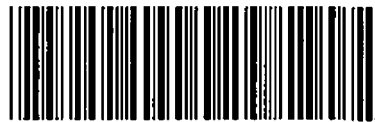


**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL
STEAM PACKET COMPANY LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

COMPANY INFORMATION

Directors	F C Collins K A George C J G Hazelwood L R Hudson D L Reed C F Sibley E A Wilson G Barnettson A Z Vale L M Lakes
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	National Westminster PLC 68 Above Bar Street Southampton Hampshire SO14 7DS
Solicitors	Paris Smith LLP 1 London Road Southampton Hampshire SO15 2AE

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

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**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

Introduction

The Directors present the Strategic Report for the year ended 31 December 2019

Business review

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 seven vessels; three vehicle ferries, one dedicated freight ferry and three high-speed 'Red Jet' catamarans for foot passengers only. 3.4 million passengers and 0.9m vehicles were carried in 2019.

Financial Performance

	2019	2018	Variance	
	000's	000's	000's	%
Turnover (from continuing operations)	56,106	53,803	2,303	4.3%
EBITDA*	21,492	19,391	2,101	10.8%

*EBITDA is defined as earnings before interest, taxes, depreciation and amortisation

Turnover of £56.1 million (2018: £53.8 million) for the year was 4.3% higher than 2018. EBITDA of £21.5 million (2018: £19.4 million) was 10.8% higher than 2018.

There was continued good revenue growth across Car (4.9% higher than 2018) and Red Jet (4.4% higher). Commercial revenue (including freight) was 4.4% higher than 2018, reversing the decline seen in 2018 and endorsing the investment in Red Kestrel, our dedicated freight ferry. This revenue movement is reflective of the strong market share growth attained by the Company during the year which is shown below:

	2019*	2018*	Variance
Freight	51.7%	51.3%	0.4%
Private Vehicles	39.6%	38.9%	0.7%
Total Vehicles	41.0%	40.8%	0.7%
Hi Speed passengers	38.0%	37.4%	0.6%
Vehicle ferry foot passengers	38.4%	36.8%	1.6%

* Based on Isle of Wight market share calendar year 26.11.17 - 24.11.18 & 25.11.18 - 23.11.19

Operating costs were 7% higher than 2018. Labour costs increased by 6% as part of the Company's continued strategy of enhancing customer service and delivering an excellent customer experience by investing in training and development and the acquisition of Red Kestrel which increased staffing requirements. Fuel price volatility due to market factors, coupled with additional consumption due to the introduction of Red Kestrel resulted in fuel expenditure increasing by 10% on 2018. We also continue to invest heavily in marketing as part of our ongoing commitment to promote the Isle of Wight as a travel destination and Red Funnel as the provider of choice for cross-Solent travel.

Capital expenditure was £12.6 million in the year. Major projects undertaken in 2019 included the launch of Red Kestrel and the completion of the layby berth at East Cowes, along with the start of Phase 2 of the redevelopment of our East Cowes terminal site. We also continue to invest heavily in the maintenance and refurbishment of our vessels to enhance customer experience.

Investment on this scale continues to illustrate Red Funnel's long-term commitment to ensuring continuity of service to the Isle of Wight and reflects our undertaking to provide sufficient capacity and frequency of service for Island stakeholders.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

In addition to the key performance indicators detailed in this section, the Company also monitors reliability and punctuality KPIs which are published on our website.

Operational highlights

High Speed Service

May 2019 marked the 50th anniversary of Red Funnel's continuous high-speed service between Southampton and West Cowes, with the first anniversary of Red Jet 7 then being celebrated in June 2019. This £7m vessel, named by HRH the Duchess of Cornwall, was built in East Cowes by Wight Shipyard marking the Company's second consecutive island-based ship order and has proved a continued success since her inception into service in 2018.

Environmental Strategy

Our long-term environmental strategy – 'Red goes Green' was launched in September 2018 and it remains a key focus for us. During 2019 we have successfully increased the level of waste recycled in our business by almost 52% and have decreased the use of single use consumer plastics at our Food and Beverage outlets by 97%.

Our commitment in this area was also publicly recognised when we were highly commended for the Green Initiative Award at the 2019 Isle of Wight Chamber of Commerce Awards.

Maritime 2050 Award

We were delighted to win the prestigious Maritime 2050 award at the Maritime UK awards held in Southampton in September 2019.

