17,036**	10,246
Corporation tax	**98**	518
	24,863	19,702

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 8.

	Buildings	**Vehicles & Equipment**	**Ships**	**Total**
	£000	**£000**	**£000**	**£000**
Balance at 1 April 2021	1,258	543	57,145	58,946
Additions during the period	-	65	-	65
Depreciation charge for the year	(360)	(201)	(16,326)	(16,887)
Balance at 31 March 2022	**898**	**407**	**40,819**	**42,124**

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

	2022 £000	2021 £000
Interest expense on lease liabilities	**1,231**	1,585

Amounts recognised in statement of cash flows

	2022 £000	2021 £000
Total cash outflow for leases	**(15,339)**	(14,590)

	Vessels £000	**Property £000**	**Vehicles & plant £000**
Lease liability maturity schedule			
Within 1 year	15,847	372	191
1 - 2 years	16,741	389	130
2 - 3 years	13,442	199	91
3 - 4 years	-	-	5
	46,030	960	417

15. Equity - Accounted investees

	2022 £000	2021 £000
Interest in joint venture	**(245)**	(2,039)
Balance at 1 April	**(2,039)**	(1,979)
Share of purchase	**2,000**	-
Share of (loss)	**(143)**	(87)
Tax	**(63)**	27
Balance at 31 March	**(245)**	(2,039)

	2022 %	2021 %
Percentage ownership interest	50	50

	2022 £000	2021 £000
Fixed assets	**38,782**	39,397
Current assets (including cash & cash equivalents of £2.5m)	**7,807**	4,686
Current liabilities	**(3,179)**	(3,800)
Amounts falling due after more than one year	**(43,899)**	(44,361)
Net liabilities (100%)	**(489)**	(4,078)
Group's share of net liabilities (50%)	**(245)**	(2,039)
Carrying amount of interest in joint venture	**(245)**	(2,039)

	2022	2021
	£000	£000
Revenue	**9,148**	8,823
Cost of sales	**(6,931)**	(7,003)
Administration expenses	**(1,106)**	(556)
Finance expenditure	**(1,397)**	(1,438)
Taxation	**-**	-
Profit/(loss) & total comprehensive income (100%)	**(286)**	(174)
Group's share of profit/(loss) & total comprehensive income (50%)	**(143)**	(87)

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

The joint venture operates the port at Marchwood under a 35-year contract with the Ministry of Defence.

Year-end loss 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.

CalMac had a revolving credit facility of £15m with no fixed repayment and maturity of the facility took place on 31 October 2022 with a £nil balance drawn until the date of expiry. This facility was put in place to manage the seasonal impact of a flat phased subsidy drawdown over the financial year, an agreement has been reached with Transport Scotland to rephase the drawdown in line with seasonal carryings, therefore removing the need to renew the credit facility during this financial year.

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.

The risk associated with the volatility of marine fuel has been mitigated by entering a two-year fixed price fuel hedge from October 2020 to September 2022.

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 the 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** **2022** **£000**	2021 £000
Trade and other receivables	11	**5,092**	5,015
Cash and cash equivalents	12	**14,171**	22,166
		19,263	27,181

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:

	Gross £000	**2022 Impairment £000**	Gross £000	2021 Impairment £000
Not past due	**4,207**	**-**	3,924	2
Past due 0-30 days	**416**	**1**	864	2
Past due 31-120 days	**462**	**4**	228	3
More than 120 days	**7**	**-**	(1)	-
	5,092	**5**	5,015	7

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:

	2022 £000	2021 £000
Balance at beginning of year	**7**	56
Expected credit loss during year	**(2)**	(49)
Balance at end of year	**5**	7

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 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

31 March 2021

	Carrying amount £000	Contractual cash flows £000	6 months or less £000
Non derivative financial liabilities			
Trade and other payables	30,416	30,416	30,416

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 2022		31 March 2021	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables	**5,092**	**5,092**	5,015	5,015
Cash and cash equivalents	**14,171**	**14,171**	22,166	22,166
Contract assets	**27,810**	**27,810**	20,138	20,138
Trade and other payables	**(36,006)**	**(36,006)**	(30,416)	(30,416)
Derivative financial instruments	**8,527**	**8,527**	1,298	1,298
	19,594	**19,594**	18,201	18,201

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

	2022 £000	2021 £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 2021	**1,298**	**-**	**1,298**
Effective portion of changes in fair value of cash flow hedges	**12,543**	**-**	**12,543**
Tax relating to cash flow hedge	**-**	**(1,374)**	**(1,374)**
Net change in fair value of cash flow hedges reclassified to profit or loss	**(5,314)**	**-**	**(5,314)**
At 31 March 2022	**8,527**	**(1,374)**	**7,153**

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

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:

	2022 £000	2021 £000
CalMac Pension Fund	**17,003**	16,601
Ensign	**129**	138
Other schemes	**563**	537
	17,695	17,276
Contributions to be paid to pension schemes included in payables	**550**	555

