Caledonian Maritime Assets Ltd

2006 - 2007

Annual Report and Consolidated Financial Statements

Contents

Caledonian Maritime Assets Ltd

Chairman's Statement

The Annual Report and Financial Statements for the year ended 31st March 2007 need to be read as a year of two distinct halves.

As required by E.U. regulations, Scottish Ministers decided to separate the operation of ferries from the continuing public ownership of assets such as harbours, piers and vessels. The ferry operations have been put out to open tender. This process was well described in our previous annual report. It has now reached a situation where one company, Calmac Ferries Limited, is progressing the tender with a view to operating under the terms of a Public Service Contract from 1st October 2007.

The period to 30th September 2006 is reported as Discontinued Operations. These transactions reflect the summer season of the Operating Company which is well known to all throughout the west coast of Scotland as Caledonian MacBrayne. During this period trading was satisfactory:

- Passenger and car carryings increased by 2% and 1.5% respectively, compared with the same six month trading period in 2005/06,while commercial vehicle carryings increased by 6.6% and coach traffic by 1.8%.
- Performance targets measured in terms of service reliability and punctuality were met with 99.7% and 99.2% respectively being achieved.
- In September 2006 the Island Class vessel MV Bruernish was disposed of, and the final stages of Company restructuring concluded.
- The Company received a dividend payment of £825,000 from NorthLink Orkney and Shetland Ferries Limited, in which the Company has a 50% joint venture shareholding.

On the 30th September 2006 ferry operations were transferred to a new company CalMac Ferries Limited. They continue to provide ferry services throughout the west coast.

And so the second half of the year represents the birth of a new arrangement whereby the company, under its new name, Caledonian Maritime Assets Limited, retains ownership of the ships and piers, and leases them to the operator of the ferry services. The company is also charged with the procurement of new vessels and the improvement of the harbour facilities which it owns.

I was appointed Chairman of this new Board on 1st November 2006. On the same date I was joined by Kenneth Macleod and Erik Ostergaard both of whom bring considerable experience of the shipping and ferry industry to compliment my own financial career.

We initiated the process of putting a new management team in place by commencing the recruitment of a Managing Director, a Vessels Director and a Harbours Director. As a result of the advertising and interview process I am pleased to welcome Guy Platten, Andrew Duncan, and Lorna Spencer to their respective posts. We have retained the services of John Pettigrew as Finance Manager. A small administrative support team has also been recruited.

We intend establishing an office in Port Glasgow. We have had excellent co-operation from Inverclyde Council in the refurbishment of the premises. In the meantime the company has been based in temporary offices in Greenock.

It is for report that two new vessels were delivered shortly after the year end. MV Loch Shira, built at a cost of £6.3m, was constructed by Fergusons in Port Glasgow. It will operate primarily between Largs and Cumbrae. MV Argyle cost £8.8m and was built in Poland at the Remontowa yard and will operate between Wemyss Bay and Rothesay. These vessels were designed, procured and delivered under the auspices of the previous company and great credit is due to the Directors and staff who are now with CalMac Ferries Limited for successfully achieving this. Those same personnel have, on our behalf, been progressing the early design and procurement stages of a new additional vessel for the Islay service, an investment decision announced by Scottish Ministers in December 2006.

Throughout the financial year the Company has been involved in capital works at Oban, Wemyss Bay and Largs. We have also commenced the process of establishing Harbour Orders at various locations with a view to being able to support local communities with the development and safe management of local harbour facilities.

Chairman's Statement (continued)

The stated financial objective of the Company is that "it should be a stand alone, commercially viable, unsubsidized operation, which generates a modest cash surplus in order to manage day to day fluctuations in its working capital requirements and cover any contingencies". We have been successful in this over the six months. Throughout the period we have accurately predicted our cash needs and met our capital commitments without recourse to overdraft. Our trading loss for the year to 31st March 2007 was £297,000 before tax. The unusually large tax charge arises on the discontinuance of company trading operations at 30th September 2006.

We have commenced the process of installing the systems one would expect of a new company in the procurement and leasing business. We are in the process of establishing a comprehensive register of condition of our assets with a view to developing a robust maintenance regime. The future procurement of replacement vessels will be crucial. Ferries do not last for ever. The process of building a new one takes a lead time of at least three years. Funding from the Scottish Executive is a vital part of the process. It is also important to talk with local communities as we design and deliver new vessels. This is something we will continue to develop as we strengthen our links with other stakeholders.

Looking ahead our priorities for 2008 will be the establishment of our new team in Port Glasgow, completion of the register of asset condition, commencing the formal contract arrangements for the next six years, and planning new vessels and asset maintenance. Another major issue will be managing our pension scheme and work on this is well advanced.

Our relationship with the operator will be a vital part of this process. I have been heartened by the support we have received from everyone in CalMac Ferries Limited. The Chairman, Peter Timms, his Board, and staff have not hesitated to offer help and advice. I wish to formally record the Board's thanks for this.

In addition the staff in the Ferries Division of the Transport Directorate in the Scottish Executive have been of enormous help and support in this initial period of establishing the company. I am grateful to them. Our own staff have been dedicated and supportive throughout this period of significant change.

I anticipate more changes in next year when we move into the actual tender operation. We recognize the importance of the Clyde & Hebrides ferry services to those who depend on them. We will work in partnership with the ferry operator, local authorities, local communities and all of those who have an interest. We will work with our shareholder to develop short and medium term corporate objectives. We are ready for the challenges that this new regime presents and we are in good shape to play our part in delivering lifeline ferry services to Scotland's island and remote communities.

Grenville S Johnston
Chairman
13th September 2007

Directors' Report

The Directors have pleasure in submitting their Report and financial statements for the year ended 31 March 2007.

Group Structure

On 08 May 2006, the Company's dormant subsidiary, Caledonian MacBrayne Holdings Limited was renamed NorthLink Ferries Limited. The shares of Northlink Ferries Limited were transferred to David MacBrayne Limited on 4 July 2006 at par value.

The issued shares of David MacBrayne Limited, whose sole shareholder is the Scottish Ministers, were transferred to the Company on 4 July 2006 at par value, and the Company invested £5.5m by way of additional share capital in David MacBrayne Limited. The shares of David MacBrayne Limited were then transferred, on 4 July 2006, to the Scottish Ministers by way of a dividend in specie.

On 30th September 2006 the Company ceased providing a lifeline ferry service in both the Clyde and Western Isles areas. The operation of the Clyde and Hebrides ferry services is now undertaken by CalMac Ferries Limited, a company independent of Caledonian Maritime Assets Limited. Shares in Caledonian MacBrayne HR (UK) Limited and Caledonian MacBrayne Crewing (Guernsey) Limited, previously subsidiaries of this company, were transferred to CalMac Ferries Limited on 30 September 2006 at net asset value (£30,000).

