Financial Statements
FA III Limited

For the year ended 31 December 2013

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COMPANIES HOUSE

Registered number: 06907502

Company Information

Directors	Mr K E Bradbury Mr M D C Helmore Mr S K J Nelson (appointed 24 May 2013)
Registered number	06907502
Registered office	12 Bugle Street Southampton Hampshire SO14 2JY
Independent auditors	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor No 1 Dorset Street Southampton Hampshire SO15 2DP
Bankers	HSBC Bank Plc 165 High Street Southampton Hampshire SO14 2NZ
Solicitors	Hogan Lovells LLP Atlantic House Holborn Viaduct London EC1A 2FG

FA III Limited

Contents

Group Strategic Report
For the year ended 31 December 2013

The directors present their report and the financial statements of the Group for the year ended 31 December 2013.

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

Financial overview

Turnover of £40.3 million for the year was higher than in 2012. EBITDA of £12.3 million was 5% lower than in 2012.

	2013 £'000	2012 £'000	Variance £'000	%
Turnover (from continuing operations)	40,290	39,326	964	2
EBITDA	12,286	12,881	(595)	(5)

Financial performance

Despite the poor start to the year, predominantly due to the bad weather, turnover from the group's core vehicle ferry business was 4% higher than 2012. Hi Speed turnover was 1% higher than 2012 and Food and Beverage (F&B) 2% higher. Freight revenue was 3% higher than 2012 but "Other" revenue was 18% lower mainly due to the fact that there was very little vessel charter income in 2013 compared to 2012.

Operating costs were 6% higher than 2012. This was mainly due to increased expenditure on refits and also shoreside assets, as well as increased occupancy and "Other" costs. Marketing and postage was also higher along with F&B cost of sales due to input costs rising.

Capital expenditure

£3.2 million was spent in 2013. This was mainly for updating fleet machinery but also included the first payment for the Red Falcon refurbishment.

Strategy

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

1 offering a level of customer service that exceeds expectations;

2. maximising the attractiveness of the Isle of Wight as a holiday destination through:
   a. penetrating new consumer segments, and
   b. maximising frequency of existing users by strategies to extend the season;

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

4. managing the business cost-effectively.

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

Group Strategic Report (continued)

Quality and safety

Following a review of the group's Safety, Quality and Environmental Management System the directors decided that an integrated management system combining international management standards, would best achieve the group's stated objectives of the highest standards of safety, environmental and quality performance.

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

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

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

1 Integrated Management System Policy - The group is committed to:
   a) delivering consistently high quality services to its customers;
   b) establishing processes necessary to deliver results and comply with legal requirements;
   c) maintaining the Integrated Management System to implement and comply with all the requirements of the ISM / ISO 9001 and ISO 14001; and
   d) liaising with all relevant external bodies and with internal staff members to continually improve its quality, environmental, social responsibility, marine and health and safety performance.

2. Risk management policy - The directors carefully assess the risks undertaken by the business and take the steps necessary to manage those risks. The group has a robust system of internal and external reviews to ensure that procedures to mitigate risk are operating effectively.

3. Human Resource Policy - The group's objectives are to deliver best practice HR Policies and systems and to be seen as the 'employer of choice'.

4. Substance misuse policy - The group has implemented a best practice random testing environment for drug and alcohol limits.

Performance management

The directors monitor performance progress against certain key performance indicators (KPIs):

	2013	2012
Market Share (Total vehicles) (Source IOW Council)	37.6%	36.2%
Turnover growth	2%	4%
EBITDA Margin	30%	33%

In addition to these financial KPIs, the group also monitors quality KPIs which are published on our website on the following link: www.redfunnel.co.uk/corporate-information/performance-monitoring.

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

Group Strategic Report (continued)

Future developments

The strategy is to grow the market of cross-Solent traffic and our share of it. The Isle of Wight brand is competing with other UK and international holiday destinations. The group is competing with two competitors for share of the Isle of Wight market.

Whilst the group's business is almost entirely cross-Solent at present, the directors and shareholders are alert for opportunities to expand into adjacent geographies or markets, subject to there being a compelling business and investment case.

