Financial Statements Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited

For the Year Ended 31 December 2016

Registered number: 00002404

Contents

Strategic Report

For the Year Ended 31 December 2016

Introduction

The directors present the strategic report for the year ended 31 December 2016.

Review of the business

The principal activity of the Company, which trades as "Red Funnel", is the provision of ferry and associated catering and travel services between Southampton and Cowes on the Isle of Wight. The company operates 6 ferries, 3 vehicle ferries and 3 high speed catamarans for foot passengers only.

The key financial and other performance indicators during the year were as follows:

	2016 £000	2015 £000	Variance £000	%
Turnover (from continuing operations)	50,153	48,373	1,780	4
EBITDA	19,954	17,598	2,356	13
Market Share (total vehicles)	41.4%	41.2%		

EBITDA is defined as earnings before interest, taxes, depreciation and amortisation. In addition to these key performance indicators the Company also monitors quality KPIs which are published on the Company website via the following link:

www.redfunnel.co.uk/corporate-information/performance-monitoring.

Performance against other health and safety and productivity indicators is actively managed.

Turnover of £50.2 million for the year was 3.7% higher than 2015. EBITDA of £19.9 million was 13.1% higher than 2015.

From a turnover point of view car revenue was 4.8% higher than 2015. Commercial revenue (including freight) was 9.5% higher than 2015. Hi Speed revenue was 1.9% higher than 2015 and Food & Beverage 1.4% higher.

Operating costs were 1.5% lower than 2015. There was increased expenditure on labour as part of the Company's continued strategy to provide an excellent customer service as well as looking after more passengers. A saving was made on fuel but there were increases in repairs, tolls and dues, occupancy, insurance and IT and Comms.

Capital expenditure was £2.9 million in 2016.The majority of this was spent on maintaining and improving the Fleet.

The Group refinanced its debt in July 2016 with a 5-year loan facility agreement.

Strategy

The Company's strategy is to maximise long-term cash flows to investors by:-

1. offering a level of customer service that exceeds expectations
2. maximising the attractiveness of the Isle of Wight as a holiday destination through:
   a) penetrating new consumer segments, and
   b) maximising frequency of existing users by strategies to extend the season;

Company Information

Directors	Mrs S A Anderson Mr A M Carter Mr K A George Mr J M Green Mr L R Hudson Mr S K J Nelson Mr J M Slawson Mr P R Winter Ms M G Dellacha (appointed 20 October 2016) Mr J W Inch (appointed 19 December 2016)
Registered number	00002404
Registered office	12 Bugle Street Southampton Hampshire SO14 2JY
Independent Auditors	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton Hampshire SO14 3TL
Bankers	HSBC Bank Plc 55 Above Bar Street Southampton Hampshire SO14 7DS
Solicitors	Hogan Lovells LLP Atlantic House Holborn Viaduct London EC1A 2FG

Strategic report (continued)

3. growing market share (by value) in freight, foot passenger and private vehicle traffic both to and from the Isle of Wight, by being:
   a) the provider of choice for cross-Solent travel; by offering a superior value proposition based on price, service and value for money; and
   b) providing modern, comfortable, reliable, and above all, safe vessels; and
4. managing the business in a cost effective way.

It is a prerequisite that all of the above be achieved whilst implementing and managing industry best practice.

Quality and safety
In order to achieve the company's stated objectives of the highest standards of safety, environmental and quality performance, the Company has implemented an integrated management system incorporating international management standards.

The standards integrated within the management system are the Integrated Safety Management Code (ISM Code), ISO 14001:2004 and ISO 9001:2008. While the ISM Code focuses on safety at sea and safe practices in shipboard operations, ISO 14001:2004 provides the elements for an effective environmental management system and ISO 9001:2008 ensures that customer requirements for quality are met.

There are many common or interfacing requirements between the standards and it is the belief of the Company that the combination of these systems leads to a more efficient way of the Company managing safety, environmental issues and quality management.

The complementary nature of these three international standards provides for an effective integrated single management system, which fully fits the objectives of the company and is supported with the policies below:-

1. Integrated Management System Policy. The Company is committed to:-
   a) delivering consistently high quality services to its customers
   b) establishing processes necessary to deliver results and comply with legal requirements
   c) maintaining the Integrated Management System to implement and comply with all the requirements of the ISM, ISO 9001 and ISO 14001; and
   d) liaising with all relevant external bodies and with internal staff members to continually
   e) improve its quality, environmental, social responsibility, marine and health and safety performance.
2. Risk Management Policy - The directors carefully assess the risks undertaken by the business and take the steps necessary to manage those risks. The Company has a robust system of internal and external reviews to ensure that procedures to mitigate risk are operating effectively.
3. Human Resource Policy - The Company's objectives are to deliver best practice HR Policies and systems and to be seen as the "employer of choice".

There are also other policies that are held on the group HR system e.g.: Substance misuse policy.

Red Funnel have been members of the Institute of Customer Service for the last 2 years and recently been awarded with their service mark accreditation, which recognises service excellence. This is measured by external auditors and internal and external surveys.

