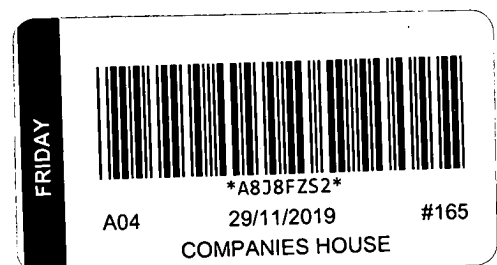


Isles of Scilly Steamship Company Limited
Annual Report and Consolidated Financial Statements
Year Ended 31 March 2019
Registration number: 00165746





Isles of Scilly Steamship Company Limited

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Isles of Scilly Steamship Company Limited

Company Information

Chairman	Mr I Howard
Directors	Mr P Hardaker Mr S Reid Mr S Hicks Mr G Randall Mr H Wiekens Mr S Hicks Mrs J E Piper
Registered office	Hugh Town St. Mary's Isles of Scilly TR21 0LJ
Auditors	PKF Francis Clark Statutory Auditor Lowin House Tregolls Road Truro Cornwall TR1 2NA

Isles of Scilly Steamship Company Limited

Chairman's statement

I am pleased to welcome you to the 99th Annual Report of the Isles of Scilly Steamship Company which includes our Consolidated Financial Statements for the year ending 31 March 2019.

As foreshadowed in my letter in August 2019 it has not been an easy year for the company.

THE HEADLINES

Island Helicopters made a substantial operating loss in the year and the Board felt ultimately compelled to announce the closure of the helicopter service. We have reached a settlement agreement with the operator for early exit from our contractual obligations.

After a major investment lasting for over two years to render her fit for purpose, the Mali Rose underwent sea trials in January and February. These were not without their challenges and her inability to sit on the bottom made for an irregular schedule. This in turn led to increasing dissatisfaction from our customers on Scilly.

After consideration of this and other factors, the Board decided to bring the Gry Maritha back into service following her five year survey in dry dock and to look for a buyer for the Mali. The market value of the Mali is materially less than her holding value was in our books and as a consequence the Board decided to impair her holding value on the balance sheet at the financial year end.

A combination of these two items, the helicopter service and the Mali Rose, has led to an extraordinary loss of £4,296,060 at the year end which reduces shareholder funds by a similar amount.

FINANCIALS

Air and sea passengers combined declined by 0.25% in the year to 215,091. The Group's profitability before exceptional items (including those referred to above) and excluding discontinued activities was lower at £410,256, and this represents a cause for concern. Across the spectrum of the company's activities, marine, aviation and ancillary businesses, margins are lower and decisive action has been taken and will continue to be taken in the months ahead.

The Group's balance sheet, whilst materially diminished, remains robust and free of debt. The Board is reviewing all asset categories to ensure that all assets are really needed and are working appropriately for the company. The company needs to accumulate cash and judicious management of assets is one way of achieving that.

MARINE

Scillonian III performed admirably throughout the season demonstrating a level of reliability and resilience which belies her age. Whilst in dry dock over the winter she completed her five year survey and with appropriate attention she will be good for quite a few years to come. The Gry Maritha also performed well and her return to work has been welcomed by Scilly.

Lyoness Lady and Swift Lady continue to serve the off islands and their resilience in adverse sea conditions is recognised by all. The Board is not blind to the facts however, these are ageing assets which require increasing amounts of money spending on them to maintain their seaworthiness.

To that end the Board has formed a new Committee to review the whole issue of marine asset replacement. Taking into account the company's financial position, both current and prospective, and the views of a wide range of stakeholders, the Board will develop a clear strategy for the replacement of these assets in the medium term.

Isles of Scilly Steamship Company Limited

Chairman's statement

AVIATION

The challenges of running a small airline were initially masked during the year by the performance of the helicopter service. With that issue being addressed the magnitude of the task before us is clearer.

Increased landing fees, pilot retention, fuel price rises, weather induced cancellations: all these things contributed to an operating loss of £552,323 for the year and that is clearly not a sustainable position. To make matters even more critical, the Penzance Helicopter operation is due to commence in the Spring of 2020.

The Board recognises that competition makes for increased choice for our customers and intends to rise to the challenge, but in practical terms we will almost certainly see an overall reduction in passenger numbers. We will have no option but to tighten our belt accordingly.

The much anticipated EGNOS landing system may give us some advantage over the helicopter service, as will our lower fare structure and the reduced environmental impact of our fixed wing aircraft over the AW139 helicopter.

GOVERNANCE

The composition of the Board changed substantially over the course of the year with four new appointments in total. Joining Gary Randall (appointed August 2018), were Steve Hicks and Henk Wiekens (September 2018) and myself on 1 February 2019. The Board is determined to embrace best practice governance and a refresh of the directors is an important part of that.

By way of a post balance sheet remark, I would also like to welcome the appointment of Judith Piper (Chief Financial Officer) to the Board as Executive Director with effect from 16 May 2019 and most importantly the consolidation of Stuart Reid's position as Chief Executive Officer (he was previously acting Managing Director) from 1 August 2019.

I am convinced that we have a Board equipped to tackle the many obstacles that lie between where we are now and a successful best practise operation.

The draft Articles of Association which are proposed for adoption at the forthcoming AGM include formal provision for term limits for directors to ensure that a refresh takes place automatically in future.

Andrew May stood down at the end of the Financial Year as foreshadowed at last year's AGM and I stepped into his shoes. Andrew has been a loyal servant of the company for 17 years and we wish him well with his new activities.

The Board thanks the Advisory Board which has contributed constructively throughout the year. We have discussed strategic issues with the Advisory Board and have received very helpful feedback. The Advisory Board has also raised more practical customer related issues which we have been able to respond to promptly.

Isles of Scilly Steamship Company Limited

Chairman's statement

DIVIDEND

The Board is not proposing to pay a dividend for the last Financial Year. Whilst the company does have distributable reserves, the Board feels that against the current backcloth of a large extraordinary loss and a poor trading performance, it would not be appropriate to make this gesture.

The Board recognises however that shareholders should as a rule receive a commensurate return on their investment and will propose a suitable dividend policy at the next Annual General Meeting.

A handwritten signature in black ink, appearing to read 'Ian Howard', with a stylized flourish at the end.

Ian Howard
Chairman, 24 July 2019

Isles of Scilly Steamship Company Limited

Board of Directors

Stuart Reid (Chief Executive Officer and Company Secretary)

Stuart joined Isles of Scilly Steamship Group as Chief Financial Officer in July 2013 and appointed as a Board director in June 2015. Originally from Mullion, Stuart graduated from Cardiff University with a BSc (Hons) degree in Pharmacology & Toxicology and qualified as a Chartered Account in 2007. Stuart previously worked as Financial Controller at Smart Solutions Recruitment, one of Wales fastest growing companies. Stuart is a keen triathlete competing over multiple distances. Stuart is a member of the Isles of Scilly Transport Board. Stuart now lives in Marazion.

Ian Howard (Chairman)

Ian joined the Board on 1 February this year becoming Chairman two months later. Having qualified as a solicitor in 1980, Ian spent most of his working life with Siemens the global electronics concern undertaking a range of diverse roles. Working out of Munich, his last job was as Senior Vice-President, Mergers and Acquisitions. In parallel Ian has served on the Board of the British Triathlon Federation, latterly as President, and on the Boards of the International Triathlon Union and the British Olympic Association. Ian chairs the Nominations Committee.

Peter Hardaker (Vice-Chairman)

Peter Hardaker joined the Board in 2003. His working life in Cornwall has been in the Land Based sector as machinery manager and CEO of a Requisite Co-operative before retiring from full time employment sixteen years ago.

He has spent many years working in a number of roles including Cornwall College Corporation, to support the development of Agricultural and Horticultural education within Cornwall. He worked as a founder Director of the Eden Project and has been actively involved and committed to the development of the rural economy and wellbeing of Cornwall and the Isles of Scilly. He serves as Vice-Chairman of the Steamship Company and Chairs the Audit and Remuneration Committees and sits on the Nominations Committee.

Judith Piper (Chief Financial Officer)

Judith Piper joined the Isles of Scilly Steamship Group as Chief Financial Officer in October 2018 and was appointed as a Board director in May 2019. Before joining the Group, Judith worked for W. Stevenson & Sons Ltd as Finance Director, Company Secretary and Acting Managing Director.

Her earlier career included Finance Manager at Unipart Group Ltd and Financial and Management Accountant at Westcountry Ambulance Services NHS Trust. Originally from Cornwall, Judith graduated from Plymouth University with a BSc (Hons) degree in Psychology. She qualified as an ACCA accountant in 2001 and was awarded Fellowship (FCCA) status in 2006. Judith now lives in St. Levan with her husband and three children enjoying many sporting activities, the local beaches and running the coastline.

Isles of Scilly Steamship Company Limited

Board of Directors

Stephen Hicks

Born on St Mary's, Steve Hicks was educated on the island and at Truro School before becoming a cadet in the Merchant Navy with P&O. He spent over twenty years at sea predominantly in sea going tugs and in the offshore oil industry in the North Sea.

In 1995 Steve spent his first full year in the family passenger launch business. In February 2018, after twenty years, he sold the vessel built on St Mary's to his design in 1997. He is one of the three pilots licensed for the waters of Scilly and a former lifeboat crew member, He is now the Lifeboat Operations Manager for the St Mary's Station.

Steve now intends to pursue more fully his lifelong hobby of painting and drawing. He is married with three children and has three grandchildren to date.