On 2 October 2006 Caledonian MacBrayne Limited changed its name to Caledonian Maritime Assets Limited. The name Caledonian MacBrayne Limited is now held by a dormant company, wholly owned by Caledonian Maritime Assets Limited.

As part of the preparation for the Clyde and Hebrides ferry services tender process, the Company received from the Scottish Executive capital contributions designed to strengthen the capital base of the Company prior to the corporate reconstruction. £12m of this had been accounted for in the financial year 2005/06 and a further £4m is accounted for in 2006/07.

Results

The Group made a loss for the year of £7,843,000 after tax.

Principal Activity and Business Review

Prior to 1 October 2006, the Company's principal activity was in the provision of a lifeline ferry service in both the Clyde and Western isles areas. From 1 October 2006, the principal activity of the Company is in ownership of harbours and vessels and making them available to the Operator, currently CalMac Ferries Limited.

The Board continues to examine carefully existing practices in order to find more efficient and cost effective ways of delivering and improving standards of service. In the opinion of the Directors, the state of affairs of the Company is satisfactory.

Political and Charitable Donations

The Group and Company made no political or charitable donations during the year.

Safety

The Company recognises that safe operation of the ships and ports is of paramount concern. While the Company's safety record remains excellent, the Company considers it essential that, as a harbour owner and vessel owner there is constant vigilance over all aspects of the safety function.

Employees

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

Directors' Report (continued)

Directors and their Interests

The Directors who served during the year and, where appropriate, their appointment / termination date and respective terms of office are as follows:

A - Prior to restructuring of Company into an asset owning company:
Executive Directors

L Sinclair	- resigned 08 November 2006
J Kerr	- resigned 01 October 2006
A M Lynch	- resigned 08 November 2006
P G Preston	- resigned 01 October 2006

Non Executive Directors

P K Timms	- resigned 08 November 2006 (Former Member of Remuneration Committee, former member of Audit Committee and Safety Committee)
Dr H H Mills	– resigned 31 July 2006 (Former Chairman of Remuneration Committee)
A A MacDonald	– resigned 01 October 2006 (Former Chairman of Safety Committee, former Member of Audit Committee and former member of Communications Committee)
S Grier	- resigned 30 September 2006 (Former Chairman of Audit Committee and former Member of Remuneration Committee)

B - Transitional Period (Prior to appointment of Chairman & Non Executive Directors to Caledonian Maritime Assets Limited)
Non Executive Directors

DM Hart	- Appointed 23 October 2006, resigned 11 January 2007
GMcG Laidlaw	- Appointed 23 October 2006, resigned 11 January 2007
F MacKenzie	- Appointed 23 October 2006, resigned 11 January 2007

C - Caledonian Maritime Assets Limited
Non Executive Directors

G S Johnston	- Appointed 01 November 2006, appointment period to 31 October 2009
K MacLeod	- Appointed 01 November 2006, appointment period to 31 October 2009
E Østergaard	- Appointed 01 November 2006, appointment period to 31 October 2009

None of the Directors had any beneficial interest in the share capital of the Company at any time during the year. The Company is wholly owned by the Scottish Ministers. Under section 741 of the Companies Act 1985, the Scottish Ministers are considered to be a Shadow Director of the Company.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

J Pettigrew
Secretary

Dalmore House,
310 St Vincent Street,
Glasgow G2 5QR

Caledonian Maritime Assets Ltd

Report on Corporate Governance

The Company is committed to high standards of corporate governance, business integrity and professionalism in all its activities. Throughout the year ended 31 March 2007, the Company has complied with all the relevant provisions of the Combined Code issued by the Committee on Corporate Governance in June 1998 (notwithstanding that the Company is not a listed company to which the provisions are directed) insofar as these have not been superseded by the provisions of the revised Combined Code. In addition, the Company has complied with the provisions set out in the revised Combined Code issued by the Financial Reporting Council in July 2003 ("the revised code") with the following exceptions:

• there is no Board Nominations Committee as all Board appointments, including their roles and terms and conditions of employment, are determined by the Company's sole shareholder, the Scottish Ministers

• in view of the Company's responsibilities to take account of public sector guidelines, compliance with the provision that performance-related elements of remuneration should form a significant proportion of Executive Directors' total pay package is not appropriate

• the Board does not have delegated responsibility for setting remuneration levels as its recommendations require the approval of Scottish Ministers

• the overall parameters for pay awards for senior management below Board level are approved by both the Board and the Scottish Ministers and detailed implementation is the responsibility of the Directors

• in view of the nature of the Company's status, compliance with those provisions that relate to share options, long term incentive schemes, dialogue with institutional investors and the conduct of the Annual General Meeting is not appropriate

Board of Directors

The Board is the principal decision-making forum for the Company. It has overall responsibility for leading and controlling the Company and is accountable to the Company's sole shareholder, the Scottish Ministers, for financial and operational performance. The Board approves Company 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.

Prior to restructuring of Company into an asset owning company on 30 September 2006:
The roles of the Chairman and the Managing Director were distinct and separate, with a clear division of responsibilities.
The Chairman led the Board and ensured the effective engagement and contribution of all Non-Executive and Executive Directors. The Managing Director had responsibility for all Company business and acted in accordance with the authority delegated from the Board. Responsibility for the development of policy and strategy and operational management was delegated to the Managing Director and other Executive Directors. There were three Board Meetings in the period prior to restructuring. Members of the senior management of the Company regularly attended and made presentations at Board Meetings.

Transitional Period (Prior to appointment of Chairman & Non Executive Directors to Caledonian Maritime Assets Limited)
During the transitional period from 1 October 2006 to 31 October 2006 the Board acted in a caretaker role, ensuring a smooth transition to an asset owning company. In this period the Board acted in both a strategic and operational role.

Caledonian Maritime Assets Limited
From November 2006 the Board has met on a monthly basis. Board Meetings are structured to allow open discussion and all Directors participate in discussing the Company's strategic aims, performance and financial and risk management. The Board is supplied with comprehensive information in advance of each Board Meeting, including financial and operational reports covering the Company's business activities. A representative of the Company's sole shareholder attends each Board Meeting.

Board Balance and Independence

At 31 March 2007, the Board comprised of three Non-Executive Directors (including the Chairman). The Board considers that, based on the criteria set out in the provisions of the revised Code, all Non-Executive Directors are independent. The Scottish Ministers have, post 31 March 2007, approved the appointment of a Managing Director, Technical Director of Vessels and a Technical Director of Harbours and Piers.