Future developments
The strategy is to grow the market of cross-Solent traffic and the Company's share of it. The Company is competing with two competitors for share of the Isle of Wight market.

Strategic report (continued)

Red Jet Vessels
As part of the company strategy of updating the Red Jet Fleet, Red Jet 5 was sold in June 2016. Her replacement, Red Jet 6, came into service in July 2016. Red Jet 6 has added capacity- 275 pax versus 190 for Red Jet 5- and has improved the customer experience.

Southampton Masterplan
As part of the Southampton Masterplan Red Funnel will be moving their Southampton terminal to Trafalgar Dock. The move is expected to happen in the Spring of 2019 and will involve an increase in capacity in the yard from 330 Car Equivalent Units (CEU) to 450 CEU as well as the building of a new terminal. This will enable the ferry and Hi Speed service to operate out of the same terminal.

East Cowes
On the 28th February 2017, planning permission was approved for the expansion of the East Cowes marshalling yard, which will increase CEU capacity by circa 70 (30%). This expansion is aimed for delivery by the end of Q1 2018. The larger East Cowes scheme, which was refused by the planning committee in April 2016, is going through the formal appeal process and will be subject to a planning enquiry on 18th to 21st July 2017. It is expected that full determination of this appeal will be made in September 2017.

The directors are confident that the outlook for UK travel remains positive, with opportunities to grow turnover in all parts of the business. Costs will continue to be well controlled, so as to improve margins and increase EBITDA.

Principle Risks and uncertainties
The main risks identified are as follows:

1. Economic downturn - Although the Government is cutting back spending the economy has been performing fairly well over the last few years. However, there have been a few signs recently that have indicated that this might change.

2. Weather - The effect of persistent bad weather can make other holiday destinations appear relatively attractive. Weather disruptions (most likely in winter) can cause modest reductions in sales.

3. Failure of vessel or shore-side infrastructure – The Company's revenue earning potential is dependent upon a reliable fleet of vessels and the associated shore-side infrastructure. Failure of these can have a detrimental impact on income. The risk is mitigated by the presence of duplicated systems and processes, wherever possible. In addition, the Company has business continuity insurance.

4. Maritime incident or accident – This risk is mitigated by recruiting and training operatives to the highest standard, delivering the Safety Management Systems and having rigorous maintenance and refit regimes.

5. Fluctuations in fuel prices - The ferries consume marine gas oil, the price of which can fluctuate. This price is generally linked to the price of crude oil. The risk of fluctuating fuel prices is partially mitigated by fuel hedging.

6. Competition - The cross-Solent ferry market is highly competitive which limits the ability to adjust prices or pass on external cost increases. In the longer term, it is likely that any such cost increases would also be incurred by our competitors which should have a stabilising effect on margins.

7. MNOPF - The company is part of the MNOPF defined benefit scheme. This is a multi-company scheme with joint and several liability. The risk is that on any future valuations there is a deficit of which the company will have a share.

Strategic report (continued)

Financial risk management
The Company is exposed to credit, liquidity and cash flow, interest rate and fuel price risk. Policies and management systems for these types of risk are set out by the board of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited ("SIOW") and are implemented by the directors. The directors review and agree policies for managing each of these risks, which are summarised below: -

1. Credit risk - Potential customers are checked for their credit worthiness and ability to generate significant volumes before they are given a credit account. Many customers now pay by Direct Debit which reduces the credit risk. The Finance Department review the aged debtors report each period. A target of 42 days for debtors collection has been set by the Audit Committee.

2. Liquidity and cash flow risk - The Company has a policy of maintaining debt at an appropriate level to ensure that the company is able to adequately manage debt servicing cash flows. Forecast cashflows for the year are produced every month and reviewed by the board.

3. Interest rate risk - The Company's funding is currently provided by a mixture of retained earnings, bank borrowings and borrowings from its shareholders. The group's long term borrowings are fixed until 2021. The group's exposure to interest rate fluctuations on its borrowings are minimised by the use of an interest rate swap.

This report was approved by the board on 11/4/17 and signed on its behalf.

Mr K A George
Director

Directors' Report

For the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Results and dividends

The profit for the year, after taxation, amounted to £17,394,000 (2015 - £10,253,000). The directors have recommended dividends of £9,600,000 (2015: £2,500,000).

Going concern

The Company's forecasts and projections to December 2018 take into account reasonably possible changes in trading performance and show that the company will be able to operate within its current facilities. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Directors

The directors who served during the year were:

Mrs S A Anderson
Mr A M Carter
Mr K A George
Mr J M Green
Mr B Schumacher (resigned 17 August 2016)
Mr L R Hudson
Mr S K J Nelson
Mr J M Slawson
Mr P R Winter
Ms M G Dellacha (appointed 20 October 2016)
Mr J W Inch (appointed 19 December 2016)

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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 the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company Law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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.

Directors' Report (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee involvement
Protecting the health and safety of employees is a prime responsibility of management and as such, training in navigation, seamanship and other training courses are sponsored by the company as circumstances require.

