

Isles of Scilly Steamship Company Limited
Annual Report and Consolidated Financial Statements
Year Ended 31 March 2020
Registration number: 00165746

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Isles of Scilly Steamship Company Limited

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Isles of Scilly Steamship Company Limited

Company Information

Chairman Mr I Howard TD

Directors Mr P Hardaker
Mr S Reid
Mr S Hicks
Mr G Randall
Mr S Hicks
Mrs J E Piper
Mr K A George
Ms S Bassett

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 100th Annual Report of the Isles of Scilly Steamship Company which includes our Consolidated Financial Statements for the year ended 31 March 2020.

This, the 100th year of the Group's life, has been another year of challenges, but the board, management and staff are united in their determination to overcome and succeed. We are driven by our vision to deliver for Scilly in every way.

COVID-19

I wrote to shareholders on 4 May and set out the issues with which the board and management were wrestling.

COVID-19 which "broke" in March has decimated our revenue and whilst the impact will be chiefly felt in the new financial year, the year under review was not unaffected with passenger crossings by Scillonian III cancelled and air services running a life-line service for key workers only from the 25 March onwards.

Whilst there remain some uncertainties we do now have more clarity around government support and what the future may hold.

The health and safety of our staff and customers has been our first priority in these difficult times. We have introduced COVID secure measures on the Scillonian and on our aircraft including the mandatory wearing of face coverings and a rigorous cleaning and sanitisation process. Since the 4 July and the opening of the hospitality sector, we are phasing an increase in capacity levels on both Scillonian III and our aircraft as we introduce new embarkation and disembarkation operations. This will be kept under review in line with Government guidance.

Financials

Air and sea passenger traffic declined by 6% compared to the previous year to 202,124. The reasons for this were partly due to the outbreak of COVID-19 in the last month of the year.

Revenue held up well in the circumstances at £18,408,000 but without decisive action the year would have seen further losses for the Group to add to those of the previous two years.

Management responded to this threat with a whole host of measures to address costs, with the consequence that I can report a healthy consolidated profit before tax of £1,023,000.

Balance sheet reserves have accordingly been strengthened and the balance sheet remains free of debt. We continue to review our assets, property in particular, with a view to extracting more value out of them.

We did not receive any COVID related funding during the year in question, but with effect from 1 April 2020 the Group has received grant funding on a monthly basis. We have applied to have this continue throughout the remainder of the new financial year, but that commitment has not yet been given.

Isles of Scilly Steamship Company Limited

Chairman's statement

Marine

The Scillonian has continued to ply her well-trodden route to and from St Mary's. The breakdown she experienced in August of last year reminded us however of her advancing years and resulted in the setting up of the Marine Asset Replacement Committee chaired by Kevin George. The consultation feedback received by the Committee from Islanders will be invaluable in shaping the direction we take in respect of a replacement vessel and we will discuss at the forthcoming AGM how far we have advanced with our planning for the future.

Dry Dock

The Dry Dock continues to experience ups and downs in activity, regrettably with more of the latter than the former. Whilst it has provided additional resilience to our marine operations, we have no alternative but to consider how we could operate without that facility, which has again delivered a loss for the year.

Aviation

Last year in this report I spoke of the potentially unsustainable position of the aviation business, particularly against the backdrop of new competition from Penzance Helicopters. The impact of that competition remains to be seen as the helicopter service has barely commenced at the time of writing, but thanks to sterling efforts by the management team we have now put ourselves in a much better position to survive and prevail. From an operating loss of over half a million pounds last year, the year under review saw the business make a small but important profit thereby demonstrating that there is a market and a future for this business.

The fortunes of Land's End Airport are naturally closely linked to those of the aviation business and here too, due to close control of costs, the business looks much healthier than a year ago. We are looking at the airport as an asset that could be developed further and diversified into other revenue generating activities.

Governance

There have been a number of changes to the board during the year. First of all Judith Piper, our CFO, stepped up in May of 2019 and has brought an increased financial focus to the board's deliberations. Henk Wiekens resigned in September and we thank him for his relatively short but active contribution. We were very pleased to appoint Kevin George to the board in September 2019. Kevin brings with him a wealth of experience in both marine and aviation. After conducting a skills gap analysis we decided that it would be beneficial to bring a lawyer on to the board. We were delighted that Sonya Bassett from Coodes in Penzance accepted our invitation, and she joined us with effect from 1 March 2020.

Peter Hardaker our Deputy Chair has served the board with distinction for many years and he will step down at the forthcoming AGM. We will not replace Peter with another director, but in keeping with best practice we will look to appoint a Senior Independent Director from within our ranks.

Dividend

As foreshadowed in my letter of May 4 we do not recommend the payment of a dividend this year. As I said in last year's report, the board does however recognise that in normal circumstances shareholders should receive a return on their investment and once we have weathered the current COVID-19 storm we will revert to this and other less immediate issues.



Ian Howard TD
Chairman
15 July 2020

Isles of Scilly Steamship Company Limited

Board of Directors

Stuart Reid (Chief Executive Officer)

Stuart joined Isles of Scilly Steamship Group as Chief Financial Officer in July 2013 and was 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 Accountant in 2007.

Stuart previously worked at Smart Solutions Recruitment, one of Wales fastest growing companies. Stuart is a member of the Isles of Scilly Transport Board, Island Futures Board and Smart Islands Project. In his spare time, Stuart is a keen cyclist and triathlete competing over multiple distances.

Ian Howard TD (Chairman)

Ian joined the Board on 1 February 2019 becoming Chairman on 1 April last year. 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 seventeen 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 and Company Secretary)

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 sports activities and the local beaches.

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 four 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, then at Truro School and 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.

Kevin George

Kevin's early career was with British Airways as an avionics engineer, progressing through to senior roles in marketing and operations. In 2007 Kevin joined Monarch Airlines initially as their operations director before taking the position as CEO in 2011. After 30 years in aviation he moved to the marine industry and joined the Red Funnel Group as CEO in 2014 and then became Chair in 2018.

In addition, Kevin is Chair of Discover Ferries, the industry campaign to promote ferry travel, Chair of Trustees at UKSA, a Business Director of the Solent Local Enterprise Partnership and a National Council member of Maritime UK.

Isles of Scilly Steamship Company Limited

Board of Directors

Sonya Bassett

With over 20 years experience in law and business Sonya spent 10 years in corporate and commercial roles in a number of leading international law firms, Eversheds and Osborne Clarke (for whom she also worked in San Francisco), as well as five years in-house in the private sector as Legal Director for a leading renewable energy company running projects for both Tesco and Marks and Spencer and working closely with the government Department of Energy and Climate Change in respect of the Green Deal project.

Sonya is currently a partner at Coodes solicitors and heads up the Corporate team which is particularly experienced in working with regional SMEs and has notable expertise in the renewables, construction, tourism and rural businesses sectors. In her spare time Sonya enjoys adventures with her son in their campervan and being in or on the water.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

The directors present their strategic report for the year ended 31 March 2020.

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, fuel supplies and road haulage services on St Mary's, ship repairs and operation of a dry dock in Penzance, 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 pages 32 and 33. This review covers the performance of the Group for the period 1 April 2019 to 31 March 2020.

The financial year ended 31 March 2020 was the Group's first full year of operation under the new Board leadership and management team and we are pleased to report that we made considerable progress during the year. Safety is our highest value and will always be our first priority, but our second priority was to return to profitability after the previous year's loss.

PROFIT BEFORE TAX

The Group reported a profit before tax for the year ended 31 March 2020 of £1,023,000. In the year ended 31 March 2019 the Group reported a loss before tax of £4,540,000 as a result of losses incurred in respect of the Island Helicopter service and write downs of the Mali Rose.