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

Principal risks

The main risks identified are as follows:

1 Economic downturn - The business has remained resilient through the economic downturn with declines in commuter traffic offset by increases in tourism and freight related traffic. Whilst we would expect that renewed growth in the UK economy will be evidenced by a recovery in commuter traffic and further growth in freight traffic, there is some risk that economic recovery might moderate any increase in demand for UK holidays, including holidays on the Isle of Wight.

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

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

4. Maritime incident or accident - This risk is mitigated by recruiting and training operatives to the highest levels, the delivery of our Safety Management Systems mentioned previously, and the most rigorous maintenance and refit regimes.

5. Fluctuations in fuel prices - The ferries consume marine gas oil, the price of which is susceptible to fluctuations broadly related to crude oil prices. High fuel prices also affect the demand for freight services. The risk is partially mitigated by the use of hedging instruments.

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

7. Defined benefit pension scheme - The group is responsible for meeting any deficit of its defined benefit pension scheme. The group is confident that its strong cash inflows can meet any current and future liabilities.

Group Strategic Report (continued)

Financial risk management

The group uses various financial instruments including cash and other items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The existence of these financial instruments exposes the group to credit, liquidity & cash flow, interest rate and fuel price risk. Policies and management systems for these types of risk are set out by the board of the ultimate parent undertaking and are implemented by the executive management. The directors review and agree policies for managing each of these risks and they are summarised below:

Credit risk - Potential customers are checked for their credit worthiness and ability to generate significant volumes before they are given a credit account. The directors review aged-debtors on a monthly basis.

Liquidity & cash flow risk - The group has a policy of maintaining debt at an appropriate level to ensure that the group is able to adequately manage debt servicing cash flows. All subsidiaries have access to group working capital

Interest rate risk - The group's funding is currently provided by a mixture of retained earnings, bank borrowings and borrowings from its shareholders. The group's long term bank borrowings are fixed until 2015. The group's exposure to interest rate fluctuations on its borrowings is minimised by the use of interest rate swaps. The market value of such swaps at the year end was negative £23.3m (2012: £34.6m).

This report was approved by the board on 27 March 2014 and signed on its behalf.

Stephen Nelson

Mr S K J Nelson
Director

Directors' Report
For the year ended 31 December 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

Directors

The directors who served during the year were:

Mr K E Bradbury
Mr M D C Helmore
Mr S K J Nelson (appointed 24 May 2013)

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The group reported a loss of £6.2 million and has a deficit on shareholders funds of £28.4 million and generated operating cash inflow of £14.4 million giving rise to a net cash inflow of £2.0 million after necessary investing and financing outflows. The group has secured a term loan, mezzanine loan and subordinated shareholder loan facilities due for repayment on 5 June 2015 as a consequence of the agreement of restructured financing arrangements in 2009. The term loan facilities are subject to covenant arrangements. The group has prepared forecasts to 31 December 2015 which show that there is more than sufficient headroom to meet the covenants.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 1 to 4. In addition, page 4 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group's forecasts and projections to 2015 take into account reasonably possible changes in trading performance and show that the group will be able to operate within its current facilities. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' Report

For the year ended 31 December 2013

Results

The loss for the year, after taxation, amounted to £6,246 thousand (2012 - loss £3,801 thousand).

Policy on payment of creditors

It is the group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction. Trade creditors are recognised upon receipt of a valid invoice. Average payment terms are 30 days.

Donations	2013	2012
	£'000	£'000
Other	1,000	5,147

Disabled employees

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

Employee involvement

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

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

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

Disclosure of information to auditors

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

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

Directors' Report
For the year ended 31 December 2013

Auditors

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

This report was approved by the board on 27 March 2014 and signed on its behalf.

Mr S K J Nelson
Director

Grant Thornton

Independent Auditors' Report to the Members of FA III Limited

We have audited the financial statements of FA III Limited for the year ended 31 December 2013, which comprise the group Profit and loss account, the group and company Balance sheets, the group Cash flow statement, the group Statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Group strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Grant Thornton

Independent Auditors' Report to the Members of FA III Limited

Matters on which we are required to report by exception

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.