This award recognises Red Funnel's considerable contribution to supporting the British shipbuilding industry and championing the UK Government's Maritime 2050 strategy, which seeks to maintain and strengthen the UK's position as a global maritime leader.

Supporting the UK maritime economy is strongly embedded in the present day ethos of Red Funnel, as it has been since we were founded back in 1861 and will continue to guide our actions in the future as we look to embrace new technologies towards a greener future.

Strategy

The Company's strategy is to create long-term value for all its stakeholders by: -

1. Maintaining Isle of Wight resilience
2. Supporting the local communities in which we operate
3. Offering a level of customer service that exceeds expectations
4. Maximising the attractiveness of the Isle of Wight as a holiday destination through:
 - a) Penetrating new consumer segments, and
 - b) Maximising frequency of use by strategies to extend the season;
5. Gaining market share and delivering growth, 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
6. Improving our environmental footprint
7. Managing the Company in a safe, efficient and effective way.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

Health and safety and quality

The Company's overriding priority is always the safety of our passengers, crews, vessels and other marine users. To deliver this the Company utilises an integrated management system to meet the highest standards of safety, environmental and quality performance and to put safety at the heart of what we do. This management system combines the International Safety Management (ISM) code, which focuses on safety and environment at sea and safe practices in shipboard operations, ISO 14001:2015 which delivers effective environmental management and ISO 9001:2015 which ensures that the quality management system focuses on meeting customer expectations.

The adoption of the 2015 ISO standards brings to the fore risk-based thinking which will ensure that our emphasis on holistic risk management from strategic to day-to-day activity is aimed at encouraging decision making to help identify, evaluate and respond to risk.

Principal risks and uncertainties

The main risks identified are as follows:

1. 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 our income. The risk is mitigated by the presence of duplicated systems and processes, wherever possible. In addition, the Company has business continuity insurance.
2. Macro-economic conditions – There is a perception of increased political and economic uncertainty following the 2019 General Election and the on-going negotiations regarding Brexit.
3. 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.
4. Maritime incident or accident – This risk is mitigated by recruiting and training all members of our team to the highest appropriate standards, delivering the Safety Management Systems and having rigorous maintenance and refit regimes.
5. Fluctuations in fuel prices – Our ferries and catamarans currently 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 our 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. Merchant Navy Officers Pension Fund (MNOFF) - The Company is part of the MNOFF 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.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 and are implemented by the Directors.

The Directors review and agree policies for managing each of these risks, which are summarised below: -

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.

Liquidity and cash flow risk - The Company has a policy of maintaining debt at an appropriate level. To ensure that the Company can adequately manage cash flows forecasts for the year are produced every month and reviewed by the Board.

Interest rate risk - The Company's funding is currently provided by a mixture of retained earnings, bank borrowings and borrowings from its shareholders. Almost 58% of the group's long-term borrowings are fixed in term until 2026 or beyond. The group's exposure to interest rate fluctuations on its borrowings is minimised using an interest rate swap such that 83% of debt is fixed rate or effectively bears a fixed rate.

Fuel price risk - The Company mitigates fluctuations in fuel prices and establishes certainty of fuel costs for budgeting purposes by entering fuel hedges with an Institute of Swaps and Derivatives Association (ISDA) member institution.

COVID-19

The impact of COVID-19 is being felt around the globe at this time, and the Company has been affected both initially in terms of operations and more widely across the business as the effects of the pandemic increase. However, the Company and the Group as a whole has instigated precautions and safety procedures at all of our locations and vessels to protect all employees and customers. Maintaining the safety of our employees and our passengers has been our utmost priority in ensuring that the Isle of Wight remains connected and supplied.

Furthermore, the Company has taken advantage of the government's financial support schemes.

Going Concern

It is clear that the impact of COVID-19 is significant to the operations of the Company. However, as a lifeline service provider to the Isle of Wight, the Company has continued to operate. Before signing the annual financial statements, the Directors have reviewed the current financial performance and liquidity of the business and have assessed its resilience to multiple future COVID-19 scenarios.

The future performance of the Company has been forecast over the next 35 years using an audited forecast model. Following a review of this, the Directors have reported that they have a reasonable expectation that the Company has sufficient resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements. Further details on going concern are given in note 29 to the financial statements.