Key financial performance indicators	2020	2019	Variance
Profit / (loss) before tax	£1,023,000	£(4,540,000)	£5,563,000
EBITDA (pre-exceptional items)	£2,318,000	£303,000	£2,015,000

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

NEW BEGINNINGS

Our "new beginnings" era has commenced. The embrace of this change by our family of employees together with the hard work during some challenging periods and a return to core operations has improved our financial performance significantly. The Group can report an EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) of £2.3m, only the third year that the Group has exceeded the £2m EBITDA level having previously done so in 2016 and 2017.

The Group's return to profitability is the result of a focus on core operations and driving efficiencies which has seen an improvement in operating margins. This has been achieved against a background programme of improving the customer experience throughout the Group's operations. This work is already yielding results, but is now vitally important as we enter a new period of competition following the launch of the helicopter service from Penzance in March 2020. Further investment has also been made in our website and online reservation facilities to improve the booking experience and management reporting tools.

Implementation of the new Skybus strategic plan has already seen significant financial performance improvements. For the year ended 31 March 2020, Isles of Scilly Skybus Limited reported a profit of £2,000 and a like-for-like financial improvement of £554,000 on the previous financial year. The improvements have been driven by a focus on load factors and improvement on scheduling. Our Load Factor on our DH6-Twin Otter for the year ended 31 March 2020 was 80.2%, achieving our target of 80% a year earlier than planned. Our challenge now is to maintain this profitability as we enter a new period of aviation competition.

In December 2019, the Group sold the Mali Rose to a Norwegian Company closing the chapter on a vessel which was not suitable for the difficulties of the route and unique infrastructure of Penzance and St Mary's harbours. The new Marine Asset Replacement Committee, Chaired by Kevin George, has commenced its work on vessel replacement including the appointment of BMT Naval Architects following a detailed tender process. BMT's remit is to produce a design of the next vessels to serve Scilly. As part of this process we are looking to answer the question "What should be the future service for Scilly?". To answer this question, the Group must consult with the Isles of Scilly Community and key stakeholders and this will be carried out through online surveys which will input into the design process and shape future face-to-face consultations when time allows.

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Strategic Report

Year Ended 31 March 2020

The Group is a member of the Isles of Scilly Transport Board, chaired by Derek Thomas the MP for West Cornwall and the Isles of Scilly. The Isles of Scilly Transport Board's work is an example of collaboration of its members and starts a new beginning for the Group. Through collaboration the Board has secured COVID-19 funding to support the lifeline link operation of all transport operators on Scilly and secure the financial position of the Group during this challenging time. The Isles of Scilly Transport Board have also jointly submitted a new strategic business case to the Department of Transport which seeks £74m of funding for new replacement vessels, infrastructure improvements and capital expenditure plans for St Mary's and Land's End Airport all of which are essential parts of maintaining the lifeline link and supporting the tourism economy which Scilly relies upon.

In our last annual report I stated that the Group's new strategic objectives would be underpinned by a culture defined by new Company values. Our Company values were rolled out in September 2019 and were a significant part of our AGM presentation in October 2019.

The new Company values were shaped and developed by the results of our employee engagement survey. The Group holds these values with the highest importance and they are now used as reporting topics in our quarterly employee magazine and referred to regularly in our internal and external communications. Our decisions, behaviour and our interaction with the Isles of Scilly community are all now built on these core values. The second phase of our Company values programme will see core values being integrated into our recruitment process, ongoing employee training and an appraisal system which will be rolled out later this year.

Key Challenges

Although there are strong grounds for optimism, it is also appropriate to highlight notes of caution around operational matters and factors affecting the transport industry.

Our vision statement "Delivering for Scilly" has been captured in our most recent challenge. On the 23 March the Scillonian III set sail for the final time before the UK Government announced the COVID-19 lockdown. Our role over the lockdown period has been the same as it was when the Group was founded 100 years ago; to preserve the life-line service to the Isles of Scilly. To "Deliver for Scilly". This would have not been possible had it not been for the support of all of our employees. Thank you!

KEY PERFORMANCE INDICATORS

The table and information below highlights the key financial performance indicators for the year ended 31 March 2020.

Key Performance Indicator	2020	2019	Variance
Return on capital employed	8.9%	-9.0%	17.9%

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

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Strategic Report

Year Ended 31 March 2020

Passenger Numbers

There was an overall decline in passenger numbers of 6.0% to 202,124 passengers for the financial year (2019: 215,091).

Skybus passenger numbers (including the helicopter service) have declined by 3,245, or 3.4% down to 91,769 for the year, with a noticeable shift in day trippers falling by 2,387, or 20.5% to 9,259 for the year. Our marketing strategy for the year has focused on encouraging the shift from day trippers to higher yielding period returns.

Scillonian passenger numbers have declined by 9,722, or 8.1% to 110,355 for the year. The specific reasons behind the decline are:

- The Scillonian breakdown during August 2019, when comparing total passenger numbers between August 2018 and 2019 there was a considerable drop of 5,854 (27,643 against 21,789).
- Our marketing strategy was to prioritise higher yielding period returns over day trippers resulting in day trip numbers falling by 9,445, or 25.2% to 28,088 for the year.

Passengers numbers for Skybus and Scillonian also decreased significantly (4,432 lower than forecast) towards the end of March 2020 following the Government's lockdown announcement.

Further analysis shows that passenger numbers during the winter period between November and March showed a decline of 19.3% to 15,514 (2019: 19,221). Analysis of the pre-COVID numbers also shows a similar decline of 5.0% to 12,614 (2019: 13,279) for the period November to February. Winter numbers are dependent on large scale winter projects on the Islands. Improvements to telecommunications and video conferencing are making it less necessary for business users and residents to travel for meetings. This is a concerning continual decline in Winter traffic following a 4.7% fall last year despite a targeted marketing campaign for discounted travel over the Christmas and New Year period.

To improve passengers numbers in Winter months the target is "season extension". We are working with businesses and accommodation providers on a collaborative approach to season extension with a focus on October half-term, Christmas & New Year and the February half-term as opportunities to grow the Winter market.

Turnover Analysis

The Group's turnover from continuing operations increased by 1.5% to £18,408,000 (2019: £18,141,000). Group turnover is primarily driven by passenger numbers and the average ticket price.

Turnover	2020	2019	Variance
Continuing operations	£18,408,000	£18,141,000	£267,000
Discontinued operations	-	£366,000	£(366,000)
Total	£18,408,000	£18,507,000	£(99,000)

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Strategic Report

Year Ended 31 March 2020

Turnover for services by air increased by 0.7% to £10,267,000 (2019: £10,195,000). In relation to core passenger sales, there has been a net decrease of 0.4% or £34,000 to £9,067,000 (2019: £9,101,000) as a result of a fall in air passenger numbers explained above. The fall in passenger numbers has however been largely nullified by an increase in average ticket prices increasing by 3.7% to £98.89 (2019: £95.32).

The removal of lower ticket price brackets and a rationalisation of discounts offered has led to the increase in the average ticket price. In addition, day trippers now make up only 10.1% (2019: 12.2%) of all passenger numbers. The reduction in this ratio has also contributed to an increase in the average ticket price.

Turnover for services by sea increased by 0.3% to £7,202,000 (2019: £7,184,000). Marine passenger revenue increased by 1.4% to £4,348,000 (2019: £4,288,000), despite total passenger numbers declining by 9,722, or 8.1% to 110,355 for the year. The specific reasons behind the decline in passenger numbers is highlighted earlier in this report.