The Company has pension and life assurance schemes which cover the majority of employees.

The Company issues a variety of newsletters and performance indicators which are circulated to all staff and provide information to employees about current activities and progress.

Disabled employees
It is the Company's policy that disabled people should have the same consideration as others for shore-based job vacancies for which they apply as suitable candidates. Depending on their skills and abilities, the disabled have the same career prospects and opportunities for promotion as other employees.

Matters covered in the strategic report
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report which also includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A review of the future developments in the Company's business have been included in the Strategic Report.

Disclosure of information to auditors
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors
BDO were appointed as auditors in November 2016. The auditors, BDO LLP, offer themselves for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 11/4/17 and signed on its behalf.

Mr K A George
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY LIMITED

We have audited the financial statements of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its result for the year then end
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY LIMITED

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
Date 13/4/17

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income

For the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover		**50,153**	48,373
Cost of sales		**(27,573)**	(27,641)
Gross profit		**22,580**	20,732
Administrative expenses		**(6,646)**	(8,760)
Other operating loss	3	**(312)**	-
Gain from changes in fair value of investment property	14	**21**	-
Operating profit	4	**15,643**	**11,972**
Interest receivable and similar income	8	**25**	9
Interest payable and expenses	9	**(1,610)**	(1,646)
Other finance cost		**(79)**	(81)
Profit before tax		**13,979**	10,254
Tax on profit	11	**3,415**	(1)
Profit for the year		**17,394**	10,253
Other comprehensive income for the year			
Actuarial (losses) / gains on defined benefit pension scheme		**(1,656)**	81
Movement in hedging reserve		**1,132**	(111)
Taxation in respect of items of other comprehensive income		**559**	-
Other comprehensive income for the year		**35**	(30)
Total comprehensive income for the year		**17,429**	10,223

There were no recognised gains and losses for 2016 or 2015 other than those included in the statement of comprehensive income.

The notes on pages 16 to 41 form part of these financial statements.

Balance Sheet

As at 31 December 2016

	Note		2016 £000		2015 £000
Fixed assets					
Intangible assets	13		**825**		180
Tangible assets	14		**31,045**		28,271
Investments	15		**-**		3
			31,870		28,454
Current assets					
Stocks	16	**468**		446	
Debtors: amounts falling due within one year	17	**31,356**		23,174	
Cash at bank and in hand		**12,077**		10,208	
		43,901		33,828	
Creditors: amounts falling due within one year	18	**(9,656)**		(10,936)	
Net current assets			**34,245**		22,892
Total assets less current liabilities			**66,115**		51,346
Creditors: amounts falling due after more than one year	19		**(7,965)**		(2,620)
Provision for liabilities					
Pensions			**-**		(18)
Pension liability	25		**(3,741)**		(2,128)
Net assets			**54,409**		46,580
Capital and reserves					
Called up share capital	23		**5,245**		5,245
Revaluation reserve	22		**1,061**		1,061
Hedging reserve	22		**455**		(677)
Profit and loss account	22		**47,648**		40,951
			54,409		46,580

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
11/4/17.

Mr K A George
Director

Mr P R Winter
Director

The notes on pages 16 to 41 form part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2016

	Share Capital £000	Revaluation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 January 2016	5,245	1,061	(677)	40,951	46,580
Comprehensive income for the year					
Profit for the year	-	-	-	17,394	17,394
Actuarial (losses) / gains on pension scheme	-	-	-	(1,656)	(1,656)
Movement in hedging reserve	-	-	1,132	-	1,132
Taxation in respect of items of OCI	-	-	-	559	559
Other comprehensive income for the year	-	-	1,132	(1,097)	35
Total comprehensive income for the year	-	-	1,132	16,297	17,429
Dividends: Equity Capital	-	-	-	(9,600)	(9,600)
At 31 December 2016	5,245	1,061	455	47,648	54,409

Statement of Changes in Equity

For the Year Ended 31 December 2015

	Share Capital £000	Revaluation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 January 2015	5,245	1,061	(566)	33,117	38,857
Comprehensive income for the year					
Profit for the year	-	-	-	10,253	10,253
Actuarial gains / (losses) on pension scheme	-	-	-	81	81
Movement in hedging reserve	-	-	(111)	-	(111)
Taxation in respect of items of OCI	-	-	-	-	-
Other comprehensive income for the year	-	-	(111)	81	(30)
Total comprehensive income for the year	-	-	(111)	10,334	10,223
Dividends: Equity Capital	-	-	-	(2,500)	(2,500)
At 31 December 2015	5,245	1,061	(677)	40,951	46,580

The notes on pages 16 to 40 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies

1.1. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The Company's principal activity is the provision of ferry and associated catering and travel services between Southampton and Cowes on the Isle of Wight.

The following principal accounting policies have been applied:

1.2. Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Falcon Acquisitions Limited as at 31 December 2016 and these financial statements may be obtained from the Company's registered office.