Gary Randall

Gary was appointed to the Board in August 2018 and is from St. Mellion, in east Cornwall. He has been practising as a Chartered Accountant for the last 25 years, developing an extensive client base across Devon and Cornwall. In 2013, he merged his business with Prydis to broaden the services provided to clients of both companies, and become Managing Director of Prydis Accounts Ltd. Gary, embraces the challenges of General Practice and particularly enjoys the interaction between the other facets of the business with Financial Planning, Corporate Law and Governance all forming part of the key day to day deliverables at Prydis.

Sam Hicks

Sam Hicks is from a longstanding St Agnes family. He was educated in Scilly, and then graduated from the University of Bath in 2001 with a BSc Hons in Business Administration. He worked in various commercial management roles on the mainland before returning home to help grow the family business. Together with his wife and parents he manages Troytown Farm dairy, self-catering cottages and campsite. Fully engaged in the local community, Sam is Watch Manager of the island fire service, a coastguard officer, captain of the cricket team and a member of the Shah gig crew. He has three children at the Five Islands School.

Henk Wiekens

Henk is a time served engineer who founded in 1978 Weidewiek Boatbuilders in the Netherlands together with his business partner Pieter Van Der Weide. In 1983 they took Weidewiek to New Zealand and 1988 he was invited to start up Pendennis Shipyard in Falmouth. In 1993 Henk and Mike Carr led the management buyout of the Shipyard they have both been at the helm ever since.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

The directors present their strategic report for the year ended 31 March 2019.

PRINCIPAL ACTIVITY

The principal activities of the Company and its subsidiaries are the provision of regular sea and air services for passengers and cargo between the mainland and the Isles of Scilly.

During the year under review, the Companies continued the operation of ancillary activities as follows: marine and aeronautical engineering, garage and road haulage services on St Mary's, ship repairs and operation of a dry dock, inter-island freight and mail services and the operation of Land's End Airport.

REVIEW OF THE BUSINESS

The results for the year are shown in the profit and loss account on page 31- 32.

This review covers the performance of the trading group for the period 1 April 2018 to 31 March 2019. The table below highlights the key financial performance indicators for the year ended 31 March 2019.

The Group's turnover increased by 6.0% to £18,507,000 (2017: £17,457,000) but despite the increase in turnover the Group recorded an operating loss after exceptional items of £4,558,000.

Group turnover is primarily driven by passenger numbers. There was an overall decline in passenger numbers of 0.25% to 215,091 passengers for the financial year (2018: 215,624). Further analysis shows that passenger numbers during the winter period between November and March showed a small decline of 4.7% to 19,221 (2018: 20,175). Winter numbers are dependent on large scale winter projects on the Islands. Improvements to telecommunications and Skype are making it less necessary for business users and residents to travel for meetings.

Turnover for services by sea increased by 1.6% to £7,184,000 (2018: £7,073,000) which is primarily driven by a mix of an increase in passenger marine revenue and freight revenue. Marine passenger revenue increased by 0.7% to £4,288,000 (2018: £4,258,000). Further investment in our passenger reservation systems and management reporting tools is assisting with price profiling and yield management.

Total passenger yield increased by 2.6% to £35.71, despite a 12.0% increase in lower yielding day trip passengers to 37,533 (2018: 33,508). The day trip market continues to grow with incentives targeted at weaker times during the season. Freight services have also shown strong growth increasing by 3.4% to £2,329,000 (2018: £2,252,000). The increase in freight revenue is driven by an increase in volume and the review of existing long-term freight contracts.

Turnover for services by air increased by 7.4% to £10,195,000 (2018: £9,490,000).

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

The key driver for revenue growth in Skybus this year has been passenger sales with total passenger numbers increasing by 1,771 or 1.9% to 95,014 (2018: 93,243). Fixed wing sales have increased in the year by 3.9% to £8,811,000. The investment in the new passenger reservation system and management reporting tools has provided greater opportunities for price profiling of flights to generate higher yields. The growth in fixed wing revenue has however been offset by a downturn in fixed wing passenger numbers by 1.4% to 91,927 passengers. There were 3,087 helicopter passengers during the period under review.

Non-related transport activities increased by 26.3% to £1,129,000 (2018: £894,000). Commercial sales at Dry Dock increased by 40.1% to £502,000 (2018: £358,000) primarily due to £179,000 of invoiced work on the Vega. During the year, Penzance Dry Dock diversified into fuel transportation to support fuel supplies for the Group's own vessels and aircraft but also to support local businesses on the Isles of Scilly. During the period under review we generated additional new sales of £216,000 from this line of business.

Key financial performance indicators	2019	2018	Variance
Turnover	18,507,000	17,457,000	1,050,000
EBITDA (pre-exceptional items)	303,000	1,728,000	1,425,000
Operating loss	(4,558,000)	(167,000)	(4,391,000)
Loss before tax	(4,296,000)	(151,000)	(4,145,000)
Return on capital employed*	-9.0%	3.1%	

*calculated as operating profit / (loss) before exceptional items / (total assets less current liabilities)

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

TOP TEN OPERATIONAL COSTS

Despite the complex nature of the businesses which make up the Isles of Scilly Steamship Company, 82.9% of our costs for the year ended 2019 are made up of 10 cost areas. As part of this strategic report we have highlighted the key changes in our top ten operational costs.

GROUP EMPLOYMENT COSTS - 36.2% OF TOTAL OPERATIONAL COSTS

Group employee costs have increased by 2.5% (2018: 11.4%) to £6,792,000 (2018: £6,628,000). Staff numbers have increased by 5.8% to 256 (2018: 242). Employment and subcontractor costs are our largest cost to the business accounting for 36.2% (2018: 41.0%) of our cost base.

The increase in employment costs is a result of multiple factors but general pay increases and the introduction of the National Living Wage as well as auto-enrolment obligations have all contributed to the increase. In particular, seasonal staff who form an integral part of our peak season operation have become more expensive as a result of the increases described above.

Skybus has seen a small increase in staff numbers who were employed to cater for the additional aircraft movements expected through the introduction of the now ceased helicopter service. Shipping has seen the largest increase as a result of the Mali Rose undergoing her familiarisation phase resulting in additional crew being needed and trained. Furthermore, new requirements from November 2018 now mean that Shipping require 'two for two' on crew members.

There has been a reduction in agency staff required for Shipping which would offset the increase in Shipping staff costs. The decline in numbers at Nike is due to the redundancies being made in October 2018 following the closure of the engineering trade.

Employee headcount by department	2019	2018	Variance	%
Head office	13	13	-	-
Aviation	97	95	2	2.1%
Shipping	122	108	14	13.0%
Nike Engineering and Island Carriers	16	18	(2)	-11.1%
Dry Dock	8	8	-	-
Total	256	242	14	5.8%

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

AIRCRAFT LEASING COSTS - 9.2% OF TOTAL OPERATIONAL COSTS

The lease costs for the Twin Otter G-ISSG have remained comparable to the previous year at £385,000. The increase of £1,366,000 is purely driven by the helicopter lease cost. This is discussed further as part of the review of discontinued operations on page 14.

LANDING FEES - 8.6% OF TOTAL OPERATIONAL COSTS

The split of landing fees by airport is summarised in the table below.

Landing fees at St Mary's airport have increased due to fees rising by approximately 9% from the start of the year. The remaining increase in charges is a result of an increase in passenger numbers by 2.4%. The decrease in Exeter's landing fees is due to a rebate being received in 2019 as a result of exceeding a contractual number of passengers.

The increase in St Mary's Airport fees is to address the deficit in their capital replacement fund. The Isles of Scilly Transport Board which includes the Company as a member, is working with government officials to address this deficit and create a sustainable cost base for operating St Mary's.

Landing fees by airport	2019	2018	Variance	%
St Mary's	1,395,014	1,262,551	132,463	10.5%
Exeter	136,574	176,200	(39,626)	-22.5%
Newquay	154,144	170,233	(16,089)	-9.5%
Total	1,685,732	1,608,984	76,748	4.8%

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

FUEL - 7.8% OF TOTAL OPERATIONAL COSTS

The split of like for like external fuel costs by department are shown below.

There has been a significant increase in fuel costs due to the helicopter requiring an additional 86,000 litres for the year which has amounted to an increase of £57,000. The remaining increase is due to the average price per litre rising by 9ppl (across both fuel types) and consumption by aircraft increased by 23,000 litres or 5.5%.

The increase in shipping fuel costs is due to two reasons;

- The Mali Rose consumed far more fuel than the Gry Maritha per trip. On average the Mali Rose consumed an additional 700 litres or 47% per trip (2,200 litres versus 1,500 litres per trip)
- The average price of shipping fuel increased by 6ppl when compared to the previous year.

Nike fuel costs have fallen during the year following the closure of the engineering trade. The fuel trade has now been transferred to Island Carriers.

External fuel costs by department	2019	2018	Variance	%
Skybus and Land's End	866,163	717,560	148,603	20.7%
Shipping	348,397	286,194	62,203	21.7%
Nike Engineering and Island Carriers	84,776	105,960	(21,184)	-20.0%
Dry Dock	222,724	-	222,724	N/A
Total	1,522,060	1,109,714	412,346	17.1%

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

SKYBUS ENGINEERING MATERIALS AND SUPPORT - 5.0% OF TOTAL OPERATING COSTS

Costs reduced by 13.8% or £161,000 on the prior year. Engineering materials and support will fluctuate year on year due to the timing of annual and periodic surveys which are based on hours flown. Last year, there were three twin otter resprays as part of a protective maintenance programme which resulted in higher costs in 2018.