Grant Thornton UK LLP

Norman Armstrong (Senior statutory auditor)
for and on behalf of
Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
Southampton
Date: 8 April 2014

Consolidated Profit and Loss Account

For the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	1,2	**40,290**	39,326
Cost of sales		**(26,754)**	(23,828)
Gross profit		**13,536**	15,498
Administrative expenses		**(10,353)**	(10,429)
Other operating income	3	**9**	5
Operating profit	4	**3,192**	5,074
Income from shares in group undertakings		**-**	3
Interest receivable		**19**	10
Interest payable and similar charges	8	**(9,495)**	(8,871)
Income from shares in group undertakings	9	**41**	(16)
Loss on ordinary activities before taxation		**(6,243)**	(3,800)
Tax on loss on ordinary activities	10	**(3)**	(1)
Loss for the financial year	21	**(6,246)**	(3,801)

All amounts relate to continuing operations.

The notes on pages 16 to 34 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 December 2013

	Note	**2013 £000**	2012 £000
Loss for the financial year		**(6,246)**	(3,801)
Actuarial (loss)/gain related to pension scheme	28	**(613)**	173
Total recognised gains and losses relating to the year		**(6,859)**	(3,628)

The notes on pages 16 to 34 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Intangible assets	11		**58,942**		62,722
Tangible assets	12		**27,887**		28,928
			86,829		91,650
Current assets					
Stocks	14	**452**		386	
Debtors	15	**2,234**		1,862	
Cash at bank		**11,262**		9,240	
		13,948		11,488	
Creditors: amounts falling due within one year	16	**(17,716)**		(13,964)	
Net current liabilities			**(3,768)**		(2,476)
Total assets less current liabilities			**83,061**		89,174
Creditors: amounts falling due after more than one year	17		**(109,690)**		(109,420)
Provisions for liabilities					
Other provisions			**(18)**		(18)
Net liabilities excluding pension scheme liabilities			**(26,647)**		(20,264)
Defined benefit pension scheme liability	28		**(1,782)**		(1,306)
Net liabilities including pension scheme liabilities			**(28,429)**		(21,570)
Capital and reserves					
Called up share capital	20		**-**		-
Profit and loss account	21		**(28,429)**		(21,570)
Shareholders' deficit	22		**(28,429)**		(21,570)

Consolidated Balance Sheet (continued)
As at 31 December 2013

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 March 2014

Mr S K J Nelson
Director

The notes on pages 16 to 34 form part of these financial statements.

FA III Limited
Registered number: 06907502

Company Balance Sheet
As at 31 December 2013

	Note	£000	2013 £000		2012 £000
Current assets					
Debtors	15	-		2,500	
Cash at bank		**3,800**		-	
			3,800		2,500
Total assets less current liabilities			**3,800**		2,500
Creditors: amounts falling due after more than one year	17		-		(2,500)
Net assets			**3,800**		-
Capital and Reserves					
Called up share capital	20		-		-
Profit and loss account	21		**3,800**		-
Shareholders' funds	22		**3,800**		-

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
27 March 2014

Mr S K J Nelson
Director

The notes on pages 16 to 34 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	Note	2013 £000	2012 £000
Net cash flow from operating activities	23	**14,432**	11,977
Returns on investments and servicing of finance	24	**(9,476)**	(8,117)
Taxation		**(4)**	(1)
Capital expenditure and financial investment	24	**(3,228)**	(2,244)
Cash inflow before financing		**1,724**	1,615
Financing	24	**298**	(408)
Increase in cash in the year		**2,022**	1,207

Reconciliation of Net Cash Flow to Movement in Net Funds/Debt

For the year ended 31 December 2013

	2013 £000	2012 £000
Increase in cash in the year	**2,022**	1,207
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(298)**	408
Movement in net debt in the year	**1,724**	1,615
Net debt at 1 January 2013	**(100,618)**	(102,233)
Net debt at 31 December 2013	**(98,894)**	(100,618)

The notes on pages 16 to 34 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2013

1. Accounting Policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

1.2 Going concern

The group reported a loss of £6.2 million and has a deficit on shareholders funds of £28.4 million. The directors have prepared detailed financial forecasts to December 2015, taking account of reasonably possible changes in trading performance which show the group can operate within their available facilities for the foreseeable future, being not less than 12 months from the date of approval of these accounts by the directors. Accordingly, the directors believe it is appropriate to continue to prepare the accounts on a going concern basis.

1.3 Basis of consolidation

The financial statements consolidate the accounts of FA III Limited and all of its subsidiary undertakings ('subsidiaries').

1.4 Turnover

Turnover is stated exclusive of Value Added Tax and comprises income from transportation related business being ferry services from third party customers in the UK. Income is recognised in the profit and loss account on the date of travel.