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:

	2022 £000	2021 £000
Transactions during the year – receivable/(payable):		
Scottish Ministers		
- revenue subsidy	**150,021**	153,233
- vessel life extension subsidy	**1,436**	955
- consultancy services	**2,391**	1,381
Caledonian Maritime Assets Limited		
- vessel leasing charges	**(15,933)**	(15,653)
- harbour services	**(11,121)**	(9,008)
- vessel new build, modification and other costs	**6,348**	7,309
- ferry travel costs	**10**	5
Solent Gateway Limited		
- management charge	**364**	357
Amounts due at end of year – receivable/(payable):		
Scottish Ministers		
- revenue subsidy	**28,633**	20,138
- vessel life extension subsidy	**832**	-
- consultancy services	**712**	564
Caledonian Maritime Assets Limited		
- harbour services	**(532)**	(132)
- vessel new build, modification, and other costs	**2,314**	1,656
- ferry travel costs	**1**	1
Solent Gateway Limited		
- management charge	**-**	1,796

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 25. There were no other transactions or amounts due at year end relating to key management personnel.

Company Balance Sheet
as at 31 March 2022

	Note	2022 £000	2021 £000
Fixed assets			
Tangible assets	2	**1,175**	601
Investments	3	**2,574**	574
Deferred tax	8	**258**	203
		4,007	1,378
Current assets			
Inventories	4	**-**	579
Debtors and prepayments	5	**889**	1,247
Cash and cash equivalents		**4,804**	6,225
		5,693	8,051
Creditors: amounts falling due within one year	6	**(506)**	(952)
Net current assets		**5,187**	7,099
Creditors: amounts falling due after one year		**(596)**	-
Total assets less liabilities		**8,598**	8,477
Net assets		**8,598**	8,477
Capital and reserves			
Share capital	10	**5,500**	5,500
Profit and loss account		**3,098**	2,977
Shareholder's funds		**8,598**	8,477

These financial statements were approved by the Board of Directors and signed on 19 December 2022 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 2020	5,500	7,842	13,342
Total comprehensive income for the year			
Loss for the year	-	135	135
Dividends paid in the year	-	(5,000)	(5,000)
Balance at 31 March 2021	**5,500**	**2,977**	**8,477**

	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**

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 £5.2m as at 31 March 2022. As at 31 March 2022, the financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate for the following reasons.

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 12 months from the date of approval of these financial statements that reflect increased costs as a result of the continuing cost of living crisis.

The Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(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:

Ships	-	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 2021	2,561
Additions in the year	2,031
Revaluation in the year	(1,392)
	3,200
Depreciation	
At 1 April 2021	1,960
Charge for the year	65
At 31 March 2022	**2,025**
Net book value at 31 March 2022	**1,175**
Net book value at 31 March 2021	601

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

3. Investments

	2022 £000	2021 £000
Shares in subsidiary undertakings	**74**	74
Investment in joint venture	**2,500**	500
	2,574	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 own 50% of the issued share capital of Solent Gateway Limited. 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. Inventories

	2022 £000	2021 £000
Consumable stores	**-**	579
	-	579

Inventories were in relation to parts received for the Ali cat and Flyer works which were not fitted to the vessel at 31 March 2021.

5. Debtors and prepayments

	2022 £000	2021 £000
Other debtors	**834**	1,104
Amounts due from subsidiaries	**55**	143
	889	1,247

6. Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	**40**	73
Other creditors and accruals	**413**	133
Corporation tax	**10**	22
Deferred Income	**43**	724
	506	952

7. Creditors: amounts falling due after one year

	2022 £000	2021 £000
Deferred Income	**596**	-
	596	-

8. Deferred tax

The main components of deferred tax at 25% (2021: 19%) are:

Recognised deferred tax assets and liabilities

	Assets 2022 £000	Assets 2021 £000	**Net 2022 £000**	Net 2021 £000
Tangible fixed assets	**257**	202	**257**	202
Other	**1**	1	**1**	1
Net assets	**258**	203	**258**	203

Movement in deferred tax during the 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**

Movement in deferred tax during the prior year

	1 April 2020 £000	**Recognised in income £000**	**31 March 2020 £000**
Tangible fixed assets	209	(7)	**202**
Other	1	-	**1**
	210	(7)	**203**

9. Leases as lessor

During the year, £291,000 (2021: £283,000) 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

	2022 £000	2021 £000
Less than 1 year	**299**	291
Between 1 and 2 years	**308**	299
Between 2 and 3 years	**159**	308
Between 3 and 4 years	**-**	159
Between 4 and 5 years	**-**	-
More than 5 years	**-**	-

10. Share capital

	2022 £000	2021 £000
Allotted issued and fully paid		
5,500,002 Ordinary shares of £1 each	**5,500**	5,500

11. 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