INSURANCE - 2.8% OF TOTAL OPERATING COSTS

On a group level insurance costs have seen an increase of £38,000, or 7.0% on the prior year. The increase is in part due to the additional cost of insuring the Mali Rose during her operational trial.

PORT AND LIGHT DUES - 2.5% OF TOTAL OPERATING COSTS

Higher costs have been incurred this year as a result of the familiarisation period that was undertaken by the Mali Rose.

RENT & RATES - 2.2% OF TOTAL OPERATING COSTS

The increase in Shipping rent and rates costs is due to increases by Cornwall Council for the sites surrounding Penzance harbour that Shipping operate from when compared to the previous year. This has resulted in a £14,000, or 20.6% increase on the prior year.

ADVERTISING - 2.2% OF TOTAL OPERATING COSTS

This year included costs of £24,000 in respect of an advertising campaign for the launch of the helicopter service. Overall, on a group level there has been a saving on advertising spend of £20,000 or 4.4% on the prior year.

AMORTISATION AND DEPRECIATION 6.4% OF TOTAL OPERATING COSTS

The movements in amortisation and depreciation are due to the timing of capital spend across the group. Depreciation on aviation assets is based on hours flown so charges are correlated to their usage. The Company invested in new assets such as forklifts during the year which has increased the charge in the current year.

INVESTMENT IN ASSETS

The Group has continued to make substantial capital investments in upgrading the transport system between the mainland and the Isles of Scilly. The capital programme in the current financial year saw further investment of £984,000 of which £504,000 was capital spend on the Mali Rose. The other large capital project undertaken in the year was £177,000 of improvements to the Gry Maritha following her recent survey.

The Group incurred further intangible asset expenditure of £166,000 in its passenger reservation and e-commerce website with improved functionality allowing users to book add-ons such as parking and travel insurance. In addition, the Company invested in an online access for Travel Club members to book tickets and make amendments. These investments remove the reliance on our Call Centres at Penzance and St Mary's.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

OPERATING LOSS

As a result of the impairment of the Mali Rose the Group incurred an operating loss for the year ended 31 March 2019 of £4,558,000 (2018: £167,000). Operating loss before exceptional items is reported as £957,000 a decline of £1,423,000 due to the losses incurred in respect of the Island Helicopters service.

SUMMARY OF KEY MOVEMENTS IN CASH AND BANK BALANCES

Below is a summary version of the cash flow which uses earnings before interest, tax, depreciation and amortisation (EBITDA) to indicate how the majority of cash has been utilised in the year. This ignores the provision for helicopter exit fees where this has not been paid, and expenditure on the Mali Rose incurred in previous years.

The reconciliation below shows that the core continuing operations is cash generative of £1,760,000. The discontinued operations have utilised the vast majority of the cash during the year, resulting in a net cash generation of £303,000.

The remaining movements categorised as "other movements" are due to changes in working capital, such as the increased stock and deferred income balance at the year end, and payment of cash dividends to shareholders of £79,000.

Cash flow summary	£
Bank and cash balances brought forward	4,952,000
EBITDA (excluding exceptional items) of continuing trade - cash generating	1,760,000
EBITDA (excluding exceptional items) of discontinued trade - cash utilising	(1,457,000)
Net EBITDA	303,000
Capital expenditure on website and reservation system	(166,000)
Capital expenditure on Mali Rose	(504,000)
Capital expenditure on Gry Maritha	(177,000)
Other capital expenditure less disposal proceeds	(267,000)
Total capital expenditure	(1,114,000)
Working capital, net dividend paid and other movements	(16,000)
Bank and cash balances carried forward	4,125,000

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

REVIEW OF DISCONTINUED OPERATIONS

The table (below) summarises our P&L for the current financial year into continuing and discontinued items. A more detailed profit and loss account can be found on page 32.

Profit and loss summary	Continuing - £	Discontinued - £	Group Total - £
Turnover	18,141,000	366,000	18,507,000
Gross profit or loss	410,000	(1,457,000)	(1,047,000)

NIKE ENGINEERING LIMITED - CEASED TRADING 3 OCTOBER 2018

To aid the users of the accounts the entity, Nike Engineering Limited contains two business trades. The first is that of Island Carriers which provides haulage transport services to the Islands. The second is that of Nike Engineering which provided marine engineering services. On 3 October 2018 the Company decided to cease the trade of Nike Engineering following consecutive years of poor performance. This was a difficult decision but the problems in recruiting skilled staff had impacted on the ability to service the needs of the Islands. Marine engineering support will now be provided through our other subsidiary Penzance Dry Dock. During the period under review this trade reported a loss of £160,000 which is included in discontinued activities.

ISLAND HELICOPTERS - CEASED TRADING 26 OCTOBER 2018

The service operated between 15 May 2018 and 26 October 2018 carrying 3,087 passengers during the period. Passenger numbers were significantly below expectation which resulted in a loss during the period of £1,297,000. The operational loss is disclosed as a discontinued activity.

REVIEW OF EXCEPTIONAL ITEMS

ISLAND HELICOPTERS - PROVISION FOR SETTLEMENT

During the year the group decided to cease to provide the helicopter transfer service between Land's End and St Marys for various commercial and operational reasons. The group had previously entered into a contract with an independent operator for the lease of helicopters to provide this service.

Following negotiations with the helicopter operator the Company has agreed a settlement for early exit from this contract. Consequently; the financial statements in the year ended 31 March 2019 include an exceptional item to provide for the termination of this contract of £296,000 (2018: £nil).

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

MALI ROSE - IMPAIRMENT REVIEW

The Gry Maritha returned to service in May 2019 to provide the freight service to the Islands following her extensive five-year survey and maintenance service. The Board took this decision having considered the results of the three-month trial period of the Mali Rose. As a consequence of withdrawing the Mali Rose from service it was necessary for the Board to consider an impairment review of this asset.

It was identified that the previous valuation method of 'value in use' would be no longer appropriate so the Company engaged two independent ship valuers to value the ship at open market value rates.

Considering the advice that directors have received regarding open market value, as well as associated ongoing running costs in the interim and disposal costs, the directors have placed a realisable net value for the vessel of £400,000 at 31 March 2019.

In forming this opinion, the directors have to acknowledge a degree of ongoing uncertainty over the vessel and its unique nature and have adopted a pessimistic view at this point in the context of professional valuations, ongoing and disposal costs expected to be incurred. The impact of the impairment of the Mali Rose ship in the financial statements of the group in the year ended 31 March 2019 was an exceptional charge of £3,304,000 (2018 an impairment was included in exceptional items under value in use calculations of £633,000).

As part of the impairment of the Mali Rose the Board are taking steps to identify the history and decisions around the purchase of this vessel. Recommendations will be taken from this report. As part of this process the Chairman has formed a new marine asset replacement committee which will report to the Board and provide recommendations.

Mali Rose impairment summary	£'000
Carrying value of the Mali Rose under a value in use valuation at 31 March 2018	3,200
Capital expenditure on Mali Rose during the year to 31 March 2019	504
Carrying value of the Mali Rose pre impairment review	<u>3,704</u>
Realisable net value of the Mali Rose at 31 March 2019	400
Impairment charge recorded as an exceptional item in the P&L	(3,304)

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks which include price risk, credit risk and foreign exchange risk.

The Group continues to face price risks through an increase in costs of aviation parts and consumables due to a fall in manufacturing output. The Group is also a retailer of oil-related products that are subject to changes in world commodity price for crude oil. Crude oil still remains high at \$62 being 17% higher than in 2017 (2018: \$64).

In 2017 the Group successfully negotiated a five year contract and enhanced its fuel stock holding to improve the purchase price of aviation fuel. In addition the Group manages the price risk of fuel through a combination of forward contracts and spot rate buys when favourable.

Credit checks are performed on potential and established customers. The amount of credit risk exposure to any individual customer is controlled by means of a credit limit that is set and monitored by the business.

The Group has aircraft lease commitments and aviation consumable suppliers with liabilities which are settled in dollars. The weakening of Sterling has been identified as a business risk and the Group manages this currency risk through a combination of forward contracts and spot rate buys when favourable. There were no forward contracts in operation at the year end.

The Group operates solely in the UK and is therefore susceptible to changes in the economic environment and consumer confidence in the UK. Whilst Brexit negotiations are ongoing, the uncertainty as to how this will affect the Group remains. It could have operational and financial impacts.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance, business integrity and professionalism, and believes that a strong governance structure is critical to future growth and stability.

The Board of Directors, led by the Chairman, is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling the Group and is accountable to the shareholders for financial and operational performance. The Board approves Group strategy and monitors performance.

As was announced at the company's Annual General Meeting on St Mary's on 3 October 2018, Andrew May stepped down from his position as Executive Chairman on 31 March 2019 after 17 years. Ian Howard was elected as Non-Executive Chairman from 1 April 2019 having joined the Board in February.

Following his appointment as Chief Operating Officer in May 2018, Stuart Reid was appointed Acting Managing Director from 3 October 2018. The Acting Managing Director holds primary responsibility for the running of the business on a day-to-day basis and putting into effect the decisions made by the Board. To support the Acting Managing Director in his role, Judith Piper, who joined the Company in October 2018 as Chief Financial Officer was formally appointed to the Board as an Executive Director in May 2019.

Board meetings are structured to allow open discussion and all Directors participate in discussing the Group's strategic aims and performance as well as financial and risk management. The Board is supplied with comprehensive and timely information in advance of each meeting, including financial and operational reports covering all the Group's business activities.