1.3. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods
Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably, and;
- the costs incurred and the costs to complete the contract can be measured reliably.

Revenue from transport of passengers and freight is recognised in the profit and loss account at the date of travel, which is when risks and rewards transfer to the customer. Revenue arising from onboard sales and other associated income is recognised at the point of delivery of the goods or service.

Revenue from season ticket sales is recognised by the stage of completion of the customer's travel provided under contractual arrangements as a proportion of total services provided. The remaining proportion of income received from the sale of season tickets is deferred within liabilities and recognised in the profit and loss account over the period covered by the relevant ticket.

1.4. Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Software	-	3 - 10 years

1.5. Tangible assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Depreciation is provided on the following bases:

Freehold Property	-	10-50 years
L/Term Leasehold Property	-	10-30 years
S/Term Leasehold Property	-	Over the term of the lease
Plant and Machinery	-	3-30 years
Motor Vehicles	-	5-10 years
Fixtures and Fittings	-	5-10 years
Engine Overhauls	-	2 - 17 years
Ferries	-	30 years
Hi-Speed catamarans	-	20 years
Hi-Speed catamarans leased	-	Over the term of the lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the profit and loss account.

1.6. Website development costs

Where group companies' websites are expected to generate future revenues in excess of the costs of developing those websites, expenditure on the functionality of the website is capitalised and treated as an intangible fixed asset. Expenditure incurred on maintaining websites and expenditure incurred on developing websites used only for advertising and promotional purposes are written off as incurred.

1.7. Investment Properties

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined annually by external valuers. The valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided and changes in fair value are recognised in profit or loss.

1.8. Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

1.9. Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

1.10. Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.11. Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.12. Marine spares

Marine spares are valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of marine spares.

1.13. Repairs and renewals

Service costs in respect of the annual maintenance of vessels are charged to the profit and loss account as incurred.

Costs in respect of major engine overhauls and associated work are capitalised as incurred and depreciated over the service life of such work.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

1.14. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.15. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.16. Basic financial instruments

The Company enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from third parties and loans to and from related parties

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.17. Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

1.18. Derivative financial instruments

Derivative financial instruments are measured in the balance sheet at fair value as from the date where the derivative financial instrument is concluded. The fair values of derivative financial instruments are presented as other receivables if positive or other liabilities if negative. Netting of positive and negative derivative financial instruments is only performed if the company is entitled to and has the intention to settle more derivative financial instruments as a net. Fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

Cash flow hedge

Changes to the fair value of derivative financial instruments designated as and qualifying for cash flow hedging and which effectively hedge changes in future cash flows, are recognised in Other Comprehensive Income. The change in fair value that relates to the effective portion of the cash flow hedge is recognised as a separate equity reserve until the hedged cash flow impacts the income statement.

At this point in time the related gains or losses previously recognised in Other Comprehensive Income are transferred to the income statement into the same line item as the hedged item is recognised. For derivative financial instruments that no longer qualify for hedge accounting, the hedge is dissolved prospectively. The accumulated fair value in equity is immediately transferred to the income statement into the same line item as the hedged item is recognised.

1.19. Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.20. Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

1.21. Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Company operates a defined benefits pension scheme and the pension charge is based on a full actuarial valuation dated 31 January 2014. The actuarial valuation of the value in use of future benefits payable under the plan is made once a year. The value in use is calculated based on assumptions of future development in wage/salary levels, interest rates, inflation, mortality, etc. The value in use is only calculated for benefits to which the employees have become entitled to during their employment with the Company. The actuarial calculation of the value in use less the fair value of any assets under the plan is recognised in the balance sheet under pension obligations. Pension costs of the year are recognised in the income statement based on actuarial estimates and finance expectations at the beginning of the year.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. Accounting Policies (continued)

Multi-employer pension plan

The Company is a member of a multi-employer plan. Where it is not possible for the Company to obtain sufficient information to enable it to account for the plan as a defined benefit plan, it accounts for the plan as a defined contribution plan.

1.22. Interest income

Interest income is recognised in the profit and loss account using the effective interest method.

1.23. Borrowing costs

All borrowing costs are recognised in the profit and loss account in the year in which they are incurred.

1.24. Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the profit and loss account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet

1.25. Taxation

Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Judgements in applying accounting policies and key sources of estimation uncertainty

In the preparation of the financial statements, Management undertakes a number of accounting estimates and assessments, and makes assumptions which provide the basis for recognition and measurement of the assets, liabilities, revenues and expenses of the Company. These estimates, assessments and assumptions are based on historical experience and other factors which the Management considers reasonable under the circumstances, but which by their nature are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, for which reason the actual results may deviate from the applied estimates and assessments. For a detailed description of the Group's accounting policies, reference is made to note 1.

In the opinion of Management, the following accounting estimates and assessments are significant in the preparation of the annual report.

Leases
When entering into lease agreements as a lessee, management assesses whether the lease in question is an operating or finance lease. These assessments are based on whether the risks and rewards of ownership have been transferred from the lessor to the lessee and are decided on a lease by lease basis.

