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**CALMAC FERRIES LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS
2007 2008**

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COMPANIES HOUSE

CalMac Ferries Limited

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CalMac Ferries Limited

Directors' Report

The Directors present their Directors' Report and financial statements for the year ended 31 March 2008

Principal activity and business review

The Company operated the Clyde and Hebrides ferry services in the period up to September 2007 on an interim basis, pending outcome of the tender process for these services. In September 2007, the Company was awarded the contract for the provision of the Clyde and Hebrides ferry services for the 6 year period from October 2007 to September 2013.

The principal activity of the Company is the provision of lifeline ferry services under contract to the Scottish Government. Under the terms of the contract, the Company receives grant support from the Scottish Government, the Company also operates a limited number of services outwith the contract without grant support.

From 1 April 2007, the operation of the Gourock/Dunoon and Ballycastle/Rathlin Island services were transferred to Cowal Ferries Ltd and Rathlin Ferries Ltd respectively.

During the year, a review of the human resource support within the David MacBrayne Group was undertaken and, as a result, it was considered that these functions should be extended to include NorthLink Ferries Ltd. In view of this extended remit, the ownership of Caledonian MacBrayne HR (UK) Ltd was transferred from the Company to David MacBrayne Ltd at cost.

The Company made a profit for the year before tax of £717,000. No dividends have been paid or are proposed.

The principal risks and uncertainties facing the business relate to the financial impact of operating the Clyde and Hebrides ferry services under contract and the implications of the introduction on a pilot basis, under direction from the Scottish Government, of a road equivalent tariff scheme on a number of the routes operated by the Company. Through the development and maintenance of comprehensive business risk assessment procedures, the Company ensures that both the incidence and impact of identified risks are limited.

Key areas of the performance and development of the business include safety, reliability, punctuality and standard of service. Key performance indicators are those set by the Scottish Government. The financial performance indicators for the period to 30 September 2007 were fares income as a percentage of operating costs and staff costs as a percentage of fares income. The non financial performance indicators were reliability and punctuality. From 1 October 2007, the performance measures are those specified in the Clyde and Hebrides ferry services contract. These include reliability, punctuality, customer service undertakings and finance.

The Board examines, on an ongoing basis, existing practices with a view to identifying 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 Company made no political or charitable donations during the period. However, the Company supports a range of local organisations through travel related sponsorship.

Directors and their interests

The Directors who held office during the year are as follows:

P K Timms	
W L Sinclair	
I Gillies	
J Kerr	resigned 14 December 2007
A M Lynch	
A A MacDonald	
L B MacLeod	
D C McGibbon	
P G Preston	
N L Quirk	appointed 30 January 2008
R Sinclair	appointed 30 January 2008
G A Taylor	appointed 26 March 2008

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

The Company's sole Shareholder is David MacBrayne Ltd, which 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.

CalMac Ferries Limited

Directors' Report continued

Employees

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

The majority of employees are formally represented by Trade Unions recognised for collective bargaining purposes. A system of Employee Participation and Consultative Committees is well established. In addition, Information and Consultation Forum meetings are held twice yearly.

Through either the formal negotiating or consultative process, or a mixture of both, employees at all levels, directly or through their representatives, are provided with information on matters concerning them and are encouraged to be involved in the activities of the Company.

All of these measures are kept under constant review to ascertain whether or not improvements can be made.

Policy of employment of people with disabilities

It is the Company's policy to consider applications for employment from people with disabilities on the same basis as other potential employees subject to the nature and extent of disability and the degree of physical fitness demanded of the position. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees with disabilities. If any employee becomes disabled during the period of employment, the Company will, if possible, retain the employee for duties commensurate with the employee's abilities following the disablement.

Adoption of going concern basis

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

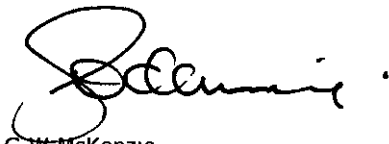
Disclosure of information to Auditors

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

A resolution to re appoint KPMG LLP as auditors of all companies within the David MacBrayne Group will be put to the members at the David MacBrayne Ltd Annual General Meeting.