The growth in passenger sales has therefore been generated from the increase in the average ticket price of £4.27, or 12.1% to £39.40 (2019: £35.14). The reasons behind this are;

- the ratio of day trippers has declined to 25.5% (2019: 30.8%) of all passenger numbers which highlights a definite change in demand, potentially brought on through the alterations to the pricing structure.
- the removal of lower ticket price brackets and a rationalisation of discounts offered has led to the increase in the average ticket price.
- the Group is seeing the benefits of investment in its reservation system, website and employees who manage the price profiles and yield decision trees.

During the year the Company diversified into a new park & ride facility for Scillonian III. This new revenue stream contributed a further £101,000 towards the turnover by sea total.

Mail and freight sales traditionally fluctuate year on year depending upon any projects that are being undertaken on the Isles of Scilly. This year we have seen a decline in mail and freight sales of £53,000, or 2.3% which is partially due to the restricted freight volumes and in turn sales during March 2020 (COVID-19 implications).

Non-related transport activities decreased by 16.8% to £939,000 (2019: £1,129,000).

Land's End Airport

Land's End Airport's income is predominately generated through internal sales to Skybus. There has however been an improvement in external car parking receipts of £31,000 in the year.

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Strategic Report

Year Ended 31 March 2020

Nike Engineering (trading as Island Carriers)

The reason for the reduction in Nike turnover is mainly due to the closure of the engineering trade during October 2018 and in turn the two years are not directly comparable, there is approximately £158,000 of engineering income (excluding fuel sales) that we would not expect to arise in the current year.

This lost income has been offset by improvements in the delivery, luggage and waste disposal services of £52,000, primarily through an increased focus on and promotion of these services following the engineering department closure.

Penzance Dry Dock

External sales for Penzance Dry Dock decreased by £204,000 to £521,000 (2019: £725,000).

Commercial sales decreased by 18.6% to £262,000 (2019: £322,000) due to reduced availability of the dry dock to external vessels due to substantial overhaul work being completed on the Gry Maritha during the early part of the financial year.

Traditionally there has also been a regular income stream from the Vega (vessel) for harbour dues recharged and minor maintenance. However last year the Vega was moved out of Penzance harbour leading to the Dry Dock undertaking additional maintenance work on the vessel before it left to ensure it was capable of making the journey. This income has therefore not repeated itself in the same way this year where it is no longer docked in Penzance harbour. The challenge now will be to replace this level of work in future years.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

Cost Analysis

The Group has reduced cost of sales during the period under review by £2,081,000 to £17,473,000. As highlighted in the table above, £1,823,000 relates to discontinued activities relating to the ceased helicopter operation and the engineering trade of Nike Engineering, both of which ceased in October 2018 and included in the comparative year.

Cost of sales	2020	2019	Variance
Continuing operations	£17,473,000	£17,731,000	£(258,000)
Discontinued operations	-	£1,823,000	£(1,823,000)
Total	£17,473,000	£19,554,000	£(2,081,000)

For the year under review, continuing operations have reduced by £258,000 to £17,473,000, driven mainly through reductions in fuel and improvements in load factors, but also a significant reduction in engineering and material costs across the Group. The reductions have been driven through a combined focus on driving efficiencies and investment in reporting procedures. These improvements were partially offset by an increase in employment costs.

Employment costs have increased by 4.2% (2019: 2.5%) to £7,078,000 (2019: £6,792,000). Employment costs are our largest cost to the business accounting for 40.2% (2019: 36.2%) of our cost base. Due to the nature of the Group's activities being largely service based the expectation would be to see staff costs grow alongside sales.

However, the Group is focusing on its core activities which has seen turnover decline by 0.5%, with staff numbers having declined by 13 employees or 5.1% the growth in staff costs is driven through an increase in average staff costs per employee.

The increase in employment costs is due to an increase in average salary levels. This is as a result of multiple factors but general pay increases driven through increases in 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.

The average salary for Guernsey employees has increased this year where there was a greater proportion of employees on fixed term contracts commanding a higher pay rate. This year also sees the full impact of the new "2 for 2" leave ratio which was introduced in November 2018.

It is also important to note that there have been some non-recurring staff costs incurred during the year to 31 March 2020, such as settlement payments to terminate employee contracts. This will however benefit future trading years and in turn will reduce the average staff cost moving forward. The Executive have been tasked by the Board to review and control salary costs which have seen several historical year on year increases.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

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 £738,000 of which £38,000 was capital spend on intangible assets. Key capital projects in the year included the following:

- Significant overhaul work on the Gry Maritha costing £259,000. The overhaul works spanned two financial years costing in total £436,000 with £177,000 incurred in the previous year. The enhanced works meant the Gry Maritha completed her 5 year major survey.
- Similarly there has also been substantial work completed on the Lyonesse Lady in order to complete her 5 year survey. The total cost of these works amounted to £49,000.
- Continued investment in the aircraft fleet at a comparable level to previous years of £188,000 (2019: £168,000).
- The completion of the new Canopy on Penzance Quay for a total of £59,000 spread over the last two year.

The Group incurred further intangible asset expenditure of £38,000 (2019: £166,000) in its passenger reservation and e-commerce website with improved functionality. These investments remove the reliance on our Call Centres at Penzance and St Mary's.

In May 2020, the Group transferred the aircraft G-ISSG from an operating lease to a finance lease as part of its commitment to a single fleet operation.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

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.

The reconciliation below shows that the core continuing operations is cash generative of £2,318,000. In 2019, the Group decided to focus on its core operations following decisions in 2019 to close cash-utilising parts of the business which has resulted in an additional £2m of cash generated in the current year.

As mentioned earlier in this report various capital projects have been undertaken in the year which have utilised cash with the Gry Maritha, Lyonesse Lady and investment in our e-commerce website being the significant cash outflows. This capital expenditure has been partially offset by the proceeds received for the Mali Rose.

Of greatest concern is the reduction in deferred income (advanced bookings) which has fallen by £2,033,000 at the 31 March 2020. The reduction in deferred income is due to a combination of the following factors:

- National press communications surrounding COVID-19 during March 2020 and Government lockdown announcement towards the end of March 2020 led to a significantly reduced number of bookings during March 2020 and refunds being processed.

- A small decline in bookings due to competition with Penzance Heliport opening in March 2020.

The remaining movements categorised as "other movements" are due to changes in working capital, such as the increased stock balance at the year end and payment of the settlement for early exit of the helicopter contract reported in last year's accounts of £296,000.

Cash flow summary	2020	2019
	£	£
Bank and cash balances brought forward	4,125,000	4,952,000
EBITDA (excluding exceptional items) of continuing trade - cash generating	2,318,000	1,760,000
EBITDA (excluding exceptional items) of discontinued trade - cash utilising	-	(1,457,000)
Net EBITDA	2,318,000	303,000
Capital expenditure net of sale proceeds	(371,000)	(1,114,000)
(Decrease) / increase in deferred income	(2,033,000)	616,000
Working capital, net dividend paid and other movements	(389,000)	(632,000)
Bank and cash balances carried forward	3,650,000	4,125,000

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

SAFETY AND SECURITY

As is common throughout the transport industry, our principle company value is the safety of our employees and passengers which is managed through a robust Safety Management System. Safety is a weekly agenda item on both Marine and Aviation Management meetings with attendance by the Group Health & Safety Manager.

Creating and implementing a positive health and safety culture is an ever-evolving process, and this has been under-pinned by the Group's published value, making safety our top priority. Over the last 12 months the shipping safety management system has been extensively reviewed and improved. This has resulted in the development (by ship management and crew) of additional detailed shipboard safety procedures. Improvements have also been made to the Group wide safety systems. Permit to work procedures have been re-designed and re-issued, random testing for drugs and alcohol has been implemented across the Group, precautions for monitoring and minimising hand arm vibration hazards were strengthened and a new programme of occupational health surveillance implemented. This is just a snapshot of the work undertaken, that demonstrates the Group's health and safety management systems are constantly evolving and improving.