Impairment testing of ships, including the assessment of useful life and scrap value
Significant accounting estimates and assessments regarding ships include the depreciation of the ship's cost price on the basis of the expected useful life of its component elements; the ship's expected maximum useful life, its scrap value and impairment test. The expected useful life of ships and their scrap values are reviewed and estimated at least once a year. Impairment tests are also carried out when there is any indication of impairment.

Investment properties
The group's investment properties are valued annually on 31 December at fair value, determined by an independent, professionally qualified valuer. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. The valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. There is an inevitable degree of judgement involved in that each property is unique and value can only be reliably tested in the market itself.

Pensions and similar liabilities
The Company's defined benefit pension plans are calculated on the basis of a number of key actuarial assumptions, including discount rate, the anticipated returns on the plans' assets, the anticipated development in wages and pensions, anticipated mortality, etc. Even moderate alterations in these assumptions can result in significant changes in pension liabilities.

The value of the Group's defined pension benefit plans is based on calculations undertaken by external actuaries.

Derivatives
When entering into agreements involving derivatives, Management assesses whether the derivative in question meets the requirement as to effective hedging, including whether the hedging relates to recognised assets and liabilities, projected future cash flows, or financial investments. Regular effectiveness tests are carried out, and any inefficiency is recognised in the profit and loss account.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Impairment of bad debts

Receivables are recognised at amortised cost price less impairment to meet expected losses. Impairments are recognised based on the customers' ability and/or willingness to pay.

The need for impairments on the individual customer and the adequacy hereof, is assessed by the Management on the basis of historical data on customer payment patterns, age distributions, dubious receivables, customer concentrations, customer creditworthiness, and any collateral received.

Intra group balances

Intra group balances are held at amortised cost and are deemed to be current and immediately payable on demand where cash balances exist to cover the net intra group balance.

For the intra group balances exceeding available cash balances, or where the nature of the balance is that of a loan, interest is charged at 10.25% per annum on the net intra group balance owed.

3. Other operating loss

	2016	2015
	£000	£000
(Loss) / profit on disposal of assets	(312)	-

4. Operating profit

The operating profit is stated after charging:

	2016	2015
	£000	£000
Depreciation of tangible fixed assets	4,110	3,947
Impairment of tangible fixed assets	-	668
Amortisation of intangible assets, including goodwill	109	45
Payments under operating leases	780	682

Notes to the Financial Statements

For the Year Ended 31 December 2016

5. Auditors' remuneration

	2016	2015
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**19**	13
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of associates of the Company pursuant to legislation	**19**	29
Audit-related assurance services	**-**	9
All taxation advisory services not included above	**-**	8
All assurance services not included above	**6**	12

Fees payable to the Company's auditor and its associates in connection with the Company's pension scheme in respect of:

	2016	2015
	£000	£000
The auditing of accounts of the scheme	**5**	5

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2016	2015
	£000	£000
Wages and salaries	**11,926**	11,381
Social security costs	**1,085**	1,036
Cost of defined contribution scheme	**344**	323
	13,355	12,740

Notes to the Financial Statements

For the Year Ended 31 December 2016

6. Employees (continued)

The average monthly number of employees, including the directors, during the year was as follows:

	2016	2015
	£000	£000
Administration	**87**	76
Sea-faring staff	**233**	230
Shore-based staff	**149**	143
	469	449

7. Directors remuneration

	2016	2015
	£000	£000
Directors' emoluments	**764**	709
Company contributions to defined contribution pension schemes	**56**	66
	820	775

During the year retirement benefits were accruing to 8 directors (2015 - 7) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £284,000 (2015 - £398,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,000 (2015 - £19,000).

8. Interest receivable

	2016	2015
	£000	£000
Other interest receivable	**25**	9

Notes to the Financial Statements
For the Year Ended 31 December 2016

9. Interest payable and similar charges

	2016	2015
	£000	£000
Bank interest payable	735	844
Finance leases	301	-
Other loan interest payable	208	245
Loans from group undertakings	366	557
	1,610	1,646

10. Other finance costs

	2016	2015
	£000	£000
Net interest on net defined benefit liability	(79)	(81)

11. Taxation

	2016	2015
	£000	£000
Corporation tax		
Current tax on profits for the year	-	1
Adjustment in respect of previous periods	(16)	-
	(16)	1
Deferred tax		
Origination and reversal of timing differences	400	-
Adjustment in respect of previous periods	(3,959)	-
Effects of changes in tax rates	160	-
	(3,399)	-
Taxation on profit on ordinary activities	(3,415)	1
Other comprehensive income items		
Adjustment in respect of previous periods	(54)	-
Effects of changes in tax rates	(505)	-
	(559)	-

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corpration tax in the UK
The differences are explained below:

	2016	2015
	£000	£000
Profit on ordinary activities before tax	**13,979**	10,254
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	**2,796**	2,051
Effects of:		
Non-taxable income less expenses not deductible for tax purposes	**73**	(2,050)
Effects of group relief / other relief	**(2,461)**	-
Adjustment in respect of previous periods	**(3,975)**	-
Effects of changes in tax rates	**160**	-
Other	**(8)**	
Total tax charge for the year	**(3,415)**	1

The company has elected to exit the United Kingdom Tonnage Tax Regulations basis which has concluded the open enquiries with HMRC. Closure notices have been issued covering years 2006 – 2015. This has resulted in a refund of tax charges over this period as no tax would have been due under United Kingdom Corporation Tax Regulations.