**Statement by the Directors in performance of their statutory duties in accordance with s172(1)
Companies Act 2006**

The decisions that our Board makes are taken for the long-term sustainability of the business and, both individually and collectively our aim is to uphold the highest standards of conduct. Our Board acknowledges that Red Funnel can only develop and prosper over the long term if we respect and understand the views and needs of our customers, employees, suppliers, investors and other stakeholders in our business as well as taking account of the environment in which we operate.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

The Directors fulfil their duties within a governance framework that delegates day-to day decision making to employees of Red Funnel. The Board recognises that delegation like this must be part of a robust governance structure which incorporates our values, engagement with stakeholders and that the Board assures itself that the governance structure and systems of controls remain robust.

During 2019 key events undertaken by the Board included:

Red Kestrel

The Company placed an order for a freight only ferry in February 2018 with Birkenhead based Cammell Laird, the third new build in succession placed with a UK yard by Red Funnel.

The £10m Red Kestrel was officially named on 25th April 2019 and entered service on 24th May 2019. It provides the first dedicated freight only service across the Solent, thereby increasing the Company's year-round freight capacity and its impact in the sector has been seen by a growth in market share of 0.4% to 51.7% and an annual growth in freight revenue of 4.4%.

Red Kestrel provides 265 lane metres of freight capacity and was designed with our environmental commitment in mind. Her hull shape was designed specifically to reduce wash and her Rolls Royce engines are highly fuel efficient and meet Tier III emission regulations.

A lay-by berth for Red Kestrel at East Cowes to ensure efficient operation of the vessel was completed during the year.

East Cowes Terminal Redevelopment

Phase 2 of the £10m redevelopment of our East Cowes Terminal which will include a new purpose-built terminal building and redesigned yard was paused during the year whilst the Company reviewed and reconfirmed design and layout specifications and assumptions to ensure that it fully met the needs of all stakeholders.

Appointment of new Chief Financial Officer

Graham Barnettson joined the Board as Chief Financial Officer (CFO) in July 2019 replacing the previous incumbent, Paul Winter, who left the business after 11 years' service.

Graham has extensive transport and logistics experience having most recently been Finance Director at BFS Group's Bidvest Logistics and PCL Transport 24/7.

This report was approved by the board on 30 October 2020 and signed on its behalf.



.....
F C Collins
Director

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The Directors present their report and the financial statements for the year ended 31 December 2019.

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 they are 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 period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Company's financial statements 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;
- 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 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 to 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.

Results and dividends

The profit for the year, after taxation, amounted to £10,646,000 (2018:£11,729,000).

The Directors have recommended dividends of £Nil (2018: £Nil).

Going concern

The Company's forecasts and projections to December 2020 take into account reasonably possible changes in trading performance and show that the Company will be able to operate within its current facilities. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

Directors

The Directors who served during the year were:

F C Collins
M F Campbell (resigned 24 January 2020)
J M Slawson (resigned 31 August 2019)
P R Winter (resigned 31 March 2019)
K A George
C J G Hazelwood
L R Hudson
D L Reed
C F Sibley (appointed 1 May 2019)
E A Wilson
G Barnettson (appointed 1 July 2019)
A Z Vale (appointed 24 January 2020)
L M Lakes (appointed on 1 May 2020)

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.

Engagement with suppliers, customers and others

The Board acknowledges that Red Funnel can only develop and prosper over the long term if we respect and understand the views and needs of our customers, suppliers and other stakeholders in our business as well as taking account of the environment in which we operate.

Disabled employees

It is the Company's policy that people with disabilities should have the same consideration as others for all job vacancies for which they apply as suitable candidates. Depending on their skills and abilities, they 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.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the 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.

Post balance sheet events

Since the balance sheet date, the global disruption caused by COVID-19 has become ever more evident, particularly in the travel industry. The situation is fast changing and the scale of the impact on the global economy, capital markets and individual businesses remains uncertain.

The amounts stated in these financial statements reflect conditions existing as at the balance sheet date and no adjustments have been made as a result of COVID-19. The Company has a strong balance sheet and a significant cash balance. The Directors' view on the Company's going concern status has been disclosed in the Directors' report and note 29 of the financial statements.

The Company has taken advantage of the government support schemes available to it as a result of COVID-19.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 30 October 2020 and signed on its behalf.



**F C Collins
Director**

SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY LIMITED

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

Opinion

We have audited the financial statements of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited (the 'Company') for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHAMPTON ISLE OF WIGHT AND
SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY LIMITED (CONTINUED)**

doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the 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 in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHAMPTON ISLE OF WIGHT AND
SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY LIMITED (CONTINUED)**

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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 Auditors' 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.