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

1.5 Goodwill

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and loss account over its estimated economic life, of 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when circumstances indicate its carrying value may not be recoverable.

Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting Policies (continued)

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	-	50 years
L/Term Leasehold Property	-	50 years
S/Term Leasehold Property	-	Over the term of the lease
Ferries	-	30 years
Hi-Speed catamarans	-	20 years
Engine overhauls	-	2 - 5 years
Linkspans, pontoons and dolphins	-	15 years
Plant and machinery	-	5 - 10 years
Fixtures and fittings	-	5 - 7 years
Motor vehicles	-	2 - 10 years

1.7 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

Investments are stated at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

1.8 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.9 Marine spares

The cost of routine marine spares is charged directly to the profit and loss account when occurred.

Marine spares acquired in connection with the annual maintenance of vessels are initially held in stock and released to the profit and loss account when the annual maintenance takes place.

1.10 Operating lease agreements

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Notes to the Financial Statements

For the year ended 31 December 2013

1. Accounting Policies (continued)

1.11 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

The company operates a defined benefits pension scheme and the pension charge is based on a full actuarial valuation dated 31 March 2012. The scheme that was closed to future accrual on 1 March 2003. The assets of the scheme are held separately from those of the group in an independently administered fund.

The company contributes to an industry-wide funded defined benefit scheme for certain employees. The scheme is a multi-employer scheme where it is not possible, in the normal course of events, to identify on a consistent and reasonable basis, the share of underlying assets and liabilities belonging to individual participating employers. Therefore, as required by FRS17 'Retirement benefits', the company accounts for this scheme as if it was a defined contribution scheme. The amount charged to the Profit and loss account represents contributions payable to the scheme in respect of the accounting period.

1.12 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.13 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of the financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

When the contractual terms of the share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting Policies (continued)

1.14 Repairs and renewals

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

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

1.15 Capitalised interest

The costs of vessels in the course of construction includes interest capitalised where financed by specific borrowings.

2. Turnover

The whole of the turnover is attributable to the operation of ferry and associated retail services.

All turnover arose within the United Kingdom.

3. Other operating income

	2013 £000	2012 £000
Net rents receivable	**9**	5

4. Operating profit

The operating profit is stated after charging:

	2013 £000	2012 £000
Amortisation - intangible fixed assets	**3,780**	3,780
Depreciation of tangible fixed assets:		
- owned by the group	**4,269**	3,933
Operating lease rentals:		
- plant and machinery	**844**	883
- other operating leases	**701**	605

Notes to the Financial Statements

For the year ended 31 December 2013

5. Auditors' remuneration

	2013 £000	2012 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	**40**	40
Fees payable to the company's auditor and its associates in respect of:		
Taxation compliance services	**9**	13

	2013 £000	2012 £000
Fees payable to the company's auditor and its associates in connection with the company's pension scheme(s) in respect of:		
The auditing of accounts of the scheme(s)	**5**	5

6. Staff costs

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

	2013 £000	2012 £000
Wages and salaries	**9,409**	8,951
Social security costs	**863**	844
Other pension costs (Note 28)	**225**	223
	10,497	10,018

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

	2013 No.	2012 No.
Administrative staff	**57**	56
Sea-faring staff	**208**	209
Shore-based staff	**118**	129
	383	394

Notes to the Financial Statements
For the year ended 31 December 2013

7. Directors' remuneration

	2013 £000	2012 £000
Remuneration	**802**	924
Company pension contributions to defined contribution pension schemes	**41**	62

During the year retirement benefits were accruing to 5 directors (2012 - 6) in respect of defined contribution pension schemes.
The highest paid director received remuneration of £183 thousand (2012 - £184 thousand).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10 thousand (2012 - £28 thousand).