As at the date of approval of the Group accounts, the Board comprises six Non-Executive Directors and two Executive Directors. The Directors believe that the Board functions effectively and efficiently. The Directors provide a mix of skills, experience and expertise appropriate to the size of the business and its activities.

All Board appointments are made by the Board on a recommendation of the Nominations Committee. The Chairman ensures that all Directors receive clear, accurate and timely information on all relevant matters. The performance of Non-Executive Directors is assessed by the Chairman and the Nominations Committee. The performance of the Executive Directors is assessed by the Remuneration Committee. The Board has established a number of committees with specific responsibilities. The chairmanship and membership of these committees are refreshed at appropriate intervals.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

REMUNERATION COMMITTEE

The Members of the Remuneration Committee at the start of the year, were Peter Hardaker (Chair), Sam Hicks and Diccon Rogers. At the end of the year, the membership was Peter Hardaker (Chair), Gary Randall and Sam Hicks.

The Committee's remit includes the review and recommendation to the Board of any changes in salary and benefits payable to existing Executive Directors and the salary and benefits for new Executive Directors. Recommendations are made after obtaining information from numerous sources to benchmark the quantum and benefits of any contract. Legal advice has been taken in respect of the Executive Chairman's (Andrew May) contract and all contracts are checked with employment consultants, to assure compliance with employment law and best practice.

The Committee has been active throughout the year, meeting formally as well as consulting by e-mail and telephone.

The main focus of the Committee's work has been the change of the Chairman's Non-Executive contract (Andrew May) to that of Executive Chairman. The contract of (Stuart Reid), from Chief Operating Officer and subsequently, to that of Chief Executive Officer.

No incentives or bonuses have been authorised or paid in this period.

The Committee's work has continued with the recommendation and production of contracts for Non-Executive Chairman, Ian Howard and for our Chief Financial Officer, Judith Piper.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

	Salary	Fees	Benefits in kind	Total		Pension contributions	
	£	£	£	2019 £	2018 £	2019 £	2018 £
<i>Executive Directors</i>							
S Reid	92,568	-	1,003	93,571	85,567	605	-
<i>Non-Executive Directors</i>							
P D Hardaker	-	11,585	-	11,585	10,654	-	-
S Hicks	-	9,244	-	9,244	4,339	-	-
S M Hicks	-	3,902	-	3,902	-	-	-
G Randall	-	6,695	-	6,695	-	-	-
H Weikens	-	4,198	-	4,198	-	-	-
I Howard	-	1,214	-	1,214	-	-	-
<i>Past Directors</i>							
A J May	25,000	4,079	-	29,079	26,972	30,000	-
M Howarth	-	13,525	-	13,524	58,451	1,008	7,200
D S Rogers	-	3,451	-	3,451	6,902	-	-
R Goldsmith	-	-	-	-	184,900	-	9,416
T B Ward	-	-	-	-	3,984	-	-
S Marquis	-	-	-	-	2,301	-	-
	<u>117,568</u>	<u>57,893</u>	<u>1,003</u>	<u>176,464</u>	<u>384,069</u>	<u>31,613</u>	<u>16,616</u>

S Reid's benefits in kind relate to the provision of a fully expensed car.

J Piper was appointed to the Board post year end and therefore has not been included in the table above.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

NOMINATIONS COMMITTEE

Members of the Nominations Committee at the beginning of the year were: Andrew May, Peter Hardaker, and Sam Hicks. At the year-end Peter remained in place but Ian Howard had taken over the Chair and both were joined by Henk Wiekens. The Committee has a wide remit which includes:

- (i) reviewing the Board's structure, size and composition
- (ii) identifying and nominating candidates to fill Board vacancies
- (iii) reviewing the time commitment required from non-executive directors to fulfil their responsibilities and to consider performance evaluation
- (iv) formulating succession plans for executive and non-executive directors
- (v) recommending changes to the membership of the Audit, Nominations and Remuneration committees to the Board.

The Committee met on a number of occasions throughout the year both in person and by telephone.

Latterly the Committee has considered the composition of the Board including the number of directors and the introduction of term limits. Proposals in these respects will be made at the Annual General Meeting.

The committee continued to be active in its core area of responsibilities. A number of candidates entered the Company's Non-Executive Director selection process. The criteria by which the committee felt candidates should be assessed together with the specific experience and skills the committee deemed appropriate in candidates were reviewed during the year, reflecting the Company's evolving circumstances. Similarly, the timing imperative of any new appointment was reviewed in the context of retirements and so the changing makeup of the Board.

AUDIT COMMITTEE

The Audit Committee membership has changed through the year with the resignation of Diccon Rogers. The committee now comprises of Sam Hicks; Gary Randall and Peter Hardaker (Chairman). The Committee possesses a range of experience and commercial knowledge which has been enhanced through the appointment of Gary Randall.

When appropriate, advice is sought from external professionals. We constantly strive to keep up to date with changing audit priorities, risks and changes in line with best practice and good governance.

Our role is first and foremost, to monitor the integrity of the financial statements of the Company and any formal communications relating to the Company's performance; review the Company's internal financial controls and monitor and review the effectiveness of the Company's audit function. The committee also considers and recommends to the Board, the appointment of external auditors for approval by shareholders at the AGM. The Board Chairman is invited to attend audit meetings as and when appropriate.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

The Audit Committee formally met on four occasions during the year. On 5 July 2018 to review last years' draft accounts for year ending 31 March 2018 and to review the audit management letter where there were no significant audit issues and on 19 July 2018 to review and recommend the completed accounts to the Board. On 10 December 2018, the interim accounts were reviewed and approved for recommendation to the Board.

At a meeting on 4 February 2019, the audit plan was discussed, as was the audit strategy and priorities. The Audit terms of reference were also reviewed and agreed. On 26 June the audit committee met with the Company's auditors to discuss the financial statements for the year ended 31 March 2019.

At this meeting, the committee carefully considered the disclosure of the impairment of the Mali Rose and the inclusion of the provision for the helicopter contract termination and its disclosure. Following a discussion with the auditors, the Committee agreed that the wording included in the accounts, on pages 14 and 15, be included in the financial statements to assist and inform shareholders. A full review of both these items can be found in the Strategic Report.

Risk and Compliance is a constant focus at all our meetings, we monitor the risk reporting process and compliance process, including recording. The Risk Management Committee, report to the Audit Committee and Board on continuity risks and actions identified to mitigate these risks.

The Audit Committee Chairman considers the key role of our Committee is to provide oversight and reassurance, specifically with regard to the integrity of the Company's financial reporting, audit arrangements and internal control processes. We are committed to this responsibility.

STRATEGIC OBJECTIVES

The Company has had a poor trading year following the significant write downs of the Mail Rose and the loss-making Island Helicopter service.

The immediate focus is on 'new beginnings' which is much more than just a return to our core operations and improving financial performance. It's about building a Company which we, employees and stakeholders, are proud to be a part of.

At the heart of our strategy are our stakeholders. This approach is encompassed in our new vision statement 'Delivering for Scilly'. The Company is a significant part of the Isles of Scilly community and interacts with many businesses and towns in Cornwall.

Our financial performance for the year was below our expectations. Clear decisions were made to cease these loss-making activities but we recognise that further changes will need to be made.

Improvements in our operational performance, driving revenue and establishing a sustainable cost base will see improved financial performance in the coming year. As part of this improvement process the Company is revising its business plan and have identified eight key strategic objectives.

The strategic objectives will be underpinned by a culture defined by our new company values which, following our recent employee engagement survey, will be rolled out across the Company. Our decisions, behaviour and our interaction with customers, stakeholders and our colleagues will be built on these core values to which the Company will hold with the highest importance.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

The new strategic business plan is in the final stages of development and connects the values to action points to achieve the strategic objectives and will be launched later this year.

STRATEGIC OBJECTIVE 1 - Increase passenger numbers

We aim to increase passenger numbers by;

- building customer loyalty
- improving customer experiences
- enhancing the digital booking process
- using targeted marketing to build on the peak season and work on season extension which when combined will ultimately drive revenue performance

STRATEGIC OBJECTIVE 2 - Increase freight volumes and revenue

We aim to increase freight volumes and revenue by;

- improving communication with freight customers
- enhancing the freight supply chain by making further improvements to infrastructure
- working with suppliers and stakeholders to make further improvements to the service
- reviewing pricing and simplify the charging structure

Note: There is a distinctive correlation between passenger numbers and freight volumes.

STRATEGIC OBJECTIVE 3 - Improve profitability through efficiencies

We aim to improve profitability through efficiencies by;

- focusing on core operations and maximise profit through sustainable cost reduction
- striving for operational excellence which will increase customer and employee satisfaction and reduce costs

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

STRATEGIC OBJECTIVE 4 - Strategic investment, replacement and deployment of assets

We aim to invest, replace and deploy by;

- creating an asset replacement committee to review future work conducted by the executive team and make recommendations to the Board
- investing in digital capability to improve customer experience
- reviewing the Group's asset base to maximise economic benefit
- working with the Department of Transport on improving local transport infrastructure.