Malcolm Thixton (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK

Date: 30 October 2020

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

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £000	2018 £000
Turnover	3	56,106	53,803
Cost of sales		(35,740)	(31,907)
Gross profit		20,366	21,896
Administrative expenses		(7,079)	(8,179)
Operating profit	4	13,287	13,717
Interest receivable and similar income		33	10
Interest payable and expenses	8	(1,932)	(1,588)
Other finance cost	9	(95)	(70)
Profit before tax		11,293	12,069
Tax on profit	10	(647)	(340)
Profit for the financial year		10,646	11,729
Other comprehensive income for the year			
Actuarial losses on defined benefit pension scheme		-	(217)
Movement in hedging reserve		145	(407)
Taxation in respect of items of other comprehensive income		-	(106)
Other comprehensive income for the year		145	(730)
Total comprehensive income for the year		10,791	10,999

There were no recognised gains and losses for 2019 or 2018 other than those included in the statement of comprehensive income.

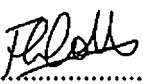
The notes on pages 16 to 45 form part of these financial statements.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED
REGISTERED NUMBER: 00002404**

**BALANCE SHEET
AS AT 31 DECEMBER 2019**

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	1,545	1,151
Tangible assets	12	51,729	45,907
Investment property	13	1,650	1,650
		<u>54,924</u>	<u>48,708</u>
Current assets			
Stocks	15	632	587
Debtors: amounts falling due within one year	16	29,033	24,581
Cash at bank and in hand	17	11,817	5,776
		<u>41,482</u>	<u>30,944</u>
Creditors: amounts falling due within one year	18	(9,020)	(8,944)
Net current assets		<u>32,462</u>	<u>22,000</u>
Total assets less current liabilities		<u>87,386</u>	<u>70,708</u>
Creditors: amounts falling due after more than one year	19	(17,965)	(11,933)
Pension liability	25	(2,881)	(3,026)
Net assets		<u><u>66,540</u></u>	<u><u>55,749</u></u>
Capital and reserves			
Called up share capital	23	5,245	5,245
Revaluation reserve	22	1,061	1,061
Other reserves	22	(119)	(264)
Profit and loss account	22	60,353	49,707
		<u><u>66,540</u></u>	<u><u>55,749</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 October 2020.



 F C Collins
 Director

The notes on pages 16 to 45 form part of these financial statements.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital	Revaluation reserve	Hedging reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2019	5,245	1,061	(264)	49,707	55,749
Comprehensive income for the year					
Profit for the year	-	-	-	10,646	10,646
Movement in hedging reserve	-	-	145	-	145
Other comprehensive income for the year	-	-	145	-	145
Total comprehensive income for the year	-	-	145	10,646	10,791
Total transactions with owners	-	-	-	-	-
At 31 December 2019	5,245	1,061	(119)	60,353	66,540

The notes on pages 16 to 45 form part of these financial statements.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Revaluation reserve	Hedging reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2018	5,245	1,061	143	38,301	44,750
Comprehensive income for the year					
Profit for the year	-	-	-	11,729	11,729
Actuarial losses on pension scheme	-	-	-	(217)	(217)
Movement in hedging reserve	-	-	(407)	-	(407)
Taxation in respect of items of OCI	-	-	-	(106)	(106)
Other comprehensive loss for the year	-	-	(407)	(323)	(730)
Total comprehensive income/ (loss) for the year	-	-	(407)	11,406	10,999
Total transactions with owners	-	-	-	-	-
At 31 December 2018	5,245	1,061	(264)	49,707	55,749

The notes on pages 16 to 45 form part of these financial statements.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK 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 Company has applied FRS 102 (March 2018) in these financial statements, which includes the amendments as a result of the Triennial Review 2017. There was no impact on the financial information upon adoption of these amendments.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Company's principal risks and uncertainties. Based on the Company's cash flow forecasts and projections, the Board is satisfied that the Company has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2019.

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;
- the requirements of Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other financial instruments paragraphs 12.26, 12.27, 12.29(a) to 12.29(b), and 12.29A

This information is included in the consolidated financial statements of Red Funnel Limited as at 31 December 2019 and these financial statements may be obtained from the Company's registered office.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.3 Going concern

The financial statements have been prepared on the going concern basis as the Directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts which show that the Group is expected to be able to meet all its liabilities as they fall due. However, it is acknowledged that the global and UK outbreak of COVID-19 has had a profound impact on the global and UK economy and businesses.