Report on Corporate Governance (continued)

The Board functions effectively and efficiently and, with the appointments post 31 March 2007, is considered to be of an appropriate size in relation to the Company's level of business and associated responsibilities. With the appointment of a Managing Director, Technical Director of Vessels and a Technical Director of Harbours and Piers the Board will have 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 development of strategic matters.

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

The names and biographies of all Directors at 31 March 2007 are set out on page 9.

Information, Induction and Professional Development

The Chairman 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.

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed. All Directors are entitled to obtain independent professional advice at the Company's expense.

During their term of office, Directors undertake such professional development as is considered necessary in assisting them to carry out their duties as Directors.

Performance Evaluation

The performance of Non-Executive Directors is assessed by the Chairman. The Chairman's performance is assessed by the Scottish Executive.

Relations with Sole Shareholder

As disclosed in the Report of the Directors, the Company's sole shareholder, the Scottish Ministers, is considered to be a Shadow Director of the Company. The Scottish Ministers' appointed Assessor attends all Board Meetings.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness in order to safeguard the Shareholder's investment and the Company's assets. The system is designed to provide reasonable but not absolute assurance against material mis-statement or loss. In accordance with guidance issued in the document "Internal Control: Guidance for Directors on the Combined Code" which was published in September 1999 (the Turnbull guidance) procedures are in place to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which is subject to regular review by the Board. These procedures have been in place throughout this financial year and up to the date of approval of the Annual Report and Financial Statements.

The key elements of the system of internal control are as follows:

Control Environment

The Company's control environment is the responsibility of the Directors and, prior to 01 October 2006, Managers at all levels. The Company'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. From date of restructuring the control environment rested with the Directors and Company Secretary.

Report on Corporate Governance (continued)

Control Environment (continued)

Prior to restructuring of Company into an asset owning company on 30 September 2006, the Company's internal and external auditors presented reports to the Audit Committee which included any significant internal control matters which they had identified. Post restructuring, the Board acts as Audit Committee.

Identification and Monitoring of Business Risks

The Company 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 company's key risks and, where appropriate, enhancing the systems which manage these risks. Regular review of the risks is undertaken by the Board.

Major Corporate Information Systems

Throughout the year the Company operated a comprehensive budgeting and financial reporting system.
The system provides monthly comparison of actual results with budget, regularly revised forecasts, balance sheet, cash flow and variance statements and key performance indicators, all of which are regularly reviewed by the Board. Standard financial control procedures operate throughout the company to provide assurance on the integrity of the company's finances, including established procedures for *inter alia* the authorisation of capital expenditure.

Going Concern

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

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:
• select suitable accounting policies and then apply them consistently;
• make judgments and estimates that are reasonable and prudent;
• state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

A Scottish Executive requirement is the preparation of a Corporate Governance Statement by the Directors as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters.

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.

Caledonian Maritime Assets Ltd

Report on Remuneration Matters

Directors Remuneration	Salary £000	Fees £000	Benefits in kind * £000	Total 2007 £000	Total 2006 £000	Employers Pension Contribution 2007 £000	Employers Pension Contribution 2006 £000
A - Prior to restructuring of Company into an asset owning company:							
Executive Directors							
L. Sinclair	47	-	6	53	114	7	15
J. Kerr	32	-	3	35	77	5	9
A.M. Lynch	32	-	3	35	75	5	9
P.G. Preston	32	-	3	35	77	5	10
Non Executive Directors							
P.K. Timms**	-	7	-	7	7	-	-
Dr H.H. Mills***	-	9	-	9	25	-	-
A.A. Macdonald	-	4	-	4	7	-	-
S. Grier	-	4	-	4	7	-	-
I. Gillies	-	3	-	3	-	-	-
D. McGibbon	-	3	-	3	-	-	-
L.B. Macleod	-	3	-	3	-	-	-
B - Transitional Period (Prior to appointment of Chairman & Non Executive Directors to Caledonian Maritime Assets Limited)							
Non-Executive Directors							
D M Hart	-	-	-	-	-	-	-
G McG Laidlaw	-	-	-	-	-	-	-
F MacKenzie	-	-	-	-	-	-	-
C - Caledonian Maritime Assets Limited							
Non-Executive Directors							
G S Johnston ****	-	13	-	13	-	-	-
K MacLeod	-	6	-	6	-	-	-
E Østergaard	-	6	-	6	-	-	-

* The principal benefit in kind relates to the provision of a fully expensed car

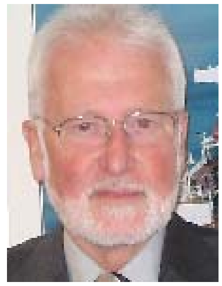
** Appointed as Chairman from August 2006 and resigned November 2006

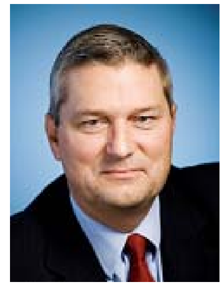
*** Resigned as Chairman July 2006

**** Joined as Chairman from November 2006

Caledonian Maritime Assets Ltd

Board of Directors





Grenville Johnston
Chairman

Grenville Johnston is a Chartered Accountant. He retired from the firm of W D Johnston & Carmichael in 2000 having been Senior Partner for many years. He is a Past President of The Institute of Chartered Accountants of Scotland. He has been a Board Member of Highlands & Islands Airports Limited since 2001 and is Chairman of the Audit Committee and the Highlands & Islands Pension Scheme. He recently completed an eight year term as a Trustee of The National Museums of Scotland where he chaired the Audit Committee for six years. He is a Board Member of Cairngorm Mountain Limited. He lives near Elgin and is Her Majesty's Lord-Lieutenant of Moray.

Kenneth MacLeod
Non-Executive Director

Kenneth MacLeod lives in Gourock. He is currently Chief Executive of Northern Marine Management, part of the STENA Group. He is also a Commissioner of the Northern Lighthouse Board.

Erik Østergaard
Non-Executive Director

Erik Østergaard lives in Helsingor, Denmark.
He is Chief Executive of Danish Transport and Logistics representing Around 3,700 Danish Transport and Logistic Companies. His career has involved various senior management roles in ferry operations and rail links.