The company results for 2016 have been assessed under United Kingdom Corporation Tax Regulations.

12. Dividends

	2016	2015
	£000	£000
Dividend paid on ordinary shares during the year	**9,600**	2,500

Notes to the Financial Statements

For the Year Ended 31 December 2016

13. Intangible assets

	Software £000	Assets in course of constr. £000	Total £000
Cost			
At 1 January 2016	234	-	234
Additions	36	718	754
Transfers	599	(599)	-
At 31 December 2016	869	119	988
Amortisation			
At 1 January 2016	54	-	54
Charged for the period	109	-	109
At 31 December 2016	163	-	163
Net book value			
At 31 December 2016	706	119	825
At 31 December 2015	180	-	180

Notes to the Financial Statements

For the Year Ended 31 December 2016

14. Tangible fixed assets

	Investment Property £000	Freehold Property £000	L/Term Leasehold Property £000	Plant and Machinery £000	Ships £000	Assets in course of constr. £000	Total £000
Cost							
At 1 January 2016	-	2,749	921	10,118	57,471	2,741	74,000
Additions	-	-	-	49	6,192	2,523	8,764
Transfers	-	-	-	613	457	(1,070)	-
Disposals	-	-	-	(89)	(3,328)	(740)	(4,157)
Investment property trf	284	(331)	-	-	-	-	(47)
Revaluations	21	-	-	-	-	-	21
At 31 December 2016	305	2,418	921	10,691	60,792	3,454	78,581
Depreciation							
At 1 January 2016	-	808	604	8,319	35,998	-	45,729
Charge for the period	-	62	39	661	3,348	-	4,110
Disposals	-	-	-	(50)	(2,206)	-	(2,256)
Investment property trf	-	(47)	-	-	-	-	(47)
At 31 December 2016	-	823	643	8,930	37,140	-	47,536
At 31 December 2016	305	1,595	278	1,761	23,652	3,454	31,045
At 31 December 2015	-	1,941	317	1,799	21,473	2,741	28,271

The group's investment properties are valued annually on 31 December at fair value, determined by an independent, professionally qualified valuer. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. Details on the assumptions made and the key sources of estimation uncertainty are given in note 2.

The surplus on revaluation of investment property arising of £21,000 has been credited to the profit and loss for the year. All other tangible assets are stated at historical cost less depreciation and impairments.

Notes to the Financial Statements

For the Year Ended 31 December 2016

14. Tangible fixed assets (continued)

If investment property had been accounted for under the historic cost accounting rules, the property would have been measured as follows:

	2016	2015
	£000	£000
Historic cost	331	331
Accumulated depreciation and impairments	(47)	(34)
	284	297

Included within the cost of ships at 31 December 2016 is an amount of £1.4 million which compromises cumulative capitalised interest (2015: £1.4 million).

Included within the net book value of £31.4 million is £7.0 million (2015: £1.3 million) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £400,000 (2015: £161,000).

15. Fixed asset investments

	Investment in subsidiary companies £000
Cost or Valuation	
At 1 January 2016	3
Disposal	(3)
At 31 December 2016	-
At 31 December 2015	3

Notes to the Financial Statements

For the Year Ended 31 December 2016

15. Fixed assets investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of Incorporation	Class of shares	Holding	Principal Activity
Red Funnel Steamers Limited	United Kingdom	Ordinary	100%	Dormant
Red Funnel (Pension trustees) Limited	United Kingdom	Ordinary	100%	Dormant

The registered address of the above subsidiary undertakings is the same as the address stated on Company Information page 2.

16. Stocks

	2016 £000	2015 £000
Fuel Oil	**119**	93
Marine spares	**275**	263
Catering stocks	**74**	90
	468	446

17. Debtors

	2016 £000	2015 £000
Trade debtors	**1,294**	1,258
Amounts owed by group undertakings	**24,522**	20,872
Other debtors	**76**	204
Prepayments and accrued income	**1,050**	840
Financial Instruments - Swap	**455**	-
Corporation tax	**1**	-
Deferred taxation	**3,958**	-
	31,356	23,174

Notes to the Financial Statements

For the Year Ended 31 December 2016

18. Creditors: amount falling due within one year

	£000	£000
MNOPF Pension Liability	**481**	440
Trade creditors	**2,298**	2,194
Amounts owed to group undertakings	**2,772**	2,807
Corporation tax	**-**	1
Taxation and social security	**455**	394
Obligations under finance lease and hire purchase contracts	**107**	-
Other creditors	**104**	244
Accruals and deferred income	**3,439**	4,296
Financial Instruments - Swap	**-**	560
	9,656	10,936

19. Creditors: amount falling due after more than one year

	2016 £000	2015 £000
MNOPF Pension Liability	**2,022**	2,503
Obligations under finance lease and hire purchase contracts	**5,943**	-
Financial Instruments - Swap	**-**	117
	7,965	2,620

Secured loans

The pension liability relates to the defined benefit scheme for the MNOPF 2009 and 2012 valuations. The repayments commenced in 2010 and 2013 respectively and will continue until 2020 and 2023 at interest rates of 8.83% and 6.30%.