STRATEGIC OBJECTIVE 5 - Develop and manage employees and succession of employees

We aim to develop and manage employees and implement a succession plan by;

- improving engagement and motivation of employees which will enhance business performance
- developing a clear HR strategy including succession planning for key roles

STRATEGIC OBJECTIVE 6 - Improve communication with employees and stakeholders

We aim to improve communication with employees and stakeholders by;

- embracing transparency as a new company value
- providing regular updates, engaging with the community and holding regular listening events

STRATEGIC OBJECTIVE 7 - Improve connectivity

We aim to improve connectivity by;

- improving scheduling to link with onward connections to grow the passenger market
- meeting with key decision makers and stakeholders to improve transport connectivity

STRATEGIC OBJECTIVE 8 - Diversify core business

We aim to;

- review opportunities for vertical diversification linked to our core business
- review Island Carriers and Penzance Dry Dock to identify market opportunities

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2019

OUTLOOK

I believe that the Steamship Company has an exciting future. Our commitment to meet our customers' expectations and demands through focusing on our core activities is at the heart of our strategy and is underpinned by our new company values. The Company will be facing competition in the next 12 months with the introduction of a new helicopter service from Penzance. As a result we will have to modify our strategy as the business develops to ensure that we are focused on the most critical elements to ensure that the Company delivers a strong financial performance.

The investment in our digital platforms, focus on improving our operational performance and cost base in the coming year will enable us to be better positioned against our competitors.

The strengthening of the marine management team has already seen improvements in our management of ship operations and maintenance programmes.

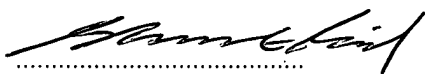
I was pleased to welcome Judith Piper as Chief Financial Officer and Executive Director from W. Stevenson & Sons Ltd. Judith brings a wealth of financial experience from a marine industry with a new approach to many operational areas.

I am also pleased to announce that Sharon Sandercock our Marketing and Communications Manager has joined the Island Partnership Board of which the Steamship Company is a founding member. The Island Partnership is the lead organisation for destination marketing for Scilly and Sharon's knowledge and advice will assist them in driving an increase in passenger numbers to the Islands.

Finally, I would like to thank all of our employees for their efforts during the past year. Our employees are what makes this an excellent company and who are responsible for the exceptional service which is delivered to our customers and passengers.

It has been a challenging year but the Company now has the opportunity to move forward and deliver for Scilly.

Approved by the Board on 24 July 2019 and signed on its behalf by:



Mr S Reid
24 July 2019

Isles of Scilly Steamship Company Limited

Directors' Report

Year Ended 31 March 2019

The directors present their report and the for the year ended 31 March 2019.

Directors of the company

The directors who held office during the year were as follows:

Committees

Current directors:

Ian Howard (appointed 1 February 2019)	N
Henk Wiekens (appointed 5 September 2018)	N, M
Gary Randall (appointed 30 August 2018)	A, R, M
Peter Hardaker	A, R, M
Steve Hicks (appointed 5 September 2018)	M
Sam Hicks	A, R
Stuart Reid	-

Post balance sheet appointment:

Judith Piper (appointed 16 May 2019)	-
--------------------------------------	---

Past directors:

Andrew May (resigned 31 March 2019)	N
Diccon Rogers (resigned 24 September 2018)	A, R
Mark Howarth (resigned 27 July 2018)	R

'A' signifies that the Director is a member of the audit committee.

'R' signifies that the Director is a member of the remuneration committee.

'N' signifies that the Director is a member of the nominations committee.

'M' signifies that the Director is a member of the marine committee.

The Chairman, Chief Executive Officer and Chief Financial Officer may be invited to attend meetings of the audit and remuneration committees when appropriate.

The interests of the directors in the ordinary shares of the Company as at 31 March 2019 are set out below. There have been no changes between these interests between 1 April 2019 and 24 July 2019.

	2019	2018
Peter Hardaker	3,722	3,624
Stephen Hicks	999	972
Ian Howard	62,972	62,972

Dividends

The directors recommend a final dividend payment of £nil (2018 - £153,199). Last years dividend is not recognised as a liability in the financial statements.

Isles of Scilly Steamship Company Limited

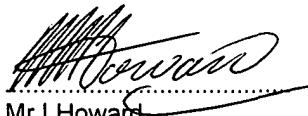
Directors' Report

Year Ended 31 March 2019

Disclosure of information to the auditor

Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 24 July 2019 and signed on its behalf by:


Mr I Howard
Chairman

Isles of Scilly Steamship Company Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and apply them consistently;
- make judgements 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.

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.

Isles of Scilly Steamship Company Limited

Independent Auditor's Report to the Members of Isles of Scilly Steamship Company Limited

Opinion

We have audited the financial statements of Isles of Scilly Steamship Company Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, and Notes to the Financial Statements, 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 group's and the parent company's affairs as at 31 March 2019 and of the group's loss 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 Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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 group's or the parent 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 auditor's 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.

Isles of Scilly Steamship Company Limited

Independent Auditor's Report to the Members of Isles of Scilly Steamship Company Limited

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

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 27], 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Isles of Scilly Steamship Company Limited

Independent Auditor's Report to the Members of Isles of Scilly Steamship Company Limited

Auditor's 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 auditor's 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 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 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.

PKF Francis Clark

Andrew Allen BSc FCA (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

Lowin House
Tregolls Road
Truro
Cornwall
TR1 2NA

8 August 2019

Isles of Scilly Steamship Company Limited

Consolidated Profit and Loss Account

Year Ended 31 March 2019

	Note	2019 £	2018 £
Turnover	3	18,507,447	17,456,853
Cost of sales		<u>(19,553,759)</u>	<u>(17,084,189)</u>
Gross (loss)/profit		(1,046,312)	372,664
Other operating income	4	89,395	93,583
Exceptional items	9	<u>(3,600,663)</u>	<u>(633,447)</u>
Operating loss	5	(4,557,580)	(167,200)
Other interest receivable and similar income	10	<u>17,835</u>	<u>16,029</u>
Loss before tax		(4,539,745)	(151,171)
Taxation	11	<u>243,685</u>	<u>32,460</u>
Loss for the financial year		<u>(4,296,060)</u>	<u>(118,711)</u>
Profit/(loss) attributable to:			
Owners of the company		<u>(4,296,060)</u>	<u>(118,711)</u>

The notes on pages 39 to 63 form an integral part of these financial statements.

Isles of Scilly Steamship Company Limited

Consolidated Profit and Loss Account

Year Ended 31 March 2019

	Note	2019 Continuing operations £	2019 Discontinued operations £	2019 Total £	2018 Continuing operations £	2018 Discontinued operations £	2018 Total £
Turnover	3	18,141,569	365,878	18,507,447	17,322,078	134,775	17,456,853
Cost of sales		<u>(17,731,313)</u>	<u>(1,822,446)</u>	<u>(19,553,759)</u>	<u>(16,694,447)</u>	<u>(389,742)</u>	<u>(17,084,189)</u>
Gross profit/(loss)		410,256	(1,456,568)	(1,046,312)	627,631	(254,967)	372,664
Other operating income	4	89,395	-	89,395	93,583	-	93,583
Exceptional items	9	<u>(3,304,311)</u>	<u>(296,352)</u>	<u>(3,600,663)</u>	<u>(633,447)</u>	-	<u>(633,447)</u>
Operating (loss)/profit	5	(2,804,660)	(1,752,920)	(4,557,580)	87,767	(254,967)	(167,200)
Other interest receivable and similar income	10	<u>17,835</u>	-	<u>17,835</u>	<u>16,029</u>	-	<u>16,029</u>
(Loss)/profit before tax		(2,786,825)	(1,752,920)	(4,539,745)	103,796	(254,967)	(151,171)
Taxation	11	<u>243,685</u>	-	<u>243,685</u>	<u>32,460</u>	-	<u>32,460</u>
(Loss)/profit for the financial year		<u>(2,543,140)</u>	<u>(1,752,920)</u>	<u>(4,296,060)</u>	<u>136,256</u>	<u>(254,967)</u>	<u>(118,711)</u>
Profit/(loss) attributable to:							
Owners of the company		<u>(2,543,140)</u>	<u>(1,752,920)</u>	<u>(4,296,060)</u>	<u>136,256</u>	<u>(254,967)</u>	<u>(118,711)</u>

The notes on pages 39 to 63 form an integral part of these financial statements.
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Isles of Scilly Steamship Company Limited

Consolidated Statement of Comprehensive Income

Year Ended 31 March 2019

	2019 £	2018 £
Loss for the year	<u>(4,296,060)</u>	<u>(118,711)</u>
Total comprehensive income for the year	<u>(4,296,060)</u>	<u>(118,711)</u>
Total comprehensive income attributable to:		
Owners of the company	<u>(4,296,060)</u>	<u>(118,711)</u>

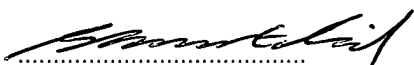
Isles of Scilly Steamship Company Limited

Consolidated Balance Sheet

31 March 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	12	496,930	375,709
Tangible assets	13	<u>11,955,651</u>	<u>15,526,895</u>
		<u>12,452,581</u>	<u>15,902,604</u>
Current assets			
Stocks	15	1,142,802	1,057,625
Debtors	16	2,317,170	2,257,661
Cash at bank and in hand		<u>4,124,589</u>	<u>4,951,647</u>
		7,584,561	8,266,933
Creditors: Amounts falling due within one year	18	<u>(9,407,566)</u>	<u>(9,150,752)</u>
Net current liabilities		<u>(1,823,005)</u>	<u>(883,819)</u>
Total assets less current liabilities		10,629,576	15,018,785
Creditors: Amounts falling due after more than one year	18	(886,367)	(953,262)
Provisions for liabilities	20	<u>(349,375)</u>	<u>(297,124)</u>
Net assets		<u>9,393,834</u>	<u>13,768,399</u>
Capital and reserves			
Called up share capital	22	1,411,306	1,392,714
Share premium reserve		247,239	191,165
Profit and loss account		<u>7,735,289</u>	<u>12,184,520</u>
Equity attributable to owners of the company		<u>9,393,834</u>	<u>13,768,399</u>
Total equity		<u>9,393,834</u>	<u>13,768,399</u>