8. Interest payable

	2013 £000	2012 £000
Interest payable on bank borrowings	**5,698**	5,339
Interest on other loans	**266**	276
Interest payable on loan to group undertakings	**3,531**	3,256
	9,495	8,871

9. Other finance income

	2013 £000	2012 £000
Expected return on pension scheme assets	**466**	419
Interest on pension scheme liabilities	**(425)**	(435)
	41	(16)

10. Taxation

	2013 £000	2012 £000
UK corporation tax charge on loss for the year	**3**	1

Notes to the Financial Statements
For the year ended 31 December 2013

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - lower than) the standard rate of corporation tax in the UK of 20% (2012 - 20%). The differences are explained below:

	2013	2012
	£000	£000
Loss on ordinary activities before tax	**(6,243)**	(3,800)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2012 - 20%)	**(1,249)**	(760)
Effects of:		
Depreciation for the year in excess of capital allowances	**70**	68
Non-taxable income	**760**	81
Unrelieved tax losses carried forward	**479**	698
Tonnage Tax adjustment	**(57)**	(86)
Current tax charge for the year (see note above)	**3**	1

Factors that may affect future tax charges

Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited ("SIOW"), one of the subsidiary undertakings of the group, has elected for its results to be assessed under the United Kingdom Tonnage Tax Regulations. HMRC is currently challenging whether "sheltered water" ferry companies like SIOW actually operate at "sea". The directors have assessed that the group charge to tax would not materially change if SIOW was to exit the tonnage tax regime.

11. Intangible fixed assets

	Goodwill
Group	**£000**
Cost	
At 1 January 2013 and 31 December 2013	**75,638**
Amortisation	
At 1 January 2013	**12,916**
Charge for the year	**3,780**
At 31 December 2013	**16,696**
Net book value	
At 31 December 2013	**58,942**
At 31 December 2012	62,722

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For the year ended 31 December 2013

12. Tangible fixed assets

Group	Freehold property £000	L/Term Leasehold Property £000	Other fixed assets £000	Plant and machinery £000	Total £000
Cost					
At 1 January 2013	2,626	921	48,968	11,857	64,372
Additions	178	-	2,354	696	3,228
At 31 December 2013	2,804	921	51,322	12,553	67,600
Depreciation					
At 1 January 2013	650	427	25,663	8,704	35,444
Charge for the year	52	66	3,197	954	4,269
At 31 December 2013	702	493	28,860	9,658	39,713
Net book value					
At 31 December 2013	2,102	428	22,462	2,895	27,887
At 31 December 2012	1,976	494	23,305	3,153	28,928

The group's freehold and leasehold land and buildings held at 31 December 1998 were valued at that date by Healey & Baker, International Real Estate Consultants, on an open market existing use basis. These valuations were made in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. The total valuation amounted to £1.2 million, of which £642 thousand was apportioned to land, representing an excess of £17 thousand over previous valuations. Buildings are included at a valuation based on open market value or depreciated replacement cost, as appropriate, at 31 December 1987. No subsequent revaluations have occurred following the group's adoption of the transition rules of FRS 15 "Tangible Fixed Assets".

Included within the cost of ships at 31 December 2013 is an amount of £1.4 million which comprises cumulative capitalised interest (2012: £1.4 million).

Assets not in use

Included within the cost of £67,600 thousand is £1,830 thousand (2012: £267 thousand) of assets in the course of construction. These assets are not depreciated until they are brought into use.

Notes to the Financial Statements

For the year ended 31 December 2013

13. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Nature of business	Holding
FA II Limited	Intermediate holding company	100%
Falcon Acquisitions Limited ******	Intermediate holding company	100%
Red Funnel Group (Holdings) Limited *****	Intermediate holding company	100%
Red Funnel Group Limited ****	Intermediate holding company	100%
Red Funnel Worldwide Holidays Limited ****	Dormant	100%
Bar 1861 Limited ****	Dormant	100%
Refuel - The Food Station Limited ****	Dormant	100%
Thames Riverbus Limited ****	Dormant	100%
Isle of Wight Holidays Limited ***	Dormant	100%
Steam Coffee Company Limited ***	Dormant	100%
Red Funnel Ferries Limited ***	Intermediate holding company	100%
Red Funnel Finance Limited **	Dormant	100%
Southampton Isle of Wight and Royal Mail Steam Packet Company Limited **	Ferry and associated retail services	100%
Masthead Services Limited *	Dormant	100%
Red Funnel Steamers Limited *	Dormant	100%
Red Funnel (Pension Trustees) Limited *	Dormant	100%

* = subsidiaries of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited
** = subsidiaries of Red Funnel Ferries Limited
*** = subsidiaries of Red Funnel Group Limited
**** = subsidiaries of Red Funnel Group Holdings Limited
***** = subsidiaries of Falcon Acquisitions Limited
****** = subsidiaries of FA II Limited

The directors consider that the value of the investments in subsidiary companies is at least equal to the cost and no impairment provision is required.