On behalf of the Board



G W McKenzie
Secretary
14 July 2008

CalMac Ferries Limited

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

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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 Company and to prevent and detect fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

CalMac Ferries Limited

Independent Auditors' Report to the members of CalMac Ferries Limited

We have audited the financial statements of CalMac Ferries Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet 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 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 3.

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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

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 company's affairs as at 31 March 2008 and of its profit 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
Chartered Accountants
Registered Auditor
191 West George Street
GLASGOW
G2 2LJ

14 July 2008
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CalMac Ferries Limited**Profit and Loss Account for the year ended 31 March 2008**

	Note	Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Turnover	2	97,489	48,576
Cost of sales		(88,153)	(42,063)
Gross profit		9,336	6,513
Administrative expenditure		(8,901)	(5,650)
Operating profit		435	863
Interest receivable		282	176
Profit on ordinary activities before taxation		717	1,039
Tax on profit on ordinary activities	4	211	(3)
Profit for the financial year		928	1,036

There are no other recognised gains or losses for the year

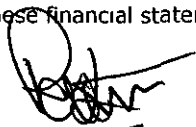
The accompanying notes are an integral part of these financial statements

CalMac Ferries Limited

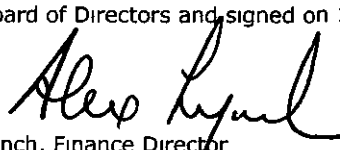
Balance Sheet as at 31 March 2008

	Note	2008 £000	2007 £000
Fixed assets			
Tangible assets	6		
Intangible assets	7	349	169
Investments	8		
		<u>349</u>	<u>169</u>
Current assets			
Stocks of fuel, lubricants and consumables		1,075	836
Debtors and prepayments	9	5,752	5,445
Cash at bank and in hand		5,874	6,604
		<u>12,701</u>	<u>12,885</u>
Creditors			
Amounts falling due within one year	10	(11,086)	(12,018)
		<u>1,615</u>	<u>867</u>
Net current assets			
		<u>1,964</u>	<u>1,036</u>
Net assets			
		<u>1,964</u>	<u>1,036</u>
Capital and reserves			
Called up share capital	12		
Profit and loss account	13	1,964	1,036
		<u>1,964</u>	<u>1,036</u>
Shareholder funds			
		<u>1,964</u>	<u>1,036</u>

These financial statements were approved by the Board of Directors and signed on 14 July 2008 on its behalf by



P K Timms, Chairman



A M Lynch, Finance Director

The accompanying notes are an integral part of these financial statements

CalMac Ferries Limited

Notes on the financial statements

1. Accounting policies

(a) Basis of preparation

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

(b) Tangible assets

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

(c) Intangible assets

Intangible assets represent the bid costs incurred under the Clyde and Hebrides ferry services tender. These costs will be amortised over the period of the contract.

(d) Investments

Fixed asset investments are carried at cost.

(e) Depreciation

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

(f) Stock

Stock is valued at the lower of average invoiced cost and net realisable value.

(g) Maintenance and repair costs

Routine maintenance and repair costs, as well as vessel overhaul costs, are charged to the profit and loss account in the financial period in which the work is performed. Repairs to meet statutory or classification requirements are met by the vessel owners and recharged to the operator by increased charter hire charges. Where the Company is involved in providing ferry services under contract, at contract end, independent vessel surveys are carried out to establish the work required. The agreed dilapidation costs are charged to profit and loss account at the end of the contract period.

(h) Taxation

The Company is included within a Group election into tonnage tax effective from commencement of trading. However, certain activities within the Company are liable to corporation tax. Accordingly, the charge for taxation is based partly on ship tonnage and partly on the result for the period and 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.

(i) Pensions

The Company is a participating employer in the CalMac Pension Fund, which is a defined benefit scheme operated by Caledonian Maritime Assets Ltd. Accordingly, for the purposes of FRS 17 Retirement Benefits, pension contributions are accounted for as if the scheme was defined contribution.

(j) Receipts in advance

Receipts for advanced and multi journey bookings are recognised with reference to time of travel. The deferred element of this income is shown under Creditors.

(k) Comparative figures

The Company commenced trading on 1 October 2006 and, accordingly, the comparative figures are for the six month period to 31 March 2007.