Independent auditors' report to the members of Caledonian Maritime Assets Limited

We have audited the group and parent company financial statements (the ''financial statements'') of Caledonian Maritime Assets Limited for the year ended 31 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page seven.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules of the Financial Service Authority in relation to those matters. We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Caledonian Maritime Assets Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

191 West George Street
Glasgow
G2 2LJ
United Kingdom

19 SEPTEMBER 2007

Caledonian Maritime Assets Ltd

Group Profit & Loss Account

For the year ended 31 March 2007

	Note	Group 2007 £'000	Group 2007 £'000	Group 2006 £'000	Group 2006 £'000
Group Turnover					
Continuing operations	**2**	5,532		98	
Discontinued operations	**2**	40,381		83,428	
			45,913		83,526
Total Operating Expenditure					
Continuing operations	**3**	(8,384)		(6,362)	
Discontinued operations	**3**	(37,205)		(77,923)	
			(45,589)		(84,285)
Operating (Loss) / Profit					
Continuing operations		(2,852)		(6,264)	
Discontinued operations		3,176		5,505	
			324		(759)
Interest Receivable	**3**	257		369	
Interest Payable	**3**	(1,746)		(1,440)	
Investment Income Received	**3**	825		-	
Income from disposal of subsidiaries	**3**	30		-	
Other Finance Costs	**3**	13		(62)	
			(621)		(1,133)
(Loss) on Ordinary Activities before Taxation			(297)		(1,892)
Taxation					
Tax (Charge)/Credit for the year	**4**		(7,546)		446
(Loss) for the Financial Year			**(7,843)**		**(1,446)**

Group Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

		2007 £'000	2006 £'000
(Loss) for the Financial Year		(7,843)	(1,446)
Actuarial Gain/(Loss) recognised in the pension scheme	**15&16**	3,857	(6,143)
Age related rebates recognised in the pension scheme	**15**	817	-
Tax movement relating to the actuarial Gain/(loss)	**15**	(1,402)	1,783
Dividend in specie	**15**	(5,500)	-
Capital contribution	**15**	4,000	12,000
Current tax movement relating to capital contribution	**15**	(1,200)	(1,256)
Deferred tax movement relating to the capital contribution	**15**	-	(2,344)
Total recognised gains/(losses) for the year		(7,271)	2,594
Prior Year adjustment		-	(7,295)
Total Recognised Gains and Losses since last financial statements		**(7,271**	**(4,701)**

Caledonian Maritime Assets Ltd

Group & Company Balance Sheet as at 31 March 2007

At 31 March 2007 the only company in the group is Caledonian Maritime Assets Limited therefore the Group and Company Balance Sheet are the same.

		Note	Group & Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Fixed Assets					
	Tangible Assets	**6**	111,553	103,435	103,435
	Investments	**7**	750	750	750
			112,303	104,185	104,185
Current Assets					
	Stocks of Fuel, Lubricants and Consumables		-	922	922
	Debtors & Prepayments	**8**	6,639	17,728	17,927
	Cash at Bank and in Hand		7,338	10,306	10,151
			13,977	28,956	29,000
Creditors					
	Amounts falling due within one year	**9**	(13,470)	(12,071)	(12,115)
Net Current Assets			507	16,885	16,885
Total Assets Less Current Liabilities			112,810	121,070	121,070
Creditors					
	Amounts falling due after more than one year	**10**	(40,578)	(33,549)	(33,549)
Accruals and Deferred Income					
	Capital Grants	**12**	(50,084)	(49,699)	(49,699)
Net Pension Liability		**16**	(8,529)	(11,243)	(11,243)
Provision for Liabilities and Charges		**13**	(2,689)	(8,378)	(8,378)
Net Assets			10,930	18,201	18,201
Capital and Reserves					
	Share Capital	**14**	15,000	15,000	15,000
	Distributable Capital Contribution Reserve	**15**	9,000	11,700	11,700
	Profit and Loss Account	**15**	(13,070)	(8,499)	(8,499)
Shareholder Funds		**15**	10,930	18,201	18,201

These financial statements were approved by the board of directors on 13 September 2007 and were signed on its behalf by:

Grenville S Johnston, Chairman

Caledonian Maritime Assets Ltd

Group Cash Flow Statement for the year ended 31 March 2007

		Group 2007 £'000		Group 2006 £'000	
Net Cash (Outflow)/Inflow from Operating Activities	**18(a)**		(421)		1,824
Returns on Investments and Servicing of Finance					
Interest Received		272		370	
Dividend from Investment		825		-	
Sale of subsidiary companies		30		-	
Interest Paid		(1,688)		(1,074)	
Net Cash outflow from returns on investments and Servicing of Finance			(561)		(704)
Taxation			(11,000)		-
Capital Expenditure & Financial Investments					
Investment in subsidiary undertaking		(5,500)		-	
Payments to acquire tangible fixed assets		(8,905)		(8,766)	
Receipts from sales of tangible fixed assets		143		16	
Capital grants received		2,617		1,116	
Net cash outflow from Capital Expenditure & Financial Investment			(11,645)		(7,634)
Net cash outflow before Financing			(23,627)		(6,514)
Financing					
Capital Reserve Advance		13,000		-	
Loans received		8,922		6,884	
Loans repaid		(1,263)		(1,095)	
Net cash inflow from financing			20,659		5,789
(Decrease)/Increase in cash	**18(b)**		**(2,968)**		**(725)**

Reconciliation of net cash flow to movement in Net Debt		**Group 2007** £'000	**Group 2006** £'000
(Decrease) in cash		(2,968)	(725)
Net movement on loans		(7,659)	(5,789)
Movement in net debt in the period		(10,627)	(6,514)
Net debt at 1 April		(21,286)	(14,772)
Net debt at 31 March	**18(b)**	(31,913)	(21,286)

Notes to the Accounts

1. Accounting Policies

(a) Basis of Preparation

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

On 1st October 2006, as part of the preparation for the Clyde and Hebrides ferry services tender process, Caledonian MacBrayne Limited was restructured into an asset owning and leasing company and on 2nd October 2006 changed it's name to Caledonian Maritime Assets Limited.

The operation of the Clyde and Hebrides ferry services is now undertaken by CalMac Ferries Limited, a company independent of Caledonian Maritime Assets Limited.

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements.

(b) Tangible Assets

Gross book values of all tangible assets are stated at cost. Ships and other assets including linkspans under construction are recorded at cost on the basis of payments to account. No depreciation is charged until the asset comes into use.

(c) Investments

Fixed asset investments are carried at cost.

(d) Depreciation

No depreciation is provided on freehold land. Depreciation is provided on other tangible assets by equal annual instalments calculated to write off the cost (taking account of anticipated residual values) over their estimated useful lives as follows:

Buildings (Freehold)	40 years
Buildings (Leasehold)	The shorter of the term of the lease and 40 years
Piers Slipways and Linkspan facilities	40 years
Ships	25 years
Plant and Equipment	Between 3 and 10 years

(e) Capital Grants

Capital grants are deferred and taken to the Profit and Loss Account over the anticipated lives of the relevant assets.