Notes to the Financial Statements

For the Year Ended 31 December 2016

20. Loans

	2016	2015
	£000	£000
Current loans		
MNOPF Pension Liability	**481**	440
Obligations under finance lease and hire purchase contracts	**107**	-
	588	440
Between one and two years		
MNOPF Pension Liability	**526**	481
Obligations under finance lease and hire purchase contracts	**118**	-
	644	481
Between two and five years		
MNOPF Pension Liability	**1,313**	1,748
Obligations under finance lease and hire purchase contracts	**491**	-
	1,804	1,748
Over five years		
MNOPF Pension Liability	**183**	274
Obligations under finance lease and hire purchase contracts	**5,335**	-
	5,518	274

Included within the above amounts falling due as follows:

The MNOPF loans represent amounts owed the Merchant Navy Officers Pension Fund. This loan is unsecured and bears a fixed rate of compounding interest at 8.83% for the 2009 valuation and 6.30% for the 2012 valuation..

The other loan relates to a finance lease of Red Jet 6. This is secured against the asset, has an implied interest rate of 9.67% and payable over 15 years.

Notes to the Financial Statements

For the Year Ended 31 December 2016

21. Financial instruments

	2016	2015
	£000	£000
Financial assets		
Financial assets that are debt instruments measured at amortised cost	**37,970**	32,541
Derivative financial instruments designated as hedges of variable commodity price risk	**455**	-
	38,425	32,541
Financial liabilities		
Financial liabilities measured at amortised cost	**(15,169)**	(10,416)
Derivative financial instruments designated as hedges of variable commodity price risk	**-**	(677)
	(15,169)	(11,093)

Financial assets measured at amortised cost comprise of cash and cash equivalents, trade and other receivables and intercompany debtors.

Financial liabilities measured at amortised cost comprise of trade and other payables, intercompany creditors, M.N.O.P.F liability and finance lease obligations.

Derivative financial instruments designated as hedges of variable commodity rate risk comprise of a fuel swap. The Group uses swaps to hedge the variability in fuel costs due to fluctuations in fuel price. The sensitivity analysis on fuel contracts has been prepared under the assumptions that the effect is calculated on the fuel contracts entered at the balance sheet date; the hedge is 100% effective and based on the actual market situation and expectations to the development in the fuel prices.

22. Reserves

Revaluation reserve
Includes all tangible asset revaluations in current and prior periods.

Hedging reserve
Includes all movements in the hedging reserve in current and prior periods.

Profit and loss account
Includes all current and prior periods retained profits and losses.

Notes to the Financial Statements

For the Year Ended 31 December 2016

23. Share capital

	2016	2015
	£000	£000
Allotted, called up and fully paid		
5,245,129 Ordinary shares of £1 each	**5,245**	5,245

24. Contingent liabilities

There is a fixed and floating charge over the assets of the company under an agreement dated 8 July 2016 to certain providers of finance to other group companies.

25. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £344,000 (2015 - £323,000).

In addition, some employees are members of the Merchant Navy Officers Pension Fund ("MNOPF").

The Company contributes to the MNOPF, an industry-wide funded defined benefit scheme for certain employees. The contributions to this scheme are determined with reference to the level set by the scheme's actuaries and charged against income as if it were a defined contribution scheme.

The company has not adopted the accounting requirements of FRS 102 Section 28 "Employee Benefits" in respect of this scheme since it is unable to identify its share of the underlying assets and liabilities.

The cost of contributions to the scheme totalled £32,000 (2015: £37,000). The triennial valuation of the fund as at 31 March 2009 showed that the new section deficit had increased from the previous valuation by £390 million and that the old section, which was previously a surplus, was in deficit by £130 million. The Trustees calculated that the Company's share of the deficit in the new section was £2.9 million, which is currently being paid for at the increased rate of £543,000 per annum from 2015 to 2020. There is no current requirement for payments to be made in respect of the old section.

The most recent actuarial valuation was completed as at 31 March 2012. This valuation showed that the new section deficit had increased by a further £152 million. The trustees calculated that the Company's share of the increased deficit was £955,000, of which £133,000 was paid immediately and the balance of £822,000 is being paid for at a rate of £105,000 per annum over ten years to September 2023.

The Company operates a Defined benefit pension scheme.