2. Turnover

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

	Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Fares and other income	58,029	18,158
Management Fees	1,174	307
Grant received from the Scottish Government	38,286	29,900
Subsidy received from the Northern Ireland Department for Regional Development		211
	<hr/> 97,489 <hr/>	<hr/> 48,576 <hr/>

CalMac Ferries Limited

Notes on the financial statements continued

3. Profit on ordinary activities before tax

The Profit is stated after charging

		Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Auditors' remuneration	audit of these financial statements	30	36
	other services relating to taxation	26	26
	other services	10	15
Amortisation of intangible fixed assets		32	
Staff Costs (note 5)		13,055	7,136
Operating lease costs	land and buildings	1,685	10
	ships and motor vehicles	10,441	210

4. Taxation

The tax charge for the year/period is made up as follows

		Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
UK corporation tax on profit for the year/period		6	3
Adjustments in respect of prior period		117	
		123	
Deferred tax			
Adjustments in respect of prior period		(57)	
Origination of timing differences		(277)	
		(334)	
Tax on profit on ordinary activities		(211)	3

The tax assessed for the period differs from the standard rate of corporation tax of 30%. The differences are explained below

		Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Profit on ordinary activities before tax		717	1,039
UK corporation tax at 30%		215	312
Effects of			
Tonnage tax		(169)	(391)
Marginal rate of tax			(2)
Group relief		69	38
Items not allowed for tax purposes		61	(4)
Deferred tax		(170)	50
Adjustment in respect of prior period		117	
Corporation tax for the year/period		123	3

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

The Company has a deferred tax asset of £334,000 (2007: £50,000). In 2007, due to the uncertainty surrounding the recovery of the asset, it was not recognised. At 31 March 2008, the deferred tax asset is considered recoverable and is, accordingly, included within debtors (note 9) and comprises

	2008 £000	2007 £000
Decelerated capital allowances	334	3
Other timing differences		47
	334	50

CalMac Ferries Limited

Notes on the financial statements continued

5. Employee information

Staff costs (including Directors)

	Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Wages and Salaries	8,898	4,397
Social Security Costs	843	415
Other Pension Costs	1,169	1,181
	<hr/>	<hr/>
	10,910	5,993
Staff related Costs	2,145	1,143
	<hr/>	<hr/>
	13,055	7,136

Directors' remuneration

	Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Directors' emoluments, including performance payments and benefits in kind	395	219
Company contributions to a defined benefit pension scheme	65	22
Highest paid Director		
emoluments, including performance payment and benefits in kind	118	63
Company contributions to defined benefit pension scheme	24	7
accrued pension at 31 March 2008	12	10

Retirement benefits are accruing to 4 (2007: 4) Directors under a defined benefit pension scheme

Employee numbers

The average number of employees, including Directors, employed by the Company during the year/period was as follows

	Year ended 31 March 2008 No.	6 months ended 31 March 2007 No.
Shore Terminal	285	275
Administrative	107	102
	<hr/>	<hr/>
	392	377

6. Tangible assets

All tangible assets were acquired from Caledonian MacBrayne Ltd on 1 October 2006 at nil cost as they had been fully depreciated at that date. There have been no subsequent additions or disposals.

7 Intangible assets

	£000
At 1 April 2007 at cost	169
Additions during the year	212
	<hr/>
	381
Written off during the year	(32)
	<hr/>
Net book value at 31 March 2008	349

Intangible assets represent bid costs incurred in respect of the tender for the Clyde and Hebrides ferry services and, as such, are eligible for treatment as costs spread over the period of the contract.