Approved and authorised by the Board on 24 July 2019 and signed on its behalf by:



Mr S Reid
Director

Company Registration Number: 00165746

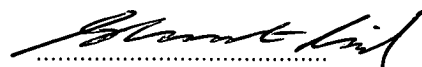
Isles of Scilly Steamship Company Limited

Balance Sheet

31 March 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	12	496,930	375,709
Tangible assets	13	4,777,999	4,984,803
Investments	14	<u>264,793</u>	<u>264,793</u>
		<u>5,539,722</u>	<u>5,625,305</u>
Current assets			
Debtors	16	415,214	252,426
Cash at bank and in hand		<u>4,085,789</u>	<u>4,892,793</u>
		4,501,003	5,145,219
Creditors: Amounts falling due within one year	18	<u>(165,267)</u>	<u>(938,233)</u>
Net current assets		<u>4,335,736</u>	<u>4,206,986</u>
Total assets less current liabilities		9,875,458	9,832,291
Creditors: Amounts falling due after more than one year	18	(886,367)	(953,262)
Provisions for liabilities	20	<u>(102,244)</u>	<u>(60,930)</u>
Net assets		<u>8,886,847</u>	<u>8,818,099</u>
Capital and reserves			
Called up share capital		1,411,306	1,392,714
Share premium reserve		247,239	191,165
Profit and loss account		<u>7,228,302</u>	<u>7,234,220</u>
Total equity		<u>8,886,847</u>	<u>8,818,099</u>

Approved and authorised by the Board on 24 July 2019 and signed on its behalf by:



Mr S Reid
Director

Company Registration Number: 00165746

Isles of Scilly Steamship Company Limited

Consolidated Statement of Changes in Equity Year Ended 31 March 2019

	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2018	1,392,714	191,165	12,184,520	13,768,399
Loss for the year	-	-	(4,296,060)	(4,296,060)
Total comprehensive income	-	-	(4,296,060)	(4,296,060)
Dividends	-	-	(153,171)	(153,171)
New share capital subscribed	18,592	56,074	-	74,666
At 31 March 2019	1,411,306	247,239	7,735,289	9,393,834

	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2017	1,373,745	135,206	12,468,080	13,977,031
Loss for the year	-	-	(118,711)	(118,711)
Total comprehensive income	-	-	(118,711)	(118,711)
Dividends	-	-	(164,849)	(164,849)
New share capital subscribed	18,969	55,959	-	74,928
At 31 March 2018	1,392,714	191,165	12,184,520	13,768,399

The notes on pages 39 to 63 form an integral part of these financial statements.
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Isles of Scilly Steamship Company Limited

Statement of Changes in Equity

Year Ended 31 March 2019

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 April 2018	1,392,714	191,165	7,234,220	8,818,099
Profit for the year	-	-	147,253	147,253
Total comprehensive income	-	-	147,253	147,253
Dividends	-	-	(153,171)	(153,171)
New share capital subscribed	18,592	56,074	-	74,666
At 31 March 2019	1,411,306	247,239	7,228,302	8,886,847

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 April 2017	1,373,745	135,206	6,818,639	8,327,590
Profit for the year	-	-	580,430	580,430
Total comprehensive income	-	-	580,430	580,430
Dividends	-	-	(164,849)	(164,849)
New share capital subscribed	18,969	55,959	-	74,928
At 31 March 2018	1,392,714	191,165	7,234,220	8,818,099

The notes on pages 39 to 63 form an integral part of these financial statements.
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Isles of Scilly Steamship Company Limited

Consolidated Statement of Cash Flows

Year Ended 31 March 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Loss for the year		(4,296,060)	(118,711)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	1,255,473	1,248,440
Loss on disposal of tangible assets		4,071	13,424
Exceptional item	9	3,304,311	633,447
Finance income	10	(17,835)	(16,029)
Corporation tax expense	11	(243,685)	(32,460)
		6,275	1,728,111
Working capital adjustments			
(Increase)/decrease in stocks	15	(85,177)	134,671
Increase in debtors	16	(59,508)	(105,292)
Increase in creditors	18	256,814	595,240
Increase in provisions	20	296,352	-
Decrease in government grants		(66,895)	(66,895)
Cash generated from operations		347,861	2,285,835
Corporation tax paid	11	(416)	(438)
Net cash flow from operating activities		347,445	2,285,397
Cash flows from investing activities			
Interest received		17,835	16,029
Acquisitions of tangible assets		(983,748)	(2,194,988)
Proceeds from sale of tangible assets		35,662	20,553
Acquisition of intangible assets	12	(165,747)	(135,832)
Net cash flows from investing activities		(1,095,998)	(2,294,238)
Cash flows from financing activities			
Dividends paid	22, 23	(78,505)	(89,921)
Net decrease in cash and cash equivalents		(827,058)	(98,762)
Cash and cash equivalents at 1 April		4,951,647	5,050,409
Cash and cash equivalents at 31 March		4,124,589	4,951,647

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is:

Hugh Town
St. Mary's
Isles of Scilly
TR21 0LJ

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The functional currency of the group is considered to be pounds sterling because this is the currency of the primary economic environment in which the company operates.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2019.

No Profit and Loss Account is presented for the Company as permitted by section 408 of the Companies Act 2006. The company made a profit after tax for the financial year of £147,253 (2018 - £580,430).

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the group includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Summary of disclosure exemptions

FRS102 allows a qualifying entity certain disclosure exemptions subject to certain conditions which the company has complied with. This includes the notification of, and no objection to, the use of such exemptions by the company's shareholders.

On this basis the company has taken advantage of the following exemptions:

- i) From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows included in these financial statements includes the company's cash flows;
- ii) From the financial instrument disclosures, required under FRS102 paragraphs 11.39 to 11.48A as the information is provided in the consolidated financial statement disclosures.

The group and company have also taken advantage of the exemption under FRS102 paragraph 33.1A in respect of transactions between members of the group, on the basis that the group companies are 100% owned.

Going concern

The financial statements have been prepared on a going concern basis.

The group consolidated statement of financial position is currently showing net current liabilities of £1,823,005 (2018 - £883,819). This is due to the group continuing to use available cash to fund the continued investment in fixed assets.

The group also has deferred income totalling £6,793,152 (2018 - £6,177,442) relating to advanced bookings that are not expected to crystallise as a cash outflow, but instead be released to the profit and loss account as revenue when the passengers travel.

The strategic report makes references to the group's future plans and intentions.

Revenue recognition

Turnover represents charges for the supply of sea and air passenger and freight services and associated income. Turnover is recognised when the group fulfils its contractual obligations to customers in respect of the goods and services provided. Turnover is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the company.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Tax

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

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

Deferred tax is recognised on all timing differences at the balance sheet date unless indicated below. Timing differences are differences between taxable profits and the results as stated in the consolidated profit and loss account and other comprehensive income. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Intangible assets

Intangible assets are stated in the statement of financial position at cost, less any subsequent accumulated amortisation and subsequent accumulated impairment losses.

The cost of intangible assets includes directly attributable incremental costs incurred in their acquisition and development.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	Straight line over 5 years
Software development costs	Straight line over 10 years
Other intangibles	Straight line over 5 years

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold land and buildings	Straight line over 20 or 50 years
Leasehold land and buildings	Straight line over the term of the lease
Runways	Straight line over 18 years
Aircraft engines and major components (included within plant and machinery)	Straight line over the number of flight hours remaining
Ships (included within plant and machinery)	Straight line over the life of the ship

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Other plant and machinery

At various rates appropriate to the relevant asset (straight line)

Ship maintenance

When the ships are dry-docked for overhaul, the costs of these overhauls are charged against the profit and loss account as incurred. Other repair or service costs are also charged against the profit and loss accounts as incurred.

Investments

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Inventories

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell.

Work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are 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.

Provisions

Provisions are recognised when the group has an obligation at the reporting date as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Financial instruments

Classification

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

All financial instruments are classified as basic, with the exception of fuel hedging contracts.

Recognition and measurement

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally 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.

Basic financial assets, which include trade and other receivables, cash and bank balances, and loans to related parties, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Basic financial liabilities, including trade and other payables, loans and borrowings, and loans from related parties are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

The group uses fuel hedging contracts to reduce its exposure to movements in fuel prices. Fuel hedging contracts are initially recognised at fair value at the date of inception and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised immediately through the profit and loss account.

Impairment

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Critical accounting judgements and estimation uncertainty

Management evaluate estimates and judgements on an annual basis, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates applied by management are as outlined below:

Impairment of the Mali Rose ship

During the financial year the directors took the decision that for various commercial and operational reasons that the group would discontinue the development of the Mali Rose for the purposes of providing freight services between Penzance and St Mary's.

In the previous year, at the balance sheet date of 31 March 2018, the valuation basis for the vessel in the financial statements of the group was based upon a value in use method which is appropriate where an asset is being developed for use in the ongoing trading activities of the business. At the balance sheet date of 31 March 2019 the intended use for the vessel has changed and the value in use method is no longer appropriate.