The Group has a strong and proactive incident and near miss reporting culture, which enables any weakness identified in our safety systems to be targeted, and improved mitigations implemented. In the financial year ended 31 March 2020 four incidents were reported to regulators, which is an improvement on recent previous years and continues a downward trend.

The Group's Risk Management Team consisting of managers from both the aviation, dry dock and marine businesses meets regularly throughout the year. Its purpose is to review business continuity risks and mitigation plans. The Risk Management Team were also active during the COVID-19 response, reviewing risk assessments to ensure compliance with Government guidance and ensuring high-standards and consistency in measures across all business activities.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

ENVIRONMENTAL

We have introduced several environmental initiatives this year following the publication of our new environmental policy. Our partnership with the Isles of Scilly Wildlife Trust has created a recognition of the delicate environment on Scilly which is what makes it unique and a key factor in so many visitors each year. We look forward to entering into additional environmental partnerships in the future.

COMMUNITY ENGAGEMENT

The Isles of Scilly Steamship Company Community Fund has donated more than £72,000 to 47 different community projects and charities based in Mid and West Cornwall and the Isles of Scilly since it was launched.

This year has seen two of the Community Fund's biggest donations yet - to Cornwall Samaritans and Clean Ocean Sailing - who shared almost £7,000 between them. Cornwall Samaritans used the money to pay for its lifeline telephone service. Environmental campaigners Clean Ocean Sailing returned to the Isles of Scilly to continue their work protecting the islands' wildlife from deadly marine plastic.

During the year it was decided that review of applications to the fund would be considered by the Steamship Advisory Board from April 2020.

The Steamship Advisory Board meets quarterly and is made up of representatives from each Island. This year members of the Steamship Advisory Board have provided valuable input into Group operations, developments and strategic plans allowing us to ensure a joined up approach with the Island community.

As a founding partner of the Island Partnership, the Group also committed a significant contribution to the Island Partnership. The Island Partnership's purpose is to lead on destination marketing and represent the tourism sector on the Isles of Scilly. The Group's Marketing and Communications Manager, Sharon Sandercock, is a director on the Island Partnership Board.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

FUTURE DEVELOPMENTS

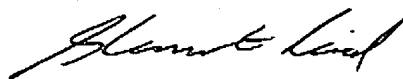
The achievements over the past year as part of our new beginnings era, focusing on core operations and customer experience provide the Group with an excellent base from which to build for the future.

Our work on vessel replacement is at a very exciting stage and we are looking forward to an important consultation programme and seeing the first concept designs. We will be providing a detailed update on this programme at our forthcoming AGM in October 2020.

We are currently conducting some early consultancy work on infrastructure improvements at Land's End Airport. We look forward to providing further updates on these developments in due course.

For the 2020/2021 financial year, the Board's ambition was a move towards a £3m EBITDA, building on the foundations that the management team have introduced during the period under review. The COVID-19 situation has created a new challenge for the Group and so the immediate focus is on securing further funding through negotiations with the Department of Transport for the Winter lifeline link to the Isles of Scilly.

As a result we are working towards a break-even position for the year ended 31 March 2021. We are encouraged by the level of enquiries for the 2021 season and we will have expectations of building on the good performance and profitability of the current year.



Stuart Reid
Chief Executive Officer
15 July 2020

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

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 mitigates this risk by holding appropriate levels of stock. The Group is also a retailer of oil-related products that are subject to changes in world commodity price for crude oil.

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 Group manages 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. Brexit could have operational and financial impacts on the Group.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

CORPORATE GOVERNANCE

The Group remains committed to high standards of corporate governance and believes that a strong governance structure is critical to future growth and stability. The Group strives to maintain integrity and professionalism at all times.

The Board of Directors, led by the Chairman, Ian Howard, 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.

Stuart Reid, Chief Executive Officer, holds primary responsibility for the running of the business on a day-to-day basis. Judith Piper, Chief Financial Officer, supports Stuart in his role and together the two Executive Directors provide regular reports to the Board to enable Board members to make informed, effective and timely decisions.

In September 2019 the Board appointed Kevin George, Chairman of Red Funnel Group, to its Board of Directors. Kevin will bring both marine and aviation expertise and experience to the Board of Directors and he is a strong appointment for the Group. Kevin's unique skill set, and broader experience, will provide valuable input to our marine asset replacement programme as well as building on the current improvements to the operational service.

On the 1 March the Company formally appointed Sonya Basset. Sonya is a corporate partner at Coodes LLP in Penzance and has established a large network of clients and contacts in West Penwith. Sonya's appointment will provide guidance to the Board on legal matters and her appointment further strengthens the Board.

The Board is supplied with comprehensive and timely reports in advance of each meeting, covering all the Group's business activities. Financial and operational reports are reviewed and discussed along with the Group's strategic aims and performance and financial and risk management. Board meetings are structured to allow open discussion by all Directors.

As at the date of approval of the Group accounts, the Board comprises seven 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 via 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. During the year the Board formed a new committee to review marine asset replacement. The Marine Asset Replacement Committee is chaired by Kevin George and reviews vessel replacement strategy and plans provided by the Executive and senior members of the marine management team.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

REMUNERATION COMMITTEE

The Members of the Remuneration Committee are Sam Hicks, Gary Randall and Peter Hardaker (Chair).

The Committee's remit is to determine and agree with the Board the salary and benefits for the Executive Directors and Chairman. Recommendations are made after obtaining information from a variety of sources to benchmark the quantum of salary and benefits of the contracts. Legal and employment advice is taken when required and new contracts are checked by consultants to ensure compliance with employment law and best practice.

The Committee has been active throughout the year, holding two formal meetings as well as consulting by video and telephone conferencing.

The focus of the Committee has been the new contracts of the Chief Executive Officer, Stuart Reid and the Chief Financial Officer, Judith Piper and the Non-Executive Chairman, Ian Howard TD.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

	Salary *	Fees	Benefits in kind	Total		Pension contributions	
	£	£	£	2020 £	2019 £	2020 £	2019 £
<i>Executive Directors</i>							
S Reid	125,000	-	4,085	129,085	93,571	875	605
J Piper	77,426	-	-	77,426	-	1,784	-
<i>Non-Executive Directors</i>							
I Howard TD	-	25,000	-	25,000	1,214	-	-
P D Hardaker	-	11,772	-	11,772	11,585	-	-
S Hicks	-	8,999	-	8,999	9,244	-	-
S M Hicks	-	6,689	-	6,689	3,902	-	-
G Randall	-	7,875	-	7,875	6,695	-	-
K George	-	4,248	-	4,248	-	-	-
<i>Past Directors</i>							
H Weikens	-	3,034	-	3,034	4,198	-	-
A J May	-	-	-	-	29,079	-	30,000
M Howarth	-	-	-	-	13,524	-	1,008
D S Rogers	-	-	-	-	3,451	-	-
	<u>202,426</u>	<u>67,616</u>	<u>4,085</u>	<u>274,127</u>	<u>176,464</u>	<u>2,659</u>	<u>31,613</u>

* Includes bonus based on performance-related targets.

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

S Bassett was appointed to the board on 1 March 2020 and was yet to receive any fees for services provided at 31 March 2020.

Isles of Scilly Steamship Company Limited

Strategic Report

Year Ended 31 March 2020

NOMINATIONS COMMITTEE

Members of the Nominations Committee at the end of the year were Ian Howard TD and Peter Hardaker.

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 all Board Committees as and when required.

The Committee met on a number of occasions throughout the year both in person and by telephone. The Nominations Committee recommended the appointment of Kevin George to the Board of Directors and Kevin was appointed a Director on 1 September 2019.