Notes to the Financial Statements
For the Year Ended 31 December 2016

25. Pension commitments (continued)

This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 31 January 2014 and updated to 31 December 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent actuarial valuation showed a deficit of £2,163,000. The Company has agreed with the trustees that it will aim to eliminate the deficit over a period of 15 years from 1 February 2015 by the payment of annual contributions of £120,000 in respect of the deficit. In addition, and in accordance with the actuarial valuation, the company has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

Reconciliation of opening and closing balances of the defined benefit obligation:

	2016	2015
	£000	£000
Defined benefit obligation at the beginning of the year	(10,791)	(11,200)
Interest expense	(403)	(407)
Actuarial (losses) / gains	(2,472)	419
Benefits paid	381	397
Defined benefit obligation at the end of the year	(13,285)	(10,791)

Reconciliation of opening and closing balances of the fair value of plan assets:

	2016	2015
	£000	£000
Fair value of plan assets at the beginning of the year	8,663	8,956
Interest income	324	326
Actuarial gains / (losses)	816	(338)
Contributions by the company	122	116
Benefits paid	(381)	(397)
Fair value of plan assets at the end of the year	9,544	8,663

Composition of plan assets:

25. Pension commitments (continued)

	2016 £000	2015 £000
Equities	**2,773**	2,468
Corporate bonds	**3,590**	3,095
Property	**1,283**	1,295
Fixed interest (mainly gilts)	**469**	864
Index linked	**500**	-
Diversified growth assets	**880**	864
Cash	**49**	77
Total plan assets	**9,544**	8,663

None of the fair values of the assets include any direct investments in the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

	2016 £000	2015 £000
Fair value of plan assets	**9,544**	8,663
Present value of plan liabilities	**(13,285)**	(10,791)
Net pension scheme liability	**(3,741)**	(2,128)

The amounts recognised in profit or loss are as follows:

	2016 £000	2015 £000
Net interest cost	**(79)**	(81)

The cumulative amount of actuarial gains and losses recognised in the Statement of comprehensive income was £79,000 (2015 - £81,000).

The Company expects to contribute £120,000 to its Defined benefit pension schemo in 2017.

Notes to the Financial Statements

For the Year Ended 31 December 2016

25. Pension commitments (continued)

Principal actuarial assumptions at the Balance sheet date (expressed as weighted averages):

	2016	2015
	£000	£000
Discount rate at 31 December	**2.6%**	3.8%
Inflation (RPI)	**3.4%**	3.0%
Inflation (CPI)	**2.4%**	2.0%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	**2.4%**	2.0%
Allowance for pension in payment of RPI or 5% p.a. if less	**3.4%**	3.0%

Amounts for the current and previous four periods are:

	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Fair value of plan assets	**9,544**	8,663	8,956	8,432	8,298
Present value of plan liabilities	**(13,285)**	(10,791)	(11,200)	(10,214)	(9,604)
Deficit	**(3,741)**	(2,128)	(2,244)	(1,782)	(1,306)
Experience adjustments on scheme liabilities	**(2,472)**	419	(847)	(518)	(102)
Experience adjustments on scheme assets	**816**	(338)	369	(95)	275

26. Deferred tax

	2016
	£000
At 1 January 2016	-
Charged to the profit or loss	**3,399**
Charged to other comprehensive income	**559**
At 31 December 2016	**3,958**

Notes to the Financial Statements
For the Year Ended 31 December 2016

26. Deferred tax (continued)

The deferred tax asset is made up as follows:

	2016	2015
	£000	£000
Revaluation of investment properties	(4)	-
Derivative contracts	(77)	-
Pension scheme	1,061	-
Timing differences on fixed assets	2,978	-
	3,958	-

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

The closing deferred tax asset at 31 December 2016 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be utilised in future periods.

27. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£000	£000
Not later than 1 year	689	716
Later than 1 year and not later than 5 years	2,031	2,084
Later than 5 years	504	476
Total	3,224	3,276

28. Related parties

The company has taken advantage of the exemption in the FRS 102 Section 33.1A not to disclose transactions between the company and wholly owned companies within the group. Key management personnel include all directors across the group who together have authority and responsibility for planning, directing and controlling the activities of the group. The total compensation paid to key management personnel for services provided to the group was £1,053,000 (2015: £1,074,000).

Notes to the Financial Statements

For the Year Ended 31 December 2016

29. Controlling party

The company is controlled by Infracapital Partners LP, a Limited Partnership, acting by its Manager M&G Investment Management Limited. Infracapital Partners LP is deemed to be controlled by Infracapital GP 1 LLP by virtue of the LPA dated 17 August 2005 (as amended from time to time). Both Infracapital GP 1 LLP and M&G Investment Management Limited are wholly owned entities of Prudential plc, a company registered in England & Wales. Consolidated financial statements are produced by Prudential plc, copies of which are available from the Registered Office at Laurence Pountney Hill, London, EC4R 0HH. By virtue of the control and management structure of Infracapital Partners LP, the directors consider that Prudential plc is the ultimate parent undertaking of the company.

The company has no controlling related party.

The smallest group in which the results of the company are consolidated is that headed by Falcon Acquisitions Limited, incorporated in England. The consolidated financial statements for this company are available to the public and may be obtained from Companies House.