14. Stocks

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Fuel oil	**166**	158	-	-
Marine spares	**212**	157	-	-
Catering stocks	**74**	71	-	-
	452	386	-	-

Notes to the Financial Statements
For the year ended 31 December 2013

15. Debtors

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade debtors	**1,197**	1,057	**-**	-
Amounts owed by group undertakings	**-**	-	**-**	2,500
Other debtors	**299**	150	**-**	-
Prepayments and accrued income	**738**	655	**-**	-
	2,234	1,862	**-**	2,500

16. Creditors:
Amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
MNOPF	**467**	438	**-**	-
Trade creditors	**2,190**	1,932	**-**	-
Corporation tax	**2**	2	**-**	-
Other taxation and social security	**259**	280	**-**	-
Other creditors	**900**	914	**-**	-
Accruals and deferred income	**13,898**	10,398	**-**	-
	17,716	13,964	**-**	-

Notes to the Financial Statements
For the year ended 31 December 2013

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Bank loans	**79,639**	79,639	-	-
Amounts owed to group undertakings	**26,700**	26,700	-	2,500
MNOPF	**3,351**	3,081	-	-
	109,690	109,420	-	2,500

Included within the above are amounts falling due as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Between one and two years				
Amounts owed to group undertakings	**26,700**	26,700	-	2,500
Bank loans	**79,639**	79,639	-	-
MNOPF	**846**	825	-	-
Between two and five years				
MNOPF	**1,583**	1,248	-	-
Over five years				
MNOPF	**922**	1,008	-	-

Creditors include amounts not wholly repayable within 5 years as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Repayable by instalments	**922**	1,008	-	-

The bank loans are secured by way of a fixed and floating charge over the assets of the group and are repayable in 2015. Interest is charged at a spread over LIBOR. Interest rate risk has been hedged by a swap to fixed rate.

The cumulative fixed rate subordinated loan notes of £26.7m from the parent undertaking bear interest at 10% and are repayable in 2015.

The other loans represent amounts owed to the Merchant Navy Officers Pension Fund. This loan is unsecured and bears a fixed rate of compounding interest at 6.8% for the 2003 and 2006 valuations, 8.83% for the 2009 valuation and 6.3% for the 2012 valuation.

Notes to the Financial Statements

For the year ended 31 December 2013

18. Financial instruments

The group's financial instruments comprise of fixed rate borrowings with an interest rate hedge. The main purpose of the borrowings was to provide finance for the acquisition of Red Funnel Group (Holdings) Limited and its subsidiaries.

The group seeks to ensure stability in its cash flows and thus interest rate risk is managed through borrowing at fixed rates or hedging variable interest rate exposure. The group's policy is to maintain the majority of its borrowings at fixed rates combined with the hedging of a significant element of variable interest rate debt. This is consistent with the year end position. As at the year end, the net cost of 50% of the company's funding had effectively been fixed in this way. In view of a historically low base interest rate, the market value of such swaps at the year end was negative £23.3 million.

The funds required to meet the repayment obligations are generated by the main trading companies within the group. In addition, the group has an annual liquidity facility arrangement with its bank to ensure that repayment obligations under the secured loans are made on the required dates. The group also have working capital facilities available from its bank which are a combination of renewable (annually) and due on demand facilities.

The interest rate profile of the group's financial liabilities as at 31 December 2013 was:

	2013	2012
	£000	£000
Term loan - variable interest rate @ LIBOR + 2%	**73,073**	73,073
Mezzanine loan - variable rate @ LIBOR + 1.3%	**6,566**	6,566
Unsecured subordinated shareholder loan - fixed rate @ 10%	**26,700**	26,700
Merchant Navy Officers Pension Fund (2003 & 2006 valuation) - fixed rate @ 4%	**380**	793
Merchant Navy Officers Pension Fund (2009 and 2012 valuation) - fixed rate @ 8%	**3,437**	2,725

19. Deferred taxation

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
At beginning and end of year	**-**	-	**-**	-

Potential deferred taxation of £318 thousand (2012: £318 thousand) arising on the revaluation surplus has not been provided and would become payable if the properties were disposed of at the revalued amount. Some companies within the group have elected for their results to be assessed under Tonnage Tax. HMRC is currently challenging whether they should be in the tonnage tax scheme. The directors have assessed that the group charge to tax would not materially change if the company was to exit the tonnage tax regime. No provision for accelerated capital allowances is required.