CalMac Ferries Limited

Notes on the financial statements continued

8 Investments

£000

At beginning and end of year

During the year, the Company sold the whole of the ordinary share capital of Caledonian MacBrayne HR (UK) Ltd to its parent company David MacBrayne Ltd

The Company retained its ownership of Caledonian MacBrayne Crewing (Guernsey) Ltd, which is registered in Guernsey, and undertakes the offshore crewing arrangements

9. Debtors and prepayments

	2008 £000	2007 £000
Trade debtors	2,651	2,725
Other debtors	573	855
Prepayments and accrued income	1,205	1,442
Deferred tax (note 4)	334	
Amounts due from parent company, subsidiaries and fellow subsidiaries	989	423
	5,752	5,445

10. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	2,300	3,916
Other creditors and accruals	5,954	5,519
Deferred income	2,104	2,228
Amounts due to subsidiaries and fellow subsidiaries	728	355
	11,086	12,018

11. Share Capital

	2008 £000	2007 £000
Authorised		
100 Ordinary Shares of £1 each		
Allotted issued and fully paid		
1 Ordinary Share of £1 each		

12. Profit and loss reserves

	Profit & loss account £000
At 1 April 2007	1,036
Retained profit for the year	928
At 31 March 2008	1,964

Notes on the financial statements continued

13. Pension arrangements

A large number of employees are members of the CalMac Pension Fund which is a defined benefit scheme. The Company is a participating employer in this scheme which is operated by Caledonian Maritime Assets Ltd, a company wholly owned by Scottish Ministers. On this basis, pension contributions are accounted for as if the scheme were defined contribution. Caledonian Maritime Assets Ltd is responsible for the financial arrangements to meet past deficits in the CalMac Pension Fund.

A number of other employees participate in one of the Merchant Navy Pension Funds. As these pension schemes are all industry wide, contributions are accounted for on a defined contribution basis. Caledonian Maritime Assets Ltd is responsible for the financial arrangements to meet past deficits in these funds.

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

		Year ended 31 March 2008	6 months ended 31 March 2007
		£000	£000
CalMac Pension Fund	ongoing contributions	1,139	369
	additional contributions		800
Other schemes		30	12
		<hr/>	<hr/>
		1,169	1,181
		<hr/>	<hr/>
Normal contributions to be paid to Pension Schemes included in Creditors		130	85
		<hr/>	<hr/>

14. Cash flow statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary and the parent undertaking includes the Company in its published consolidated statements.

15. Other financial commitments

The Company has a number of operating leases in respect of buildings and motor vehicles. The annual commitments in respect of these leases are as follows:

		2008	2007
		£000	£000
Buildings			
Leases which expire			
within one year		21	21
between two and five years		7	7
after five years		1,790	
		<hr/>	<hr/>
		1,818	28
		<hr/>	<hr/>
Ships and motor vehicles			
Leases which expire			
within one year		51	43
between two and five years		84	130
after five years		10,610	
		<hr/>	<hr/>
		10,745	173
		<hr/>	<hr/>

Notes on the financial statements continued

16. Related party transactions

Under FRS 8, the Company is exempt from the requirement to disclose related party transactions with Group undertakings as it is a wholly owned subsidiary of a parent undertaking which prepares and publishes consolidated financial statements

Details of transactions with other related parties are as follows

	Year ended 31 March 2008 £000	6 months ended 31 March 2007 £000
Transactions during the year/period:		
Scottish Ministers		
grant receivable	38,286	29,900
Caledonian Maritime Assets Ltd		
vessel leasing charges payable	10,227	4,812
vessel modification costs recoverable	1,500	
harbour, property and equipment access charges payable	1,536	534
harbour management fee income	1,404	702
	2008	2007
	£000	£000
Amounts due at end of year/period:		
Scottish Ministers		
grant clawback payable	1,090	
Caledonian Maritime Assets Ltd		
vessel leasing charges payable		802
vessel modification costs recoverable	191	
harbour, property and equipment access charges payable		89
harbour management fee income		117

17. Ultimate parent company

The Company is a wholly owned subsidiary of David MacBrayne Ltd which is the ultimate parent company and is incorporated in the United Kingdom. Copies of the Group Annual Report can be obtained from the Company's registered office or on the Group website, details of both of which are given under corporate information.

No other Group financial statements include the results of the Company.

CalMac Ferries Limited

Corporate information

Registered office	The Ferry Terminal Gourock PA19 1QP
Company no.	SC 302282
Auditors	KPMG LLP
Solicitors	McGrigors
Bankers	The Royal Bank of Scotland plc Alliance & Leicester plc
Principal insurers	The North of England Protecting & Indemnity Association and Marine Shipping Mutual Insurance

Website www.calmac.co.uk