Upon the departure of Henk Wiekens the Committee conducted a skills gap analysis which identified that legal competence was the most critical area that should be addressed on the Board. A number of candidates then entered the relevant selection process and ultimately Sonya Bassett was appointed.

AUDIT COMMITTEE

The members of the Audit Committee are Sam Hicks, Gary Randall and Peter Hardaker (Chairman). The Committee possesses a range of experience and commercial knowledge and benefits from the professional accountancy experience of Gary Randall.

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

The current situation with COVID-19 has delivered a challenge in the way the Audit has been conducted. I am pleased to report that our auditors and our accounts team have met the challenge, modifying their work approach to deliver a thorough and efficient audit.

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

Isles of Scilly Steamship Company Limited

Strategic Report

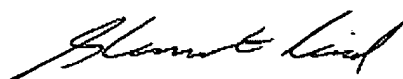
Year Ended 31 March 2020

The Audit Committee met formally on the 25 November 2019 to review the progress of actions following last years' audit completion report and to consider and recommend approval of the six-month interim accounts. On 26 June, the audit committee met with the Group Auditors to discuss the accounts for year ending 31 March 2020.

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.

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

Approved by the Board on 15 July 2020 and signed on its behalf by:



.....
Mr S Reid
Chief Executive Officer

Isles of Scilly Steamship Company Limited

Directors' Report

Year Ended 31 March 2020

The directors present their report and the for the year ended 31 March 2020.

Directors of the company

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

Committees

Current directors:

Stuart Reid	M
Judith Piper	M
Ian Howard TD	N
Gary Randall	A, R, M
Peter Hardaker	A, R, N
Steve Hicks	M
Sam Hicks	A, R
Kevin George (appointed on 1 September 2019)	M
Sonya Bassett (appointed on 1 March 2020)	-

Past directors:

Henk Wiekens (resigned on 31 August 2019)	N, M
---	------

'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 asset replacement 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 2020 are set out below. There have been no changes between these interests between 1 April 2020 and 15 July 2020.

	2020	2019
Peter Hardaker	3,722	3,722
Stephen Hicks	999	999
Ian Howard	66,610	62,972

Dividends

The directors do not propose the payment of a dividend for the year ended 31 March 2020 (2019 - £nil).

Isles of Scilly Steamship Company Limited

Directors' Report

Year Ended 31 March 2020

Going concern

In preparing and approving these financial statements the Board have given due consideration to going concern risks, and in particular the impact of the Coronavirus pandemic. The pandemic has led to widespread, profound economic shocks, and has significantly curtailed the operational activities of the Group. In reaching a conclusion on the going concern assumption the Board considered and factored in the following matters:

i) Following a detailed application process, the Group has been able to access substantial grant funding from the Department for Transport in order to support the essential services provided by the Group. The Group received contracted Government grant funding post year end up to 30 June 2020. This assisted the Group up until 4 July 2020 when the leisure and tourism sector started to open up following the Government lockdown.

The grant funding was in place to meet the losses incurred from running a restricted service and support the cash outflows that arose post year end.

The Group is working closely with local representatives and the Department for Transport in relation to additional funding should the need arise.

ii) The Group have prepared budgets and cash flow forecasts which consider a number of scenarios, in particular the level of grant funding available, and varying passenger numbers and freight volumes.

As well as future uncertainty arising from the pandemic, the Board is mindful to the fact that moving forward there will be the increased competition for the travel route which will impact on demand.

iii) The Group has accessed the Government's Job Retention Scheme and Business Support Grant Funds (as well as future rates relief) which have both assisted with reducing the costs incurred by the Group after the year end.

iv) The Group have implemented various cost saving measures across the Group to minimise the losses arising from the minimal service levels.

v) The Group have undertaken outline negotiations with lenders in order to establish the potential borrowings that would be available to the Group should the need arise.

vi) Operationally, various policies and procedures have been put in place to ensure the health and safety of the core staff that have been retained. Clearly, in some areas this does give rise to a financial cost, but these steps are necessary and are being adopted by the vast majority of businesses across the UK.

vii) There are business continuation plans in place to ensure that there is adequate cover for senior management should they become incapacitated.

After due consideration of these factors the Directors are satisfied that the Group will be able to operate within the available facilities and continue as a going concern for the foreseeable future – being a period no less than 12 months from the date of approval of these financial statements.

Isles of Scilly Steamship Company Limited

Directors' Report

Year Ended 31 March 2020

Important non adjusting events after the financial period

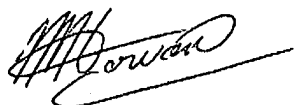
In May 2020, the Group transferred the aircraft G-ISSG from an operating lease to a finance lease as part of its commitment to a single fleet operation. The value of the finance lease liability and aircraft is significant at £2.6m. The finance lease is repayable over 8 years, with the option to extend the final payment over another 2 years.

Furthermore, following a detailed application process, the Group has been able to access substantial grant funding from the Department for Transport in order to support the essential services provided by the Group. The Group received contracted Government grant funding post year end up to 30 June 2020. This assisted the Group up until 4 July 2020 when the leisure and tourism sector started to open up following the Government lockdown.

Disclosure of information to the auditor

Each director has taken 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 15 July 2020 and signed on its behalf by:



Mr I Howard TD
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 2020, 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 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 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.

Isles of Scilly Steamship Company Limited

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

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.

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, 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 intends 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

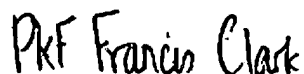
Auditor's responsibilities for the audit of the financial statements

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.



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

Lowin House
Tregolls Road
Truro
Cornwall
TR1 2NA

29 July 2020

Isles of Scilly Steamship Company Limited

Consolidated Profit and Loss Account

Year Ended 31 March 2020

	Note	2020 £	2019 £
Turnover	3	18,408,054	18,507,447
Cost of sales		<u>(17,472,833)</u>	<u>(19,553,759)</u>
Gross profit/(loss)		935,221	(1,046,312)
Other operating income	4	73,908	89,395
Exceptional items	9	<u>-</u>	<u>(3,600,663)</u>
Operating profit/(loss)	5	1,009,129	(4,557,580)
Other interest receivable and similar income	10	21,363	17,835
Interest payable and similar charges	11	<u>(7,291)</u>	<u>-</u>
Profit/(loss) before tax		1,023,201	(4,539,745)
Taxation	12	<u>(22,275)</u>	<u>243,685</u>
Profit/(loss) for the financial year		<u>1,000,926</u>	<u>(4,296,060)</u>
Profit/(loss) attributable to:			
Owners of the company		<u>1,000,926</u>	<u>(4,296,060)</u>

The notes on pages 40 to 64 form an integral part of these financial statements.