Notes to the Financial Statements
For the year ended 31 December 2013

20. Share capital

	2013	2012
	£000	£000
Allotted, called up and fully paid		
1 Ordinary share of £1	-	-

21. Reserves

Group	**Profit and loss account £000**
At 1 January 2013	(21,570)
Loss for the financial year	(6,246)
Pension reserve movement	(613)
At 31 December 2013	(28,429)

Company	**Profit and loss account £000**
Profit for the financial year	3,800
At 31 December 2013	3,800

The closing balance on the Profit and loss account includes a £613 thousand (2012 - £NIL) credit, stated after deferred taxation of £NIL thousand (2012 - £NIL), in respect of pension scheme liabilities of the Group and Company pension scheme.

Notes to the Financial Statements
For the year ended 31 December 2013

22. Reconciliation of movement in shareholders' deficit

Group	2013 £000	2012 £000
Opening shareholders' deficit	**(21,570)**	(17,942)
Loss for the financial year	**(6,246)**	(3,801)
Other recognised gains and losses during the year	**(613)**	173
Closing shareholders' deficit	**(28,429)**	(21,570)

Company	2013 £000	2012 £000
Opening shareholders' funds	**-**	-
Profit for the financial year	**3,800**	-
Closing shareholders' funds	**3,800**	-

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and loss account.

The profit for the year dealt with in the accounts of the company was £3,800 thousand (2012 - £NIL).

23. Net cash flow from operating activities

	2013 £000	2012 £000
Operating profit	**3,192**	5,074
Amortisation of intangible fixed assets	**3,780**	3,780
Depreciation of tangible fixed assets	**4,269**	3,933
Increase in stocks	**(66)**	(71)
(Increase)/decrease in debtors	**(372)**	504
Increase/(decrease) in creditors	**3,725**	(1,147)
Decrease in net pension assets/liabilities	**(96)**	(96)
Net cash inflow from operating activities	**14,432**	11,977

Notes to the Financial Statements

For the year ended 31 December 2013

24. Analysis of cash flows for headings netted in cash flow statement

	2013 £000	2012 £000
Returns on investments and servicing of finance		
Interest received	19	10
Interest paid	(9,495)	(8,130)
Income from investments	-	3
Net cash outflow from returns on investments and servicing of finance	(9,476)	(8,117)

	2013 £000	2012 £000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,228)	(2,244)

	2013 £000	2012 £000
Financing		
New loans	822	29
Repayment of loans	(524)	(437)
Net cash inflow/(outflow) from financing	298	(408)

25. Analysis of changes in net debt

	1 January 2013 £000	Cash flow £000	Other non-cash changes £000	31 December 2013 £000
Cash at bank and in hand	9,240	2,022	-	11,262
Debt:				
Debts due within one year	(438)	(298)	270	(466)
Debts falling due after more than one year	(109,420)	-	(270)	(109,690)
Net debt	(100,618)	1,724	-	(98,894)

26. Contingent liabilities

The group's bankers hold an unlimited multilateral guarantee between the company and its subsidiaries.

Notes to the Financial Statements
For the year ended 31 December 2013

27. Capital commitments

At 31 December 2013 the group and company had capital commitments in relation to engine overhaul costs as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Contracted for but not provided in these financial statements	-	174	-	-

28. Pension commitments

The company operates a Defined benefit pension scheme with assets held in a separately administered fund. In addition, some employees are members of the Merchant Navy Officers Pension Fund ("MNOPF").

Merchant Navy Officers Pension Fund

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

The company has not adopted the accounting requirements of FRS 17 "retirement benefits" in respect of this scheme since it is unable to identify its share of the underlying assets and liabilities.

The cost of contributions to the scheme totalled £35.3 thousand (2012: £27.1 thousand). An actuarial valuation of the fund was undertaken as at 31 March 2003 which showed that the old section of the scheme had a surplus of £167 million and the new section of the scheme had a deficit of £194 million. The trustees have calculated that the company's share of the new section deficit is £1.8 million which is being paid for at the rate of £202 thousand per annum over ten years to September 2014.