(f) Annual Overhauls

Overhaul costs were incurred prior to restructure and were charged to the profit and loss account in the period in which the overhaul was performed.

(g) Taxation

The charge for taxation is based upon the result for the year and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The Directors have chosen not to discount the Company's deferred tax liability, as permitted by FRS 19.

(h) Pensions

The Company operates a defined benefit scheme and participates in certain other defined benefit pension schemes. The assets of each Scheme are held separately from those of the Company.

(h) Pensions (continued)

The Company is the principal employer for the Caledonian MacBrayne Pension Fund and is responsible for funding the scheme deficit. The Company applies FRS 17: Retirement Benefits. The effect of this is that the Company's defined benefit pension scheme assets are measured using market value whilst pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Company's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on scheme assets and the increase during the year in the present value of the scheme liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

On-going employer contributions are made to the scheme by companies which are not part of this group. These contributions are on-going contributions in respect of employees who transferred from this group to the CalMac Ferries group following the corporate restructuring necessitated by the tender process. These on-going contributions made by other companies are deemed to equate to the current service cost of those employees and so the total current service cost calculated by the scheme actuary is reduced by the amount of those contributions in arriving at the amount charged to the Profit and Loss account of Caledonian Maritime Assets Limited. Additional contributions are received into the fund in the form of age related rebates. These, and any additional contributions from outside the Company, are accounted for through the Statement of Total Recognised Gains and Losses. The financial impact of this accounting policy is set out in Note 16.

(j) Derivatives and financial instruments
The Company has adopted FRS 13: Derivatives and other financial instruments. The Company's financial instruments comprise borrowings, cash and other liquid resources and various items such as trade debtors and creditors that arise directly from operations. All of the Company's borrowings are fixed rate liabilities. The Company's policy is not to trade or speculate in financial instruments but to utilise them to finance operations.

(k) Receipts in advance
During the period the Company traded as a Ferry operator (prior to 01 October 2006) receipts for advanced and multi-journey bookings were recognised with reference to time of travel.

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

	Group 2007 £'000	Group 2006 £'000
Discontinued Operations		
Fares and other income	36,849	51,589
Deficit grant received from Scottish Executive	3,300	31,400
Subsidy received from the Northern Ireland Department for Regional Development	232	439
	40,381	*83,428*
Continuing Operations		
Vessel charter fee	4,813	-
Harbour access charge raised against Operator	534	-
3rd Party rental payments recovered from Operator	120	-
Rental income from properties not required for Harbour operations	65	98
	5,532	*98*
	45,913	**83,526**

3. (Loss) on Ordinary Activities before Tax

The (Loss) is stated after charging/(crediting):	Group 2007		Group 2006	
	£'000	£'000	£'000	£'000
Discontinued Operations				
Depreciation of Tangible Fixed assets		40		123
Staff Costs (Note 5)		22,943		40,535
Operating Lease Costs – Vehicles		104		181
Operating Lease Costs - Land & Buildings		18		20
Disposal of Subsidiaries		(30)		-
Net gain on disposal of tangible assets		-		(1)
Continuing Operations				
Auditors remuneration - Audit of these Financial Statements		33		39
Auditors remuneration - Other Services (see below)		136		227
Depreciation of Tangible Fixed Assets		4,795		4,662
Staff Costs (Note 5)		1,362		4,497
Interest payable – Loans		1,746		1,440
Interest Received on Bank Balances		(257)		(369)
Operating Lease Costs - Land & Buildings		366		271
Other finance costs - expected return on pension scheme assets	(3,040)		(2,325)	
- interest on pension scheme liabilities	3,027		2,387	
		(13)		62
Release of capital grants		(2,691)		(2,647)
Net gain on disposal of tangible assets		(143)		(10)
Income from Investments		(825)		-

	2007	2006
	£'000	£'000
Auditors Remuneration – other services consists of:		
1 - Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Company's subsidiaries	61	35
2 - Other services relating to taxation	75	174
3 - All other services	-	18
	136	227

4. Taxation

The tax charge/(credit) for the year is made up as follows:	Group 2007 £'000	Group 2006 £'000
Corporation Tax		
UK corporation tax on (loss) for the year at 30% (2006:30%)	13,474	-
Deferred Tax		
Origination and reversal of timing differences	(5,681)	(640)
Adjustments in respect of prior years	(8)	18
Decrease in deferred tax provision (note 13)	(5,689)	(622)
Deferred tax in relation to pensions	(239)	176
Total deferred tax credit	(5,928)	(446)
Tax charge/(credit) on (loss) on ordinary activities	**7,546**	**(446)**

The tax assessed for the period differs from the standard rate of corporation tax of 30% (2006: 30%)
The differences are explained below:

	Group 2007 £'000	Group 2006 £'000
(Loss) on ordinary activities before taxation	(297)	(1,892)
UK corporation tax at 30% (2006:30%)	(89)	(568)
Effects of:		
Income/expenses not allowable for tax purposes	(71)	105
Deferred tax credit	5,681	640
Movement in deferred tax in relation to pensions	239	(176)
Deferred tax on losses not recognised	1,760	-
Tax impact on deemed cessation of trade	5,954	-
Other	-	(1)
Corporation tax for year	13,474	-

The Corporation Tax charge has arisen on the deemed cessation of trade at 30 September 2006 on the transfer of operations to CalMac Ferries Limited

5. Employee Information

Staff Costs (including Directors)	Group 2007 £'000	Group 2006 £'000
Discontinued Operations		
Wages & Salaries	15,922	31,442
Social Security Costs	641	2,679
Other Pension Costs	3,221	2,718
Staff related costs	3,159	3,696
	22,943	40,535
Continuing Operations		
Wages & Salaries	65	-
Social Security Costs	6	-
Ongoing Pension Contributions	6	-
Pension contributions towards past deficits – other schemes (see below)	1,191	4,497
Staff related costs	94	-
	1,362	4497
	24,305	45,032

Pension contributions towards past deficits – other schemes
This represents payment made towards past deficits in industry-wide schemes as described in Note 16.