Isles of Scilly Steamship Company Limited

Consolidated Profit and Loss Account

Year Ended 31 March 2020

	Note	2020 Continuing operations £	2020 Total £	2019 Continuing operations £	2019 Discontinued operations £	2019 Total £
Turnover	3	18,408,054	18,408,054	18,141,569	365,878	18,507,447
Cost of sales		<u>(17,472,833)</u>	<u>(17,472,833)</u>	<u>(17,731,313)</u>	<u>(1,822,446)</u>	<u>(19,553,759)</u>
Gross profit/(loss)		935,221	935,221	410,256	(1,456,568)	(1,046,312)
Other operating income	4	73,908	73,908	89,395	-	89,395
Exceptional items	9	-	-	(3,304,311)	(296,352)	(3,600,663)
Operating profit/(loss)	5	<u>1,009,129</u>	<u>1,009,129</u>	<u>(2,804,660)</u>	<u>(1,752,920)</u>	<u>(4,557,580)</u>
Other interest receivable and similar income	10	21,363	21,363	17,835	-	17,835
Interest payable and similar charges	11	<u>(7,291)</u>	<u>(7,291)</u>	-	-	-
		<u>14,072</u>	<u>14,072</u>	<u>17,835</u>	<u>-</u>	<u>17,835</u>
Profit/(loss) before tax		1,023,201	1,023,201	(2,786,825)	(1,752,920)	(4,539,745)
Taxation	12	<u>(22,275)</u>	<u>(22,275)</u>	<u>243,685</u>	<u>-</u>	<u>243,685</u>
Profit/(loss) for the financial year		<u>1,000,926</u>	<u>1,000,926</u>	<u>(2,543,140)</u>	<u>(1,752,920)</u>	<u>(4,296,060)</u>
Profit/(loss) attributable to:						
Owners of the company		<u>1,000,926</u>	<u>1,000,926</u>	<u>(2,543,140)</u>	<u>(1,752,920)</u>	<u>(4,296,060)</u>

The notes on pages 40 to 64 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 2020

	2020 £	2019 £
Profit/(loss) for the year	<u>1,000,926</u>	<u>(4,296,060)</u>
Total comprehensive income for the year	<u>1,000,926</u>	<u>(4,296,060)</u>
Total comprehensive income attributable to:		
Owners of the company	<u>1,000,926</u>	<u>(4,296,060)</u>

The notes on pages 40 to 64 form an integral part of these financial statements.

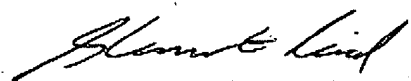
Isles of Scilly Steamship Company Limited

Consolidated Balance Sheet

31 March 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	13	476,847	496,930
Tangible assets	14	<u>11,037,843</u>	<u>11,955,651</u>
		<u>11,514,690</u>	<u>12,452,581</u>
Current assets			
Stocks	16	1,211,086	1,142,802
Debtors	17	1,652,308	2,317,171
Cash at bank and in hand		<u>3,650,460</u>	<u>4,124,589</u>
		6,513,854	7,584,562
Creditors: Amounts falling due within one year	19	<u>(6,689,435)</u>	<u>(9,407,567)</u>
Net current liabilities		<u>(175,581)</u>	<u>(1,823,005)</u>
Total assets less current liabilities		11,339,109	10,629,576
Creditors: Amounts falling due after more than one year	19	(819,467)	(886,367)
Provisions for liabilities	21	<u>(124,882)</u>	<u>(349,375)</u>
Net assets		<u>10,394,760</u>	<u>9,393,834</u>
Capital and reserves			
Called up share capital	23	1,411,306	1,411,306
Share premium reserve		247,239	247,239
Profit and loss account		<u>8,736,215</u>	<u>7,735,289</u>
Equity attributable to owners of the company		<u>10,394,760</u>	<u>9,393,834</u>
Total equity		<u>10,394,760</u>	<u>9,393,834</u>

Approved and authorised by the Board on 15 July 2020 and signed on its behalf by:



Mr S Reid
Director

Company Registration Number: 00165746

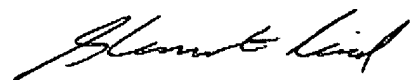
Isles of Scilly Steamship Company Limited

Balance Sheet

31 March 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	13	476,847	496,930
Tangible assets	14	4,568,385	4,777,999
Investments	15	4,164,793	264,793
		<u>9,210,025</u>	<u>5,539,722</u>
Current assets			
Debtors	17	216,966	415,214
Cash at bank and in hand		3,496,028	4,085,789
		<u>3,712,994</u>	<u>4,501,003</u>
Creditors: Amounts falling due within one year	19	<u>(3,103,141)</u>	<u>(165,267)</u>
Net current assets		<u>609,853</u>	<u>4,335,736</u>
Total assets less current liabilities		<u>9,819,878</u>	<u>9,875,458</u>
Creditors: Amounts falling due after more than one year	19	(819,467)	(886,367)
Provisions for liabilities	21	<u>(119,390)</u>	<u>(102,244)</u>
Net assets		<u>8,881,021</u>	<u>8,886,847</u>
Capital and reserves			
Called up share capital	23	1,411,306	1,411,306
Share premium reserve		247,239	247,239
Profit and loss account		<u>7,222,476</u>	<u>7,228,302</u>
Total equity		<u>8,881,021</u>	<u>8,886,847</u>

Approved and authorised by the Board on 15 July 2020 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 2020

	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2019	1,411,306	247,239	7,735,289	9,393,834
Profit for the year	-	-	1,000,926	1,000,926
Total comprehensive income	-	-	1,000,926	1,000,926
At 31 March 2020	1,411,306	247,239	8,736,215	10,394,760

	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

Isles of Scilly Steamship Company Limited

Statement of Changes in Equity

Year Ended 31 March 2020

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 April 2019	1,411,306	247,239	7,228,302	8,886,847
Loss for the year	-	-	(5,826)	(5,826)
Total comprehensive income	-	-	(5,826)	(5,826)
At 31 March 2020	1,411,306	247,239	7,222,476	8,881,021

	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

The notes on pages 40 to 64 form an integral part of these financial statements.

Isles of Scilly Steamship Company Limited

Consolidated Statement of Cash Flows

Year Ended 31 March 2020

	Note	2020 £	2019 £
Cash flows from operating activities			
Profit/(loss) for the year		1,000,926	(4,296,060)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	1,215,737	1,255,473
Loss on disposal of tangible assets		93,087	4,071
Exceptional item	9	-	3,304,311
Finance income	10	(21,363)	(17,835)
Finance costs	11	7,291	-
Corporation tax expense	12	22,275	(243,685)
		<u>2,317,953</u>	<u>6,275</u>
Working capital adjustments			
Increase in stocks	16	(68,284)	(85,177)
Decrease/(increase) in debtors	17	664,863	(59,509)
(Decrease)/increase in creditors	19	(2,718,132)	256,815
(Decrease)/increase in provisions	21	(246,352)	296,352
Decrease in government grants		<u>(66,900)</u>	<u>(66,895)</u>
Cash generated from operations		(116,852)	347,861
Corporation tax paid	12	<u>(416)</u>	<u>(416)</u>
Net cash flow from operating activities		<u>(117,268)</u>	<u>347,445</u>
Cash flows from investing activities			
Interest received		21,363	17,835
Acquisitions of tangible assets		(700,428)	(983,748)
Proceeds from sale of tangible assets		367,681	35,662
Acquisition of intangible assets	13	<u>(38,186)</u>	<u>(165,747)</u>
Net cash flows from investing activities		<u>(349,570)</u>	<u>(1,095,998)</u>
Cash flows from financing activities			
Interest paid	11	(7,291)	-
Dividends paid	23, 24	<u>-</u>	<u>(78,505)</u>
Net cash flows from financing activities		<u>(7,291)</u>	<u>(78,505)</u>
Net decrease in cash and cash equivalents		(474,129)	(827,058)
Cash and cash equivalents at 1 April		<u>4,124,589</u>	<u>4,951,647</u>
Cash and cash equivalents at 31 March		<u><u>3,650,460</u></u>	<u><u>4,124,589</u></u>

The notes on pages 40 to 64 form an integral part of these financial statements.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

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 2020.

No Profit and Loss Account is presented for the Company as permitted by section 408 of the Companies Act 2006. The company made a loss after tax for the financial year of £5,826 (2019 - profit after tax of £147,253).