As a result of the market uncertainty due to the ongoing COVID-19 situation, the possible impact on available cash during the next 12 months' trading has been modelled under a range of assumptions and sensitivities. As part of this, the Directors have produced a detailed going concern stress test for Red Funnel Holdings Limited. The conclusion of our stress test for Red Funnel Holdings Limited Group is that the business could comfortably sustain the loss of more than £11.5m (22%) of turnover over the course of the 12 months following the date of the financial statements, without exceeding current banking facilities.

The Group, and the companies which are wholly owned, is expected to remain in a strong financial position during the forecast period and a gradual return to the Group's previous financial position is expected during 2021 through into 2022 onwards.

The Directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements and have therefore concluded that it is appropriate for the financial statements to be prepared on the going concern basis.

1.4 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 amount of revenue 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

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.4 Revenue (continued)

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.

1.5 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 ten years.

The estimated useful lives range as follows:

Software	-	3 - 10 years
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1.6 Tangible fixed 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.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.6 Tangible fixed assets (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.

Depreciation is provided on the following basis:

Freehold property	- 10 - 50 years
Long-term leasehold property	- 10 - 30 years
Short-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 Statement of Comprehensive Income.

1.7 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.

1.8 Investment property

Investment property is carried at fair value determined annually by the directors and is derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income before operating profit.

During the year, the investment properties held have been demolished and hence the investment is now held exclusively as land.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.9 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.

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.

1.10 Impairment of fixed assets

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 (CGU's). 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.

1.11 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. Work in progress and finished goods include labour and attributable overheads.

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. These amounts included within the stock balance at year end.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

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.

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 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

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 debtors and creditors, 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 in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

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.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.16 Financial instruments (continued)

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.

1.17 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 Finance costs

Finance costs are charged to the Statement of Comprehensive Income 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.

1.19 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.20 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 payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income 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 2019. 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.

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.

1.21 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.22 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.23 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge 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 tax 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 tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Judgments 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 have been valued on 31 December at fair value by the directors. 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 judgment 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.

Impairment of trade receivables

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.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Judgments in applying accounting policies (continued)

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% per annum on the net intra group balance owed.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Company's principal risks and uncertainties. Based on the Company's cash flow forecasts and projections, the Board is satisfied that the Company has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2020.

3. Turnover

All turnover arose on the principal activities of the company as disclosed in the strategic report and arose in the UK.

4. Operating profit

The operating profit is stated after charging:

	2019	2018
	£000	£000
Depreciation of tangible fixed assets	6,667	5,322
Amortisation of intangible assets	379	352
Payments under operating leases	767	457
(Profit)/Loss on sale of tangible fixed assets	(358)	20

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

5. Auditors' remuneration

	2019	2018
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	68	19
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	51	56
All taxation advisory services not included above	18	36
All assurance services not included above	10	10
The auditing of the accounts of the Company's pension scheme(s)	5	5
	84	107

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

6. Employees

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

	2019	2018
	£000	£000
Wages and salaries	14,126	13,474
Social security costs	1,282	1,220
Cost of defined contribution scheme	449	402
	15,857	15,096

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

	2019	2018
	No.	No.
Administration staff	107	107
Sea-faring staff	289	276
Shore-based staff	163	177
	559	560

The average number of FTEs (Full Time Equivalents), including overtime and casuals, were 469 (2018 - 458).

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

7. Directors' remuneration

	2019	2018
	£000	£000
Directors' emoluments	826	1,139
Company contributions to defined contribution pension schemes	54	57
	<u>880</u>	<u>1,196</u>

During the year retirement benefits were accruing to 10 Directors (2018 - 10) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £223,000 (2018 - £184,000)..

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £NIL (2018 - £NIL).

8. Interest payable and similar expenses

	2019	2018
	£000	£000
Bank interest payable	617	548
Other loan interest payable	73	122
Loans from group undertakings	206	183
Finance leases and hire purchase contracts	1,036	735
	<u>1,932</u>	<u>1,588</u>

9. Other finance costs

	2019	2018
	£000	£000
Interest income on pension scheme assets	254	237
Net interest on net defined benefit liability	(349)	(307)
	<u>(95)</u>	<u>(70)</u>

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS.
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. Taxation

	2019 £000	2018 £000
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	633	407
Adjustment in respect of previous periods	14	(67)
Total deferred tax	647	340
Taxation on profit on ordinary activities	647	340