Employee numbers	Group 2007 No.	Group 2006 No.
Average number of employees, including Directors		
Discontinued Operations		
Ship operating	397	771
Shore Terminal	166	274
Administrative	61	120
Continuing Operations		
Administrative	2	-
	626	1,165

6. Tangible Assets - Group and Company

	Land and buildings	Ships	Vehicles	Plant and Equipment	Payments on account and assets in course of construction	Total
	£000	£000	£000	£000	£000	£000
Group						
Cost						
At beginning of year	36,887	130,050	328	4,636	6,728	178,629
Additions	197	107	-	-	12,649	12,953
Disposals	-	(101)	(328)	(2,218)	-	(2,647)
At end of year	37,084	130,056	-	2,418	19,377	188,935
Depreciation						
At beginning of year	13,911	58,001	322	2,960	-	75,194
Charge for year Continuing Operations	902	3,679	-	214	-	4,795
Charge for year Discontinued Operations	-	-	6	34	-	40
Disposals	-	(101)	(328)	(2,218)	-	(2,647)
At end of year	14,813	61,579	-	990	-	77,382
Net book value						
At 31 March 2007	**22,271**	**68,477**	**-**	**1,428**	**19,377**	**111,553**
At 31 March 2006	22,976	72,049	6	1,676	6,728	103,435

Land and Buildings is made up as follows

	Land	Freehold	Long Lease	Short Lease	Piers Slipways & Linkspan Facilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 31 March 2006	356	5,901	139	1,082	29,409	36,887
Additions	176	21	-	-	-	197
Transfers	-	2	-	-	(2)	-
At end of year	532	5,924	139	1,082	29,407	37,084
Aggregate Depreciation:						
at 31 March 2006	-	1,267	60	955	11,629	13,911
charge for year	-	146	3	16	737	902
At end of year	-	1,413	63	971	12,366	14,813
Net book value						
At 31 March 2007	**532**	**4,511**	**76**	**111**	**17,041**	**22,271**
At 31 March 2006	356	4,634	79	127	17,780	22,976

(b) Capital Commitments	Group & Company 2007 £'000	Group 2006 £'000
No provision has been made in these accounts for outstanding capital commitments contracted for amounting to:	4,781	16,077
Capital Grants receivable in respect of these commitments amounting to:	2,644	5,324

Loan funding is available for capital commitments which are not eligible for Capital Grant.

7. Investments

The Company beneficially owns 50% of the £1.5 million equity share capital of NorthLink Orkney & Shetland Ferries Limited. which, under contract with the Scottish Executive, operated, until 6 July 2006, ferry services between the Scottish mainland and Orkney and Shetland. The joint venture is in association with the Royal Bank of Scotland plc.

NorthLink Orkney & Shetland Ferries Limited. prepared its latest accounts to 6 July 2006; summary financial statements extracted from the audited accounts, showing the Company's proportionate 50% share of the result for the years to 30 September 2005 and for the period to 6 July 2006 and the balance sheet as at these dates, are as follows:

Profit & Loss Account for the period ended 6th July 2006	Period to 06/07/2006 £000	Year ended 30/09/2005 £000
Turnover	18,474	21,257
Operating Expenditure	(18,780)	(22,430)
Gross Loss	(306)	(1,173)
Exceptional other operating income	796	768
Operating Profit / (Loss)	490	(405)
Interest receivable	57	59
Interest payable	-	(2)
Profit / (Loss) on ordinary activities before taxation	547	(348)
Taxation	(2)	(2)
Profit / (Loss) for the financial period / year	**545**	**(350)**

Balance sheet as at 6th July 2006	06/07/2006 £000	30/09/2005 £000
Current Assets		
Stocks	-	227
Debtors and Prepayments	3,765	2,880
Cash and Bank	2,907	635
	6,672	3,742
Creditors		
Amounts falling due within one year	(4,896)	(2,511)
Net Current Assets	1,776	1,231
Net assets attributable to the Company	1,776	1,231
Represented by		
Share capital	750	750
Profit & loss account	1,026	481
Shareholders Funds attributable to the Company	1,776	1,231

In August 2006, Caledonian MacBrayne Limited received a dividend of £825,000 net from NorthLink Orkney & Shetland Ferries Limited. The accounts to 6 July 2006 indicate that the position regarding Shareholders' funds will at least be maintained. On the basis of all the information available to them, the Directors of Caledonian Maritime Assets Limited are of the opinion that the investment should be held at £750,000.

8. Debtors and prepayments

	Group & Company 2007	Group 2006	Company 2006
	£'000	£'000	£'000
Trade Debtors	1,118	2,076	2,066
Other Debtors	800	1,085	1,075
Prepayments and accrued income	406	1,677	1,677
Capital Grants receivable	1,315	856	856
Capital Contribution	3,000	12,000	12,000
Amounts due from joint ventures	-	34	34
Amounts due from subsidiaries	-	-	219
	6,639	17,728	17,927

9. Creditors: amounts falling due within one year

	Group & Company 2007	Group 2006	Company 2006
	£'000	£'000	£'000
Loans (note 10)	1,432	1,262	1,262
Trade Creditors	3,709	4,358	4,246
Other Creditors	800	-	-
Corporation Tax	4,930	1,256	1,256
Other Creditors and accruals	2,599	3,451	3,425
Deferred income	-	1,723	1,723
Amounts due to joint ventures	-	21	21
Amounts due to subsidiaries	-	-	182
	13,470	12,071	12,115

10. Creditors: amounts falling due after more than one year

	Group & Company 2007	Group & Company 2006
	£'000	£'000
Unsecured Vessel Loans not wholly repayable within five years, repayable in half-yearly instalments	39,251	31,592
Less: Repayable within twelve months (note 9)	(1,432	(1,262
	37,819	30,330
Other Creditors	2,759	3,219
	40,578	33,549
Instalments on the loans included above are repayable as follows:		
between one and two years	1,984	1,627
between two and five years	5,952	4,879
after five years	29,883	23,824
	37,819	30,330

11. Derivatives and Financial Instruments

(a) Short term debtors and creditors

As permitted by FRS 13, short term debtors and creditors have been excluded from all of the following disclosures.

(b) Interest rate risk profile and financial liabilities and assets

The interest rate profile of the Group's financial liabilities was as follows:

Currency	Total		Floating Rates		Fixed Rates		Weighted Average Interest rate		Weighted Average period until maturity	
Sterling	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000	%	%	Years	Years
Loans	39,251	31,592	-	-	39,251	31,592	5	5	17	21
Cash	(7,338)	(10,306)	-	-	-	-	-	-	-	-
Net Borrowing	31,913	21,286	-	-	39,251	31,592	5	5	17	21

(c) Liquidity risk

The maturity profile of the Group's financial liabilities, excluding short term creditors and the undrawn facilities available to the Group in respect of which all conditions precedent had been met, are as follows:

	Drawn	Undrawn	Total Facilities
	£'000	£'000	£'000
Expiring within one year or less	1,432	-	1,432
Expiring between one and two years	1,984	-	1,984
Expiring in more than two years	35,835	-	35,835
	39,251	-	39,251

For all debt, short term assets and liabilities, the book values and fair values are the same except for fixed rate borrowings where the fair value is detailed above.