The directors are actively considering the options for the future of this vessel in order to maximise the value that can be secured for the group. For the purposes of the financial statements at 31 March 2019; in the absence of any other confirmed strategy, the directors have agreed that an open market valuation for the vessel is the most appropriate treatment with the vessel continuing to be reported as a fixed asset in the balance sheet pending final decision over its future.

The directors have consequently secured external valuations by independent valuers to assess the potential open market value for resale in its current condition. Taking into account the advice that directors have received regarding open market value as well as associated ongoing running costs in the interim and disposal costs the directors have placed a realisable net value for the vessel of £400,000 at the 31 March 2019.

In forming this opinion the directors have, to acknowledge a degree of ongoing uncertainty over the vessel and its unique nature, adopted a pessimistic view at this point in the context of professional valuations, ongoing and disposal costs expected to be incurred.

The impact of the impairment of the Mali Rose ship in the financial statements of the group in the year ended 31 March 2019 was a charge of £3,304,311 (2018: an impairment was included in exceptional items under value in use calculations of £633,447).

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Helicopter contract termination provision

During the year the group decided to cease to provide the helicopter transfer service between Land's End and St Marys for various commercial and operational reasons. The group had previously entered into a contract with an independent operator for the lease of helicopters to provide this service.

Following negotiations with the helicopter operator the Company has agreed a settlement for early exit from this contract. Consequently, the financial statements in the year ended 31 March 2019 include an exceptional item to provide for the termination of this contract of £296,352 (2018: £nil).

Depreciation and useful economic lives of intangible and tangible assets

Management have carefully considered the depreciation estimates applied on the intangible and tangible assets held by the group. This assessment is performed on an annual basis, and would be amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and the physical condition of each asset.

Recognition of government grants

Management have considered the recognition basis for the grant, and on the basis that the grant is attached to the construction of runways it is being recognised through the profit and loss in conjunction with any depreciation, or impairment losses of runways.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

3 Revenue

The analysis of the group's turnover for the year by class of business is as follows:

	2019	2018
	£	£
Sales by sea	7,183,565	7,073,611
Sales by air	10,194,519	9,489,485
Other non-transport activities	1,129,363	893,757
	<u>18,507,447</u>	<u>17,456,853</u>

All of the group's revenue is generated within the UK.

4 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2019	2018
	£	£
Government grants	76,900	66,895
Rental income	13,350	11,700
Other operating income	(855)	14,988
	<u>89,395</u>	<u>93,583</u>

5 Operating loss

Arrived at after charging/(crediting)

	2019	2018
	£	£
Depreciation expense	1,210,947	1,168,479
Amortisation expense	44,526	79,961
Loss on disposal of property, plant and equipment	4,071	13,424
Operating lease expense - other	1,929,793	553,153
Auditors fees	13,630	13,500
Foreign exchange gains	15,955	22,903
Government grants receivable	<u>(76,900)</u>	<u>(66,895)</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £	2018 £
Wages and salaries	6,064,991	6,020,000
Social security costs	463,640	464,378
Pension costs, defined contribution scheme	263,452	144,192
	<u>6,792,083</u>	<u>6,628,570</u>

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Employees	249	236
Directors	7	6
	<u>256</u>	<u>242</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £	2018 £
Remuneration	176,464	384,070
Contributions paid to money purchase schemes	31,613	16,616
	<u>208,077</u>	<u>400,686</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>2</u>

Reference to the highest paid director for the year to 31 March 2019 and 2018 can be found within the strategic report.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

8 Auditor's remuneration

	2019 £	2018 £
Audit of these financial statements and subsidiaries	<u>13,630</u>	<u>13,500</u>
Other fees to auditors		
All other non-audit services	<u>16,370</u>	<u>15,900</u>

9 Exceptional item

Items which are material either because of their size or their nature, or which are non-recurring, are presented within their relevant income statement category. The separate reporting of exceptional items helps provide a clear picture of the group's underlying performance.

An analysis of the amounts presented as an exceptional items in these financial statements is given below and elaborated on within the strategic report and accounting policies.

	2019 £	2018 £
Exceptional items		
Exceptional item - Island Helicopters provision for settlement	296,352	-
Exceptional item - Mali Rose impairment review	<u>3,304,311</u>	<u>633,447</u>
	<u>3,600,663</u>	<u>633,447</u>

10 Other interest receivable and similar income

	2019 £	2018 £
Interest income on bank deposits	<u>17,835</u>	<u>16,029</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

11 Taxation

Tax charged/(credited) in the profit and loss account

	2019 £	2018 £
Current taxation		
UK corporation tax	416	416
Deferred taxation		
Arising from origination and reversal of timing differences	<u>(244,101)</u>	<u>(32,876)</u>
Tax receipt in the income statement	<u>(243,685)</u>	<u>(32,460)</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £	2018 £
Loss before tax	<u>(4,539,745)</u>	<u>(151,171)</u>
Corporation tax at standard rate	(862,552)	(28,723)
Profit of business not subject to taxation	425,143	(85,683)
Non-deductible expenses	5,246	4,292
Tax losses (utilised) / arising	(43,526)	113,903
Tax increase (decrease) from effect of capital allowances and depreciation	(12,182)	63,572
Tax increase (decrease) from other short-term timing differences	37,899	(2,368)
Tax increase (decrease) from effect of unrelieved tax losses carried forward	205,871	(97,891)
Tonnage tax	<u>416</u>	<u>438</u>
Total tax credit	<u>(243,685)</u>	<u>(32,460)</u>

The group's shipping business operates under the UK tonnage tax regime. For the current year the tax charge arising is calculated by reference to the net tonnage of the ships operated by the business rather than the tax adjusted results.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Deferred tax

Group

Deferred tax assets and liabilities

2019

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

495,129
(434,865)
(7,241)
53,023

2018

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

548,546
(248,119)
(3,303)
297,124

Company

Deferred tax assets and liabilities

2019

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

106,836
-
(4,592)
102,244

2018

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

81,401
(19,535)
(936)
60,930

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

12 Intangible assets

Group

	Goodwill £	Software development costs £	Other intangible assets £	Total £
Cost or valuation				
At 1 April 2018	112,999	433,511	1,999	548,509
Additions acquired separately	-	165,747	-	165,747
Disposals	(112,999)	-	(1,999)	(114,998)
At 31 March 2019	-	599,258	-	599,258
Amortisation				
At 1 April 2018	112,999	57,802	1,999	172,800
Amortisation charge	-	44,526	-	44,526
Amortisation eliminated on disposals	(112,999)	-	(1,999)	(114,998)
At 31 March 2019	-	102,328	-	102,328
Carrying amount				
At 31 March 2019	-	496,930	-	496,930
At 31 March 2018	-	375,709	-	375,709

Company

	Software development costs £	Total £
Cost or valuation		
At 1 April 2018	433,511	433,511
Additions acquired separately	165,747	165,747
At 31 March 2019	599,258	599,258
Amortisation		
At 1 April 2018	57,802	57,802
Amortisation charge	44,526	44,526
At 31 March 2019	102,328	102,328
Carrying amount		
At 31 March 2019	496,930	496,930
At 31 March 2018	375,709	375,709

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

13 Tangible assets

Group

	Freehold land and buildings £	Leasehold land and buildings £	Runways £	Plant and machinery £	Assets under construction £	Total £
Cost or valuation						
At 1 April 2018	2,991,675	560,128	2,761,033	19,286,362	3,833,447	29,432,645
Additions	-	-	-	479,437	504,311	983,748
Disposals	-	-	-	(186,651)	-	(186,651)
At 31 March 2019	<u>2,991,675</u>	<u>560,128</u>	<u>2,761,033</u>	<u>19,579,148</u>	<u>4,337,758</u>	<u>30,229,742</u>
Depreciation						
At 1 April 2018	389,968	378,575	875,532	11,628,228	633,447	13,905,750
Transfers	-	-	(326,709)	326,709	-	-
Charge for the year	40,405	16,809	153,391	1,000,343	-	1,210,948
Eliminated on disposal	-	-	-	(146,918)	-	(146,918)
Impairment	-	-	-	-	3,304,311	3,304,311
At 31 March 2019	<u>430,373</u>	<u>395,384</u>	<u>702,214</u>	<u>12,808,362</u>	<u>3,937,758</u>	<u>18,274,091</u>
Carrying amount						
At 31 March 2019	<u>2,561,302</u>	<u>164,744</u>	<u>2,058,819</u>	<u>6,770,786</u>	<u>400,000</u>	<u>11,955,651</u>
At 31 March 2018	<u>2,601,707</u>	<u>181,553</u>	<u>1,885,501</u>	<u>7,658,134</u>	<u>3,200,000</u>	<u>15,526,895</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Included within the net book value of leasehold land and buildings above is £2,000 (2018 - £4,180) in respect of long leasehold land and buildings and £162,744 (2018 - £177,373) in respect of short leasehold land and buildings.