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - *lower than*) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	<u>11,293</u>	<u>12,069</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	2,146	2,293
Effects of:		
Non-taxable income less expenses not deductible for tax purposes	6	80
Deferred Tax charged to equity	-	(106)
Fixed asset differences	228	-
Transfers - Deferred tax	-	92
Timing differences	-	1
Effects of changes in tax rates	-	(43)
Adjustments to tax charge in respect of prior periods	14	(67)
Difference in TWDV of transfers from RFGL	-	(181)
Deferred tax not recognised/rate changes	(74)	(41)
Group relief	(1,673)	(1,688)
Total tax charge for the year	<u><u>647</u></u>	<u><u>340</u></u>

Factors that may affect future tax charges

In the March Budget the government announced that the tax rate would not reduce to 17% but would instead remain at 19%. As the substantively enacted rate at the year end was 17%, deferred tax has been recognised in the accounts at this rate. The 19% rate became substantively enacted on 17 March 2020 and the impact of this rate change will be reflected in the financial statements for the year ended 31 December 2020.

**SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL MAIL STEAM PACKET COMPANY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

11. Intangible assets

	Computer software £000	Assets in course of construction £000	Total £000
Cost			
At 1 January 2019	1,546	338	1,884
Additions	-	773	773
Transfers	126	(126)	-
At 31 December 2019	<u>1,672</u>	<u>985</u>	<u>2,657</u>
Amortisation			
At 1 January 2019	733	-	733
Charge for the year	379	-	379
At 31 December 2019	<u>1,112</u>	<u>-</u>	<u>1,112</u>
Net book value			
At 31 December 2019	<u>560</u>	<u>985</u>	<u>1,545</u>
At 31 December 2018	<u>813</u>	<u>338</u>	<u>1,151</u>

SOUTHAMPTON ISLE OF WIGHT AND SOUTH OF ENGLAND ROYAL
MAIL STEAM PACKET COMPANY LIMITED

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12. Tangible fixed assets

	Freehold property £000	Long-term leasehold property £000	Plant and machinery £000	Ships £000	Assets in course of construction £000	Total £000
Cost or valuation						
At 1 January 2019	7,118	901	12,452	71,212	8,202	99,885
Additions	-	-	254	187	12,187	12,628
Disposals	-	-	(2)	(3,552)	-	(3,554)
Transfers between classes	482	40	502	16,243	(17,267)	-
At 31 December 2019	7,600	941	13,206	84,090	3,122	108,959
Depreciation						
At 1 January 2019	1,150	678	10,320	41,830	-	53,978
Charge for the year on owned assets	243	30	837	5,557	-	6,667
Disposals	-	-	(2)	(3,413)	-	(3,415)
At 31 December 2019	1,393	708	11,155	43,974	-	57,230
Net book value						
At 31 December 2019	6,207	233	2,051	40,116	3,122	51,729
At 31 December 2018	5,968	223	2,132	29,382	8,202	45,907

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13. Investment property

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 £Nil (2018: £Nil) has been credited to the profit and loss for the year. All other tangible assets are stated at historical cost less depreciation and impairments.

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

	Freehold investment property £000
Valuation	
At 1 January 2019	1,650
At 31 December 2019	1,650

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

	2019 £000	2018 £000
Historic cost	1,646	1,646
Accumulated depreciation and impairments	(118)	(99)
	1,528	1,547

Included within the cost of ships at 31 December 2019 is an amount of £2.4 million which comprises cumulative capitalised interest (2018: £1.4 million).

Included within the net book value of £51.7 million is £24.6 million (2018: £11.0 million) relating to assets held under finance lease arrangements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £1,502,000 (2018: £696,000).

Capital commitments contracted at 31 December 2019 were £Nil (2018: £1,887,000).

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14. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of Incorporation	Class of Shares	Holding	Principal Activity
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 the Company information page.

15. Stocks

	2019 £000	2018 £000
Marine Spares	323	320
Catering Stocks	128	156
Fuel Oil	181	111
	632	587

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16. Debtors

	2019	2018
	£000	£000
Trade debtors	1,504	1,427
Amounts owed by group undertakings	22,183	18,457
Other debtors	1,204	133
Prepayments and accrued income	1,101	876
Deferred taxation	3,041	3,688
	<u>29,033</u>	<u>24,581</u>

17. Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	<u>11,817</u>	<u>5,776</u>

18. Creditors: Amounts falling due within one year

	2019	2018
	£000	£000
MNOPF Pension Liability	627	575
Trade creditors	2,202	2,390
Other taxation and social security	464	302
Obligations under finance lease and hire purchase contracts	957	454
Other creditors	769	832
Accruals and deferred income	3,883	4,128
Financial instruments- swap	118	263
	<u>9,020</u>	<u>8,944</u>

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

	2019	2018
	£000	£000
MNOPF Pension Liability	293	920
Net obligations under finance leases and hire purchase contracts	17,672	11,013
	17,965	11,933

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%.