The Company does not have any significant foreign currency exposure, nor does it speculate in derivative transactions.

12. Capital Grants	Group & Company 2007 £'000	Group & Company 2006 £'000
Balance at 1 April	49,699	50,968
Grants Received and receivable	3,076	1,378
Less: released to profit and loss account	(2,691)	(2,647)
Balance at 31 March	50,084	49,699

13. Provisions for liabilities and charges
Deferred Tax
The movement on the deferred tax balance during the year is as follows:

	Group & Company 2007 £'000	Group & Company 2006 £'000
Balance at 1 April	8,378	6,656
(Credit) in the year	(5,681)	(640)
Adjustment in respect of prior years	(8)	18
Charge in statement of Total Recognised Gains and Losses	-	2,344
Balance at 31 March	**2,689**	**8,378**
The main components of deferred tax at 30% (2006: 30%) are:		
Accelerated capital allowances	3,534	9,562
Other timing differences	(845)	(1,184)
Balance at 31 March	**2,689**	**8,378**

14. Share Capital – Company

	2007 £'000	2006 £'000
Authorised allotted issued and fully paid – 1.5 million ordinary shares £10 each	15,000	15,000

15. Reconciliation of movement in Shareholder's Funds – Group and Company

	Share Capital £'000	Distributable Capital Contribution Reserve £'000	Profit and Loss Account £'000	Total Shareholder's Funds £'000
Balance at beginning of year	15,000	11,700	(8,499)	18,201
Loss for financial year	-	-	(7,843)	(7,843)
Actuarial gain in year	-	-	3,857	3,857
Tax movement in relation to the actuarial gain	-	-	(1,402)	(1,402)
Age related rebates received in pension scheme	-	-	817	817
Capital contribution	-	4,000	-	4,000
Current and deferred tax movement in relation to the capital contribution	-	(1,200)	-	(1,200)
Dividend in Specie	-	(5,500)	-	(5,500)
Balance at end of year	**15,000**	**9,000**	**(13,070)**	**10,930**
Profit and loss Account - excluding pension deficit			(4,541)	
Pension deficit			(8,529)	
			(13,070)	

As part of the preparation for the Clyde and Hebrides ferry services tender process the Company received capital contributions from the Scottish Executive of £4m designed to strengthen the capital base of the Company prior to a corporate reconstruction.

16. Pension Arrangements

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

	Group 2007 £'000	Group 2006 £'000
Ongoing Contributions		
Company Scheme	2,993	2,220
Other Schemes	234	498
Contributions towards past deficits		
Other Schemes	1,191	4,497
	4,418	7,215

Company defined benefit scheme

The Company operates a contributory defined benefit pension scheme providing benefits based upon final pensionable salary. Scheme assets are held in a separate trustee-administered fund.

A full actuarial valuation was undertaken at 6 April 2006. Assumptions which have the most significant effect on the results of the valuation are those relating to;

a) rate of return on investments
   6.5% pre retirement funds
   4.5% retirement funds
b) rate of increase in salaries and pensions.
   4.5% increase for current employers
   3.0% increase for retired members and former employees
c) Improvements in life expectancy
   13% increase in benefits payable.

The valuation showed the market value of the schemes assets as £44,227,000 and that the actuarial value of those assets represented 49% of the benefits accrued to members.

The 2006 actuarial valuation identified a shortfall in funding of £49million.

Agreed Funding Plan.

With effect from 1 July 2007 the employer's contribution will increase from 14.5% to 24.2%.of pensionable earnings. In addition the Board is committed to an annual payment of £700,000. An increase to the member contribution rate from 5.25% to 6.00% of Pensionable Earnings has been recommended by the Pension Fund Trustees and consultation with affected members commenced in July 2007. Assuming the employee contribution increases to 6.0%, the funding plan is expected to achieve 100% of funding level over 10 years from the valuation date with 75% probability.

For the purposes of the accounting disclosure requirements of FRS 17 Retirement Benefits, the latest actuarial valuation carried out on 6 April 2006 was updated to 31 March 2007 by a qualified independent actuary. Assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which due to the timescale concerned, may not necessarily be borne out in practice. The principal assumptions in providing disclosures under FRS 17 were as follows:

	2007 %	**2006 %**	**2005 %**
Rate of increase in salaries	4.1	4.0	4.0
Rate of increase in pension payment	3.1	3.0	2.9
Rate of increase in deferred pensions	3.1	3.0	2.9
Rate of discount	5.4	5.0	5.4
Inflation assumption	3.1	3.0	2.9

Company defined benefit scheme (continued)

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, together with the relevant expected long term rates of return were as follows:

	2007		2006		2005	
	%	£'000	%	£'000	%	£'000
Equities	7.75	34,783	7.75	30,694	7.75	21,984
Corporate Bonds	5.40	7,130	5.00	6,214	5.40	4,733
Other	4.75	6,255	4.50	6,177	4.75	6,064
Total market value of assets		48,168		43,085		32,781
Present value of scheme liabilities		(61,053)		(59,147)		(43,488)
Deficit in scheme as reported by scheme actuary		(12,885)		(16,062)		(10,707)
Less: contribution paid by Company and received post year end		700		-		-
Revised deficit in scheme		(12,185)		(16,062)		(10,707)
Related deferred tax asset @ 30%		3,656		4,819		3,212
Net pension liability		(8,529)		(11,243)		(7,495)

Movements in Deficit During the Year	**Company & Group 2007**	**Group 2006**
	£'000	£'000
Deficit in scheme at beginning of year	(16,062)	(10,707)
Movement in year:		
Current service cost	(4,128)	(2,220)
Contributions - ongoing	2,318	2,070
- age-related rebate	817	-
- special contribution to past services costs	1,000	1,000
Other finance costs	13	(62)
Actuarial gain/(loss)	3,857	(6,143)
Deficit in scheme	(12,185)	(16,062)

Analysis of amount charged to Operating Profit	**Company & Group 2007**	**Group 2006**
	£'000	£'000
Current service cost of all members	4,128	2,220
Current service cost of employees of other companies	(1,135)	-
Total operating charge	**2,993**	**2,220**

Analysis of amount credited to other financial income	**Company & Group 2007**	**Group 2006**
	£'000	£'000
Expected return on pension scheme assets	3,040	2,325
Interest cost	(3,027)	(2,387)
Net credit/(charge)	**13**	**(62)**