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

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 2020

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.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

Going concern

In preparing and approving these financial statements the Board have given due consideration to going concern risks, and in particular the impact of the Coronavirus pandemic. The pandemic has led to widespread, profound economic shocks, and has significantly curtailed the operational activities of the Group. In reaching a conclusion on the going concern assumption the Board considered and factored in the following matters:

i) Following a detailed application process, the Group has been able to access substantial grant funding from the Department for Transport in order to support the essential services provided by the Group. The Group received contracted Government grant funding post year end up to 30 June 2020. This assisted the Group up until 4 July 2020 when the leisure and tourism sector started to open up following the Government lockdown.

The grant funding was in place to meet the losses incurred from running a restricted service and support the cash outflows that arose post year end.

The Group is working closely with local representatives and the Department for Transport in relation to additional funding should the need arise.

ii) The Group have prepared budgets and cash flow forecasts which consider a number of scenarios, in particular the level of grant funding available, and varying passenger numbers and freight volumes.

As well as future uncertainty arising from the pandemic, the Board is mindful to the fact that moving forward there will be the increased competition for the travel route which will impact on demand.

iii) The Group has accessed the Government's Job Retention Scheme and Business Support Grant Funds (as well as future rates relief) which have both assisted with reducing the costs incurred by the Group after the year end.

iv) The Group have implemented various cost saving measures across the Group to minimise the losses arising from the minimal service levels.

v) The Group have undertaken outline negotiations with lenders in order to establish the potential borrowings that would be available to the Group should the need arise.

vi) Operationally, various policies and procedures have been put in place to ensure the health and safety of the core staff that have been retained. Clearly, in some areas this does give rise to a financial cost, but these steps are necessary and are being adopted by the vast majority of businesses across the UK.

vii) There are business continuation plans in place to ensure that there is adequate cover for senior management should they become incapacitated.

After due consideration of these factors the Directors are satisfied that the Group will be able to operate within the available facilities and continue as a going concern for the foreseeable future – being a period no less than 12 months from the date of approval of these financial statements.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

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 rate on the date when the fair value is re-measured.

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

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.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

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
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.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

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.

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 2020

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 2020

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 and subsequent disposal of the Mali Rose ship

There are no longer any assets under construction following the disposal of the Mali Rose during the year for £300,000 giving rise to a loss on disposal of £100,000.

This is following impairment reviews in previous financial years that have been disclosed as exceptional items.

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 2020

3 Revenue

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

	2020	2019
	£	£
Sales by sea	7,201,688	7,183,565
Sales by air	10,267,010	10,194,519
Other non-transport activities	939,356	1,129,363
	<u>18,408,054</u>	<u>18,507,447</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:

	2020	2019
	£	£
Government grants	66,922	76,900
Rental income	5,975	13,350
Other operating income	1,011	(855)
	<u>73,908</u>	<u>89,395</u>

5 Operating profit/(loss)

Arrived at after charging/(crediting)

	2020	2019
	£	£
Depreciation expense	1,157,468	1,210,947
Amortisation expense	58,269	44,526
Loss on disposal of property, plant and equipment	93,087	4,071
Operating lease expense - other	588,892	1,929,793
Auditors fees	13,869	13,630
Foreign exchange gains	2,017	15,955
Operating lease expense - plant and machinery	4,812	-
Government grants receivable	<u>(66,922)</u>	<u>(76,900)</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

6 Staff costs

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

	2020	2019
	£	£
Wages and salaries	6,376,033	6,064,991
Social security costs	515,005	463,640
Pension costs, defined contribution scheme	186,762	263,452
	<u>7,077,800</u>	<u>6,792,083</u>

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

	2020	2019
	No.	No.
Employees	235	249
Directors	8	7
	<u>243</u>	<u>256</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020	2019
	£	£
Remuneration	274,127	176,464
Contributions paid to money purchase schemes	2,659	31,613
	<u>276,786</u>	<u>208,077</u>

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

	2020	2019
	No.	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 2020 and 2019 can be found within the strategic report.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

8 Auditor's remuneration

	2020 £	2019 £
Audit of these financial statements and subsidiaries	13,869	13,630
Other fees to auditors		
All other non-audit services	16,630	16,370

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.

	2020 £	2019 £
Exceptional items		
Exceptional item - Island Helicopters provision for settlement	-	296,352
Exceptional item - Mali Rose impairment review	-	3,304,311
	-	3,600,663

10 Other interest receivable and similar income

	2020 £	2019 £
Interest income on bank deposits	21,363	17,835

11 Interest payable and similar expenses

	2020 £	2019 £
Interest expense on other finance liabilities	7,291	-

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

12 Taxation

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

	2020 £	2019 £
Current taxation		
UK corporation tax	416	416
Deferred taxation		
Arising from origination and reversal of timing differences	21,859	(244,101)
Tax expense/(receipt) in the income statement	<u>22,275</u>	<u>(243,685)</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £	2019 £
Profit/(loss) before tax	<u>1,023,201</u>	<u>(4,539,745)</u>
Corporation tax at standard rate	194,408	(862,552)
Profit of business not subject to taxation	(177,557)	425,143
Non-deductible expenses	42,332	5,246
Tax losses (utilised) / arising	2,734	(43,526)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	(14,224)	-
Tax increase (decrease) from effect of capital allowances and depreciation	(39,899)	(12,182)
Tax increase (decrease) from other short-term timing differences	14,065	37,899
Tax increase (decrease) from effect of unrelieved tax losses carried forward	-	205,871
Tonnage tax	<u>416</u>	<u>416</u>
Total tax charge/(credit)	<u>22,275</u>	<u>(243,685)</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 2020

Deferred tax

Group

Deferred tax assets and liabilities

2020

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

608,957
(522,441)
(11,634)
74,882

2019

**Liability
£**

Accelerated capital allowances
Unrelieved losses carried forward
Other

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

Company

Deferred tax assets and liabilities

2020

**Liability
£**

Accelerated capital allowances
Other

119,674
(284)
119,390

2019

**Liability
£**

Accelerated capital allowances
Other

106,836
(4,592)
102,244

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

13 Intangible assets

Group

	Software development costs £	Total £
Cost or valuation		
At 1 April 2019	599,258	599,258
Additions acquired separately	38,186	38,186
At 31 March 2020	637,444	637,444
Amortisation		
At 1 April 2019	102,328	102,328
Amortisation charge	58,269	58,269
At 31 March 2020	160,597	160,597
Carrying amount		
At 31 March 2020	476,847	476,847
At 31 March 2019	496,930	496,930

Company

	Software development costs £	Total £
Cost or valuation		
At 1 April 2019	599,258	599,258
Additions acquired separately	38,186	38,186
At 31 March 2020	637,444	637,444
Amortisation		
At 1 April 2019	102,328	102,328
Amortisation charge	58,269	58,269
At 31 March 2020	160,597	160,597
Carrying amount		
At 31 March 2020	476,847	476,847
At 31 March 2019	496,930	496,930

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

14 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 2019	2,991,675	560,128	2,761,033	19,579,148	4,337,758	30,229,742
Additions	-	-	-	700,428	-	700,428
Disposals	-	-	-	(189,286)	(4,337,758)	(4,527,044)
At 31 March 2020	2,991,675	560,128	2,761,033	20,090,290	-	26,403,126
Depreciation						
At 1 April 2019	430,373	395,384	702,214	12,808,362	3,937,758	18,274,091
Charge for the year	45,817	14,026	153,391	944,234	-	1,157,468
Eliminated on disposal	-	-	-	(128,518)	(3,937,758)	(4,066,276)
At 31 March 2020	476,190	409,410	855,605	13,624,078	-	15,365,283
Carrying amount						
At 31 March 2020	2,515,485	150,718	1,905,428	6,466,212	-	11,037,843
At 31 March 2019	2,561,302	164,744	2,058,819	6,770,786	400,000	11,955,651

Included within the net book value of leasehold land and buildings above is £nil (2019 - £2,000) in respect of long leasehold land and buildings and £150,718 (2019 - £162,744) in respect of short leasehold land and buildings.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