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20. Loans

Analysis of the maturity of loans is given below:

	2019	2018
	£000	£000
Current loans		
MNOPF Pension Liability	627	575
Obligations under finance lease and hire purchase contracts	957	454
	1,584	1,029
Between one and two years		
MNOPF Pension Liability	293	920
Obligations under finance lease and hire purchase contracts	1,253	485
	1,546	1,405
Between two and five years		
MNOPF Pension Liability	-	-
Obligations under finance lease and hire purchase contracts	3,838	2,030
	3,838	2,030
Over five years		
MNOPF Pension Liability	-	-
Obligations under finance lease and hire purchase contracts	12,581	8,498
	12,581	8,498
	19,549	12,962

Included within the above amounts falling due as follows:

The MNOPF pension liability 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 obligations under finance lease and hire purchase contracts relate to finance leases of Red Jet 6 and Red Jet 7. This is secured against the assets, has an implied interest rate of 9.67% and 5.24% and payable over 15 years and 10 years respectively.

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21. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2019	2018
	£000	£000
Within one year	957	454
Between 1-5 years	4,941	2,515
Over 5 years	12,582	8,498
	<u>18,480</u>	<u>11,467</u>

The above lease commitments relate to finance leases of Red Jet 6, Red Jet 7 and Red Kestrel in 2019. These are secured against the assets, has an implied interest rate of 9.67%, 5.24% and 4.48% and payment terms of 15 years, 10 years and 7 years respectively.

22. Reserves

The following describes the nature and purpose of each reserve within equity.

Revaluation reserve

Includes all tangible asset revaluations in current and prior periods.

Hedging reserves

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.

23. Share capital

	2019	2018
	£000	£000
Allotted, called up and fully paid		
5,245,129 (2018 - 5,245,129) Ordinary shares of £1 each	<u>5,245</u>	<u>5,245</u>

24. Contingent liabilities

There is a fixed and floating charge over the assets of the Company under an agreement dated 7 July 2017 to certain providers of finance to other group companies.

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25. Pension commitments

Defined Contribution Schemes

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 £449,000 (2018 - £402,000).

MNOPF Defined Benefit Scheme

Some employees are members of the Merchant Navy Officers Pension Fund ("MNOPF"). The Company contributes to the deficit of the 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 triennial valuation of the fund as at 31 March 2009 showed that the new section deficit had increased from the previous valuation by £390million. 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 rate of £543,000 per annum from 2015 to 2020.

The triennial valuation of the fund as at 31 March 2012 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 most recent comprehensive actuarial valuation of the scheme was 31 March 2015. The valuation showed a small deficit, but the trustees decided not to schedule any further payments in relation to this new deficit.

RFSPS Defined Benefit Scheme

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 2017 and updated to 31 December 2017 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent full actuarial valuation at 31 January 2017 showed a deficit of £3,236,000. The updated 31 December 2019 value showed a deficit of £2,881,000. The Company has agreed with the trustees that it will aim to eliminate the deficit by 31 October 2028 by the payment of annual contributions of £240,000 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.

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25. Pension commitments (continued)

Reconciliation of present value of plan liabilities:

	2019 £000	2018 £000
Reconciliation of present value of plan liabilities		
At the beginning of the year	12,361	12,749
GMP Equalisation	16	-
Interest cost	333	307
Actuarial gains/ (losses)	669	(281)
Benefits paid	(517)	(414)
At the end of the year	12,862	12,361

Reconciliation of present value of plan assets:

	2019 £000	2018 £000
At the beginning of the year	9,335	9,780
Interest income	254	237
Actuarial gains/(losses)	669	(498)
Contributions	240	230
Benefits paid	(517)	(414)
At the end of the year	9,981	9,335

Composition of plan assets:

	2019 £000	2018 £000
Equities	2,334	1,976
Corporate Bonds	4,068	3,958
Property	1,495	1,483
Fixed interest (mainly gilts)	505	475
Index Linked	510	479
Diversified growth assets	917	834
Cash	152	130
Total plan assets	9,981	9,335

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25. Pension commitments (continued)

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.