Company defined benefit scheme (continued)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)	**Company & Group 2007**	**Group 2006**	**Company 2005**
	£'000	£'000	£'000
Actual return less expected return on scheme assets	(69)	5,700	1,316
Experience gains and losses arising on scheme liabilities	(806)	(291)	(178)
Changes in financial assumptions underlying scheme liabilities	4,732	(11,552)	(1,353)
Actuarial gain / (loss) recognised in STRGL	**3,857**	**(6,143)**	**(215)**

History of actuarial gains and losses	**2007**	**2006**	**2005**
	%	**%**	**%**
Actual return less expected return on scheme assets expressed as a percentage of scheme assets	(0.1)	13.2	4.0
Experience gains and losses arising on scheme liabilities expressed as a percentage of the present value of scheme liabilities	1.3	0.5	(0.4)
Changes in assumptions underlying scheme liabilities expressed as a percentage of the present value of scheme liabilities	7.8	(19.5)	(3.1)
Total actuarial loss recognised in the statement of total recognised gains and losses expressed as a percentage of the present value of the schemes liabilities	6.3	(10.4)	(0.5)

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the scheme which is recommended by the independent actuary based on the expected long term rate of return on the scheme's assets.

Other Pension Schemes

On corporate restructuring, 30 September 2006, the Company retained responsibility for shortfall in funding in the Merchant Navy Officers' Pension Fund (MNOPF) and in the Merchant Navy Ratings' Pension Fund (MNRPF). Both MNOPF and MNRPF are industry-wide defined benefit pension schemes.

The MNOPF is closed to new members and the latest valuation was carried out as at 31 March 2006. The Trustees to the MNOPF have still to advise the shortfall identified in the March 2006 valuation.

The MNRPF is a closed scheme and the latest full triennial actuarial valuation as at 31 March 2005, carried out by the Fund actuary, showed that the scheme had exceeded its minimum funding requirement at that date, but was still in deficit on an ongoing basis. The valuation showed that the market value of assets was 86% of the value of benefits accruing to members allowing for future increases. As a result of this valuation, annual contributions towards the deficit are required from participating employers for the period to 2014. The amounts payable by the Company during the current and previous financial years are shown earlier in this note under 'Other schemes – contributions towards past deficits'. The amounts payable by the Company in respect of past deficits are determined, to some extent, by the level of contributions made by other participating employers and may therefore fluctuate from year to year. The Trustee of the MNRPF cannot identify the underlying assets held in the fund in respect of the Company's liabilities. Accordingly, for FRS 17 purposes, the Company is accounting for contributions and payments to the MNRPF as if it were a defined contribution scheme.

The Merchant Navy Officers' Pension Plan and the Merchant Navy Ratings Pension Plan are both industry-wide defined contribution pension schemes and, as a result, do not have deficits. The running costs of both Plans are met by an offset against the Employers' pension contribution which is regularly reviewed. The balance of the pension contribution paid by employers and employees is invested in accordance with the instructions of members, to provide defined contribution benefits. Although the overall funding deficits and the full implications for participating employers in relation to the Merchant Navy schemes have still to be confirmed, it is anticipated that the Company's share of such deficits will be met through future Government grant funding.

17. Other Financial Commitments

The Group has a number of operating leases in respect of land and buildings and the period of the lease unexpired in most cases is in excess of 5 years; where less than 5 years remains, the Company will negotiate a renewal of the lease at expiry date. The annual commitment in respect of these leases is £291,000 (2006: £291,000).

18. Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to net cash flow from operating activities	**Company & Group 2007**	**Group 2006**
	£'000	£'000
Operating Profit/(Loss)	324	(759)
Depreciation Charge (net of capital grants)	2,144	2,138
Gain on disposal of tangible assets	(143)	(11)
Decrease/(Increase) in stocks	922	(151)
Decrease in Debtors & Prepayments	2,533	530
(Decrease)/Increase in creditors	(6,201)	77
Net Cash (outflow)/inflow from operating activities	(421)	1,824

(b) Analysis of Net Debt	Group As at 31 March 2006	Cash Flow	Non Cash Movements	Company As at 31 March 2007
	£'000	£'000	£'000	£'000
Cash at bank and on hand	10,306	(2,968)	-	7,338
Loans:				
Due within one year	(1,262)	1,263	(1,433)	(1,432)
Due after one year	(30,330)	(8,922)	1,433	(37,819)
	(31,592)	(7,659)	-	(39,251)
Total	(21,286)	(10,627)	-	(31,913)

19. Related party transactions

The Scottish Ministers are the Company's sole shareholder. Details of transactions with the Scottish Ministers are as follows:

	2007	2006
	£'000	£'000
Deficit Grant received	3,300	31,400
Capital Grants received and receivable	3,076	1,378
Capital Contribution receivable	4,000	12,000
Loans received	8,922	6,884
Loans repaid	1,263	1,095
Interest paid and payable	1,746	1,440
Dividend in specie	5,500	-
Balance of loans due at 31 March	39,251	31,592

Caledonian Maritime Assets Ltd

19. Related party transactions (continued)

The respective amounts due and from NorthLink Orkney & Shetland Ferries Limited at 31 March 2007 was nil. Prior to 6 July 2006, the Company was contracted to provide technical support, ship management and interim management and administrative services to Northlink Orkney & Shetland Ferries Limited., in return for which the Company receives fees and reimbursement of expenses. The fees net of value added tax, in respect of the period to 6 July 2006 amounted to £89,566 (2006:£428,000).

In August 2006 the Company received a dividend from Northlink Orkney & Shetland Ferries Limited of £825,000 (2006: £nil).

A significant element of the Company's turnover is generated from our relationship with the Clyde and Hebridean Ferry Services Operator, currently CalMac Ferries Limited.
The following transactions with the Operator, CalMac Ferries Limited occurred during the period from 1 October 2006 to 31 March 2007:

	2007 £000	Amount due at 31 March 2007 £000
- vessel leasing charges payable by CalMac Ferries Limited.	**4,812**	**802**
- harbour access charges payable by CalMac Ferries Limited.	**534**	**89**
- harbour management fee receivable by CalMac Ferries Limited.	**702**	**117**

Corporate Information

Registered Office	Dalmore House, 310 St Vincent Street, GLASGOW G2 5QR
Company Number	SC001854
Auditors	KPMG LLP, 191 West George Street, Glasgow G2 2LJ
Solicitors	Biggart Baillie, Dalmore House, 310 St Vincent Street, Glasgow, G2 5QR
Bankers	The Royal Bank of Scotland, 10 Gordon Street, Glasgow G1 3PL
Web Site	www.cmassets.co.uk