Company

	Freehold land and buildings £	Leasehold land and buildings £	Plant and machinery £	Runways £	Total £
Cost or valuation					
At 1 April 2019	2,991,673	364,476	7,872	2,761,031	6,125,052
At 31 March 2020	2,991,673	364,476	7,872	2,761,031	6,125,052
Depreciation					
At 1 April 2019	430,373	206,594	7,872	702,214	1,347,053
Charge for the year	45,817	10,406	-	153,391	209,614
At 31 March 2020	476,190	217,000	7,872	855,605	1,556,667
Carrying amount					
At 31 March 2020	2,515,483	147,476	-	1,905,426	4,568,385
At 31 March 2019	2,561,300	157,882	-	2,058,817	4,777,999

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 2020

15 Investments

Company

	2020 £	2019 £
Investments in subsidiaries	<u>4,164,793</u>	<u>264,793</u>

Subsidiaries

£

Cost or valuation

At 1 April 2019	264,793
Additions	<u>3,900,000</u>
At 31 March 2020	<u>4,164,793</u>

Carrying amount

At 31 March 2020	<u>4,164,793</u>
At 31 March 2019	<u>264,793</u>

During the year the parent company introduced additional share capital to certain subsidiaries to strengthen their financial position. This has resulted in £3.9m of investment additions during the year.

This adjustment does however contra off on consolidation of all companies.

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 2020

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 2020

16 Stocks

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Other inventories	<u>1,211,086</u>	<u>1,142,802</u>	<u>-</u>	<u>-</u>

Group

17 Debtors

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Trade debtors	724,195	927,205	27,360	-
Amounts owed by group undertakings	-	-	-	81,963
Other debtors	104,689	208,806	93,387	195,959
Prepayments	<u>823,424</u>	<u>1,181,160</u>	<u>96,219</u>	<u>137,292</u>
	<u>1,652,308</u>	<u>2,317,171</u>	<u>216,966</u>	<u>415,214</u>

18 Cash and cash equivalents

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Cash on hand	2,045	1,207	-	-
Cash at bank	<u>3,648,415</u>	<u>4,123,382</u>	<u>3,496,028</u>	<u>4,085,789</u>
	<u>3,650,460</u>	<u>4,124,589</u>	<u>3,496,028</u>	<u>4,085,789</u>

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

19 Creditors

		Group		Company	
	Note	2020 £	2019 £	2020 £	2019 £
Due within one year					
Trade creditors		533,773	1,590,632	56,401	18,232
Amounts due to group undertakings	28	-	-	2,826,275	-
Social security and other taxes		128,804	219,541	18,190	15,586
Outstanding defined contribution pension costs		34,766	52,699	2,999	27,009
Other creditors		36,600	26,976	22,949	22,694
Accruals and deferred income		5,955,076	7,517,303	176,327	81,746
Corporation tax	12	416	416	-	-
		<u>6,689,435</u>	<u>9,407,567</u>	<u>3,103,141</u>	<u>165,267</u>
Due after one year					
Government grants		<u>819,467</u>	<u>886,367</u>	<u>819,467</u>	<u>886,367</u>

The company has no outstanding bank borrowings at 31 March 2020 and 2019. In the event of the company utilising any bank borrowings there is a historic debenture in place incorporating a fixed and floating charge.

20 Obligations under leases and hire purchase contracts

Group

Operating leases

The total of future minimum lease payments is as follows:

	2020 £	2019 £
Not later than one year	155,988	443,602
Later than one year and not later than five years	490,600	483,100
Later than five years	<u>262,667</u>	<u>329,900</u>
	<u>909,255</u>	<u>1,256,602</u>

The amount of operating lease payments recognised as an expense during the year was £571,516 (2019 - £1,814,833). £nil (2019 - £1,365,659) 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 2020

21 Deferred tax and other provisions

Group

	Deferred tax £	Lease dilapidation provision £	Helicopter contract settlement fee £	Total £
At 1 April 2019	53,023	-	296,352	349,375
Increase (decrease) in existing provisions	21,859	50,000	(296,352)	(224,493)
At 31 March 2020	74,882	50,000	-	124,882

Company

	Deferred tax £
At 1 April 2019	102,244
Increase (decrease) in existing provisions	17,146
At 31 March 2020	119,390

Lease dilapidation provision

The provision included in the accounts of £50,000 is an estimate of the potential future dilapidation costs associated with a leasehold property that was vacated after the year end. The Board has estimated the figure by utilising information provided by their independently appointed surveyor, combined with other commercial factors surrounding ongoing negotiations.

The Landlord's estimate of the dilapidation costs is higher than the Board estimation. The Board is however actively disputing these costs with the assistance of solicitors and surveyors which leads the Board to believe the ultimate cost will be a figure lower than the Landlord's estimate.

Helicopter contract settlement fee

A provision of £296,352 was included in the prior year accounts in relation to an agreed settlement fee for an early exit from the helicopter contract. The final settlement was paid during the year ended 31 March 2020.

22 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 £186,762 (2019 - £263,452).

Contributions totalling £34,766 (2019 - £52,699) 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 2020

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.

The financial position of the Fund and the level of Participating Employers' contributions to be paid will be reviewed at the next actuarial valuation, which will be carried out at 31 March 2021.

Merchant Navy Ratings Pension Fund

An actuarial valuation was carried out at 31 March 2020 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. As at the date of this report the actuarial valuation had not been finalised and is expected later this year.

The last finalised actuarial valuation was carried out on the 31 March 2017. The additional "net" deficit arising under the 31 March 2017 actuarial valuation was removed by additional contributions from participating employers. During the year ending 31 March 2019 the group was charged (excluding interest) £67,377 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 2020

23 Share capital

Allotted, called up and fully paid shares

	No.	2020 £	No.	2019 £
Ordinary shares of £1 each	<u>1,411,306</u>	<u>1,411,306</u>	<u>1,411,306</u>	<u>1,411,306</u>

During the prior year 18,592 ordinary shares were issued at £4.05 per share in lieu of dividends.

24 Dividends

	2020 £	2019 £
Dividend paid		
Final dividends paid on ordinary share capital	<u>-</u>	<u>153,171</u>

The directors do not propose the payment of a dividend for the year ended 31 March 2020 (2019 - £nil).

25 Contingent liabilities

Group

The group's bankers hold bonds in respect of Air BP for £8,000 (2019 - £8,000) and National Express of £2,500 (2019 - £2,500).

26 Non adjusting events after the financial period

In May 2020, the Group transferred the aircraft G-ISSG from an operating lease to a finance lease as part of its commitment to a single fleet operation. The value of the finance lease liability and aircraft is significant at £2.6m. The finance lease is repayable over 8 years, with the option to extend the final payment over another 2 years.

Furthermore, following a detailed application process, the Group has been able to access substantial grant funding from the Department for Transport in order to support the essential services provided by the Group. The Group received contracted Government grant funding post year end up to 30 June 2020. This assisted the Group up until 4 July 2020 when the leisure and tourism sector started to open up following the Government lockdown.

Isles of Scilly Steamship Company Limited

Notes to the Financial Statements

Year Ended 31 March 2020

27 Financial instruments

Group

Categorisation of financial instruments

	2020 £	2019 £
Financial assets that are debt instruments measured at amortised cost	<u>4,374,655</u>	<u>5,051,794</u>
	<u>4,374,655</u>	<u>5,051,794</u>
	2020 £	2019 £
Financial liabilities measured at amortised cost	<u>5,294,241</u>	<u>8,383,785</u>
	<u>5,294,241</u>	<u>8,383,785</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.

28 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 2020 and 2019 can be found within the strategic report.