	2019	2018
	£000	£000
Fair value of plan assets	9,981	9,335
Present value of plan liabilities	(12,862)	(12,361)
Net pension scheme liability	(2,881)	(3,026)

The fair value of plan assets and liabilities including insured annuitants is £10,567,000 (2018: £10,048,000) and £13,448,000 (2018: £13,074,000) respectively.

The amounts recognised in profit or loss are as follows:

	2019	2018
	£000	£000
Net interest on net defined benefit liability	(79)	(70)
GMP Equalisation	(16)	-
Total	(95)	(70)

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was £79,000 (2018: £70,000).

The expects to contribute £Nil to its in 2020.

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

	2019
	%
Discount rate	2.0%
Inflation (RPI)	3.2%
Inflation (CPI)	2.2%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.2%
Allowance for pensions in payment of RPI or 5% p.a. if less	3.2%

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25. Pension commitments (continued)

Amounts for the current and previous four periods are as follows:

Defined benefit pension schemes

	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Present value of plan liabilities	(12,862)	(12,361)	(12,749)	(13,285)	(10,791)
Scheme assets	9,981	9,335	9,780	9,544	8,663
Deficit	(2,881)	(3,026)	(2,969)	(3,741)	(2,128)
Experience adjustments on scheme liabilities	(669)	281	258	(2,472)	419
Experience adjustments on scheme assets	669	(498)	489	816	(338)
	-	(217)	747	(1,656)	81

26. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019	2018
	£000	£000
Not later than 1 year	781	749
Later than 1 year and not later than 5 years	2,542	2,202
Later than 5 years	4,006	4,544
	7,329	7,495

Future minimum lease payments of leases with an expiry date of over 5 years have been reassessed, and future years on existing leases are now considered non-cancelable.

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27. Deferred taxation

	2019 £000
At beginning of year	3,688
Charged to profit or loss	(647)
At end of year	<u>3,041</u>

The deferred tax asset is made up as follows:

	2019 £000	2018 £000
Fixed asset and short term timing differences	2,551	2,920
Pensions	490	768
	<u>3,041</u>	<u>3,688</u>

28. Related party transactions

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. As a qualifying entity, the Company has taken advantage of the exemption in FRS102 section 1.12(e) not to disclose key management personnel remuneration.

During the financial period, the group paid £107,000 (2018 - £96,000) to Visit Isle of Wight Limited for advertising and sponsorship. A Director of the company, was also a Director of Visit Isle of Wight Limited during the year. There were no amounts owing to Visit Isle of Wight Limited at 31 December 2019. J M Green resigned as director of the company on 15 November 2018.

During the financial period, the Group paid £17,000 (2018 - £5,000) to the Isle of Wight Chamber of Commerce for advertising and chamber membership. A Director of the Company, was also a Director of Isle of Wight Chamber of Commerce during the year. There were credits of £Nil (2018 - £10,000) owing to Isle of Wight Chamber of Commerce at 31 December 2019.

During the financial period, the Group paid £Nil (2018 - £2,000) to MNP EG Limited for membership. A Director of the Company, is also a Director of MNP EG Limited. The Group also paid MNOPF deficit payments to MNOPF Trustees Limited of £648,000 (2018 - £648,000). This Director is a trustee of MNOPF Trustees Limited. There were no amounts owing to MNP EG Limited or MNOPF Trustees Limited at 31 December 2019.

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29. Post balance sheet events

Since the balance sheet date the global disruption caused by COVID-19 has become ever more evident, particularly in the travel industry. The situation is fast changing and the scale of the impact on the global economy, capital markets and individual businesses remains uncertain.

The amounts stated in these financial statements reflect conditions existing as at the balance sheet date and no adjustments have been made as a result of COVID-19. The Company has a strong balance sheet and a significant cash balance. The Directors' view on the Company's going concern status has been disclosed in the Directors' report and note 1 of the financial statements.

The Company has received additional government support from April to July 2020 during the peak of the COVID-19 pandemic to continue to provide lifeline services to the Isle of Wight. In addition to this, the Company took advantage of the government furlough scheme from April to October 2020.

Finally, the Company took advantage of the ability to defer PAYE and NI payments for April and May 2020's payroll with all deferred payments being settled by October 2020.

30. Controlling party

The Company's ultimate parent undertaking is Red Funnel Holdings Limited, a Jersey registered Company. Consolidated financial statements are produced by Red Funnel Holdings Limited, copies of which are available from the Registered Office at 47 Esplanade, St Helier, Jersey, JE1 0BD.

The Directors do not consider there to be an ultimate controlling party.

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