Company

	Freehold land and buildings £	Leasehold land and buildings £	Plant and machinery £	Runways £	Total £
Cost or valuation					
At 1 April 2018	<u>2,991,673</u>	<u>364,476</u>	<u>7,872</u>	<u>2,761,031</u>	<u>6,125,052</u>
At 31 March 2019	<u>2,991,673</u>	<u>364,476</u>	<u>7,872</u>	<u>2,761,031</u>	<u>6,125,052</u>
Depreciation					
At 1 April 2018	389,968	193,586	7,872	543,823	1,140,249
Charge for the year	<u>40,405</u>	<u>13,008</u>	<u>-</u>	<u>153,391</u>	<u>206,804</u>
At 31 March 2019	<u>430,373</u>	<u>206,594</u>	<u>7,872</u>	<u>702,214</u>	<u>1,347,053</u>
Carrying amount					
At 31 March 2019	<u>2,561,300</u>	<u>157,882</u>	<u>-</u>	<u>2,058,817</u>	<u>4,777,999</u>
At 31 March 2018	<u>2,601,705</u>	<u>170,890</u>	<u>-</u>	<u>2,212,208</u>	<u>4,984,803</u>

The net book value of leasehold land and buildings above relates solely to short leasehold land and buildings.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

14 Investments

Company

	2019 £	2018 £
Investments in subsidiaries	<u>264,793</u>	<u>264,793</u>

Subsidiaries

£

Cost or valuation

At 1 April 2018 264,793

At 31 March 2019 264,793

Carrying amount

At 31 March 2019 264,793

At 31 March 2018 264,793

Details of undertakings

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	Principal activity
Isles of Scilly Skybus Limited	England & Wales	Ordinary share capital	100%	Provision of freight and passenger air services between the mainland and the Isles of Scilly
Land's End Airport Limited	England & Wales	Ordinary share capital	100%	Operation of Land's End Aerodrome
Isles of Scilly Shipping Company Limited	England & Wales	Ordinary share capital	100%	Provision of passenger and cargo services between the mainland and the Isles of Scilly
Lyoness Shipping Company Limited	England & Wales	Ordinary share capital	100%	Leasing of ships
Lyoness Air Transport Limited	England & Wales	Ordinary share capital	100%	Dormant
Penzance Dry Dock (2009) Limited	England & Wales	Ordinary share capital	100%	Operation of a dry dock
Nike Engineering Limited	England & Wales	Ordinary share capital	100%	Island Carriers trade and fuel sales
Isles of Scilly Shipping (Guernsey) Limited	Guernsey	Ordinary share capital	100%	Offshore crew management
Island Carriers Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Airways Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Transport Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Freight Company Limited	England & Wales	Ordinary share capital	100%	Dormant
The Isles of Scilly Helicopter Company Limited	England & Wales	Ordinary share capital	100%	Dormant

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

15 Stocks

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Other inventories	<u>1,142,802</u>	<u>1,057,625</u>	<u>-</u>	<u>-</u>

Group

The cost of stocks recognised as an expense in the year amounted to £3,154,971 (2018 - £3,133,246).

Impairment of inventories

The amount of impairment loss included in profit or loss is £46,669 (2018 - £38,579).

16 Debtors

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade debtors	927,205	1,010,455	-	2,573
Amounts owed by group undertakings	-	-	81,963	-
Other debtors	208,806	292,305	195,959	180,263
Prepayments	<u>1,181,159</u>	<u>954,901</u>	<u>137,292</u>	<u>69,590</u>
	<u>2,317,170</u>	<u>2,257,661</u>	<u>415,214</u>	<u>252,426</u>

17 Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash on hand	1,207	3,389	-	-
Cash at bank	<u>4,123,382</u>	<u>4,948,258</u>	<u>4,085,789</u>	<u>4,892,793</u>
	<u>4,124,589</u>	<u>4,951,647</u>	<u>4,085,789</u>	<u>4,892,793</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

18 Creditors

		Group		Company	
	Note	2019 £	2018 £	2019 £	2018 £
Due within one year					
Trade creditors		1,590,632	1,860,986	18,232	157,783
Amounts due to group undertakings	26	-	-	-	610,221
Social security and other taxes		219,541	155,141	15,586	24,949
Outstanding defined contribution pension costs		52,699	25,857	27,009	5,506
Other creditors		26,975	52,239	22,694	22,901
Accruals and deferred income		7,517,303	7,056,113	81,746	116,873
Corporation tax	11	416	416	-	-
		<u>9,407,566</u>	<u>9,150,752</u>	<u>165,267</u>	<u>938,233</u>
Due after one year					
Government grants		<u>886,367</u>	<u>953,262</u>	<u>886,367</u>	<u>953,262</u>

The company has no outstanding bank borrowings at 31 March 2019 and 2018. In the event of the company utilising any bank borrowings there is a historic debenture in place incorporating a fixed and floating charge.

19 Obligations under leases and hire purchase contracts

Group

Operating leases

The total of future minimum lease payments is as follows:

	2019 £	2018 £
Not later than one year	443,602	443,355
Later than one year and not later than five years	483,100	417,900
Later than five years	<u>329,900</u>	<u>424,633</u>
	<u>1,256,602</u>	<u>1,285,888</u>

The amount of operating lease payments recognised as an expense during the year was £1,814,833 (2018 - £552,272). £1,365,659 (2018 - £nil) of the operating lease payments recognised in the year relate to discontinued operations.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

20 Deferred tax and other provisions

Group

	Deferred tax £	Other provisions £	Total £
At 1 April 2018	297,124	-	297,124
Additional provisions	-	296,352	296,352
Increase (decrease) in existing provisions	(244,101)	-	(244,101)
At 31 March 2019	<u>53,023</u>	<u>296,352</u>	<u>349,375</u>

Company

	Deferred tax £
At 1 April 2018	60,930
Increase (decrease) in existing provisions	<u>41,314</u>
At 31 March 2019	<u>102,244</u>

Other provisions

During the year the group decided to cease to provide the helicopter transfer service between Land's End and St Marys for various commercial and operational reasons. The group had previously entered into a contract with an independent operator for the lease of helicopters to provide this service.

Following negotiations with the helicopter operator the Company has agreed a settlement for early exit from this contract. Consequently, the financial statements in the year ended 31 March 2019 include a provision (and an exceptional item) for the termination of this contract of £296,352 (2018: £nil).

21 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £263,452 (2018 - £144,192).

Contributions totalling £52,699 (2018 - £25,857) were payable to the scheme at the end of the year and are included in creditors.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

During the year the group operated two defined benefit pension schemes - the Merchant Navy Officers Pension Fund (New Section) (MNOFF) and The Merchant Navy Ratings Pension Fund (MNRPF). These schemes are multi-employer schemes. The group has been unable to identify its share of the underlying assets or liabilities of these schemes and therefore has accounted for these schemes as defined contribution schemes in accordance with FRS 102.

Merchant Navy Officers Pension Fund

The main purpose of the actuarial valuation is to review the financial position of the MNOFF fund relative to its statutory funding objectives and to assist the Trustee to determine the appropriate level of future contributions. The actuarial valuation is required under the terms of Clause 26.0 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004.

The most recent triennial valuation was carried out at 31 March 2018. The 31 March 2018 valuation showed that the market value of the assets was £3,278 million (2015: £2,898 million) and disclosed a shortfall of £73 million (2015: £329 million). Allowing for the present value of deficit contributions due after this date from the Recovery Plans agreed at the 2009 and 2012 valuations, and for the closure of the MNOFF fund to future accrual from 31 March 2016, leads to a new net deficit at 31 March 2018 of £9 million. The Trustee has confirmed that no additional deficit contributions will be collected in respect of this new net deficit.

Merchant Navy Ratings Pension Fund

An actuarial valuation was carried out at 31 March 2017 under the terms of Clause 25 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004. The main purposes of the actuarial valuation are to review the financial position of the Fund relative to its statutory funding objective and to determine the appropriate level of future contributions. The valuation reported that an additional deficit has arisen since 31 March 2014 of £89 million. The new deficit had arisen primarily due to the material reductions in expected future asset returns since 2014, driven by falls in government bond yields.

In early 2015 the High Court made a formal Order which confirmed that the Trustee has the authorisation of the Court to introduce the Fund's new deficit contribution regime (the "New Regime"). The additional "net" deficit arising under the 31 March 2017 actuarial valuation is to be removed by additional contributions from participating employers.

During the year the company was charged (excluding interest) £67,377 (2018 - £nil) towards the deficit.

Other Schemes

The company and group also operated defined contribution pension schemes during the year.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

22 Share capital

Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
Ordinary shares of £1 each	<u>1,411,306</u>	<u>1,411,306</u>	<u>1,392,714</u>	<u>1,392,714</u>

18,592 (2018 - 18,969) ordinary shares were issued in the year at £4.05 (2018 - £3.95) per share in lieu of dividends.

23 Dividends

	2019 £	2018 £
Dividend paid		
Final dividends paid on ordinary share capital	<u>153,171</u>	<u>164,849</u>

The directors propose a final ordinary dividend of £nil (2018 - £153,171) for the year ended 31 March 2019.

24 Contingent liabilities

Group

The group's bankers hold bonds in respect of Air BP for £8,000 (2018 - £8,000) and National Express of £2,500 (2018 - £2,500).

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2019

25 Financial instruments

Group

Categorisation of financial instruments

	2019 £	2018 £
Financial assets that are debt instruments measured at amortised cost	<u>5,051,794</u>	<u>5,962,102</u>
	<u>5,051,794</u>	<u>5,962,102</u>
	2019 £	2018 £
Financial liabilities measured at amortised cost	<u>8,383,785</u>	<u>8,038,428</u>
	<u>8,383,785</u>	<u>8,038,428</u>

Financial assets measured at amortised cost comprise of cash at bank and trade debtors.

Financial liabilities measured at amortised cost comprise of trade creditors and deferred income.

26 Related party transactions

Key management personnel

There are deemed to be no key management personnel outside of the directors. Details of directors remuneration is provided in note 7 to the financial statements and within the strategic report.

Transactions with directors

Reference to transactions with directors for the year to 31 March 2019 and 2018 can be found within the strategic report.

27 Parent and ultimate parent undertaking

There is no ultimate controlling parent.