The next triennial valuation as at 31 March 2006 showed that the new section deficit had increased by a further £200 million. The trustees calculated that the company's share of the increased deficit was £2 million, which is being paid for at the rate of £220 thousand per annum over eight years to September 2014.

The next trienniel valuation as at 31 March 2009 showed that the new section deficit had increased by £390 million and that the old section surplus had now decreased to become a deficit of £130 million. The Trustees calculated that the company's share of the increased deficit in the new section was £2.9 million, which is currently being paid for at the rate of £262 thousand per annum until 2014 and then £543 thousand per annum from 2015 to 2020. There is no current requirement for payments to be made in respect of the old section.

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

Prior to 2004, certain seafarers on the company's vessels were provided by, a previously associated company, RFG Marine (Guernsey) Limited ("RFGMG") under a crewing service agreement. During 2012, the debt was novated across to the company which has not resulted in any changes as the company have always paid the contributions and been responsible for all contingent liabilities relating to seafarers employed by RFGMG on the company's vessels.

Notes to the Financial Statements

For the year ended 31 December 2013

28. Pension commitments (continued)

The amounts recognised in the Balance sheet are as follows:

	2013 £000	2012 £000
Present value of funded obligations	**(10,214)**	(9,604)
Fair value of scheme assets	**8,432**	8,298
Net liability	**(1,782)**	(1,306)

The amounts recognised in profit or loss are as follows:

	2013 £000	2012 £000
Interest on obligation	**(425)**	(435)
Expected return on scheme assets	**466**	419
Total	**41**	(16)

Movements in the present value of the defined benefit obligation were as follows:

	2013 £000	2012 £000
Opening defined benefit obligation	**9,604**	9,377
Interest cost	**425**	435
Actuarial Losses	**518**	102
Benefits paid	**(333)**	(310)
Closing defined benefit obligation	**10,214**	9,604

Changes in the fair value of scheme assets were as follows:

	2013 £000	2012 £000
Opening fair value of scheme assets	**8,298**	7,818
Expected return on assets	**466**	419
Actuarial gains and (losses)	**(95)**	275
Contributions by employer	**96**	96
Benefits paid	**(333)**	(310)
	8,432	8,298

The cumulative amount of actuarial gains and losses recognised in the Consolidated statement of total recognised gains and losses was £NIL (2012 - £NIL).

The group expects to contribute £NIL to its in 2014.

Notes to the Financial Statements
For the year ended 31 December 2013

28. Pension commitments (continued)

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2013	2012
Equities	**30.88 %**	47.07 %
Corporate bonds	**35.98 %**	19.81 %
Property	**12.06 %**	11.37 %
Fixed interest (mainly gilts)	**10.23 %**	11.42 %
Diversified Growth Assets	**10.84 %**	10.33 %

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

	2013	2012
Discount rate at 31 December	**4.60 %**	4.50 %
Expected return on scheme assets at 31 December	**5.60 %**	5.70 %
Inflation (RPI)	**3.40 %**	2.75 %
Inflation (CPI)	**2.65 %**	2.00 %
Allowance for revaluation of deferred pensions of CPI or 5% p.a. is less	**2.65 %**	2.00 %
Allowance for pension in payment increases of RPI or 5% if less	**3.40 %**	2.75 %

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

Defined benefit pension schemes

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Defined benefit obligation	**(10,214)**	(9,604)	(9,377)	(8,949)	(8,625)
Scheme assets	**8,432**	8,298	7,818	8,174	7,709
Deficit	**(1,782)**	(1,306)	(1,559)	(775)	(916)
Experience adjustments on scheme liabilities	**(518)**	(102)	43	20	40
Experience adjustments on scheme assets	**(95)**	275	(574)	183	581

29. Operating lease commitments

At 31 December 2013 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings			**Other**
	2013	2012	**2013**	2012
Group	**£000**	£000	**£000**	£000
Expiry date:				
Between 2 and 5 years	**-**	-	**12**	10
After more than 5 years	**397**	379	**-**	-

Notes to the Financial Statements
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30. Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 from disclosing transactions between the company and other wholly owned companies within the group.

31. Ultimate parent undertaking

The company is controlled by Infracapital Partners LP, a Limited Partnership, acting by its Manager M&G Investment Management Limited. The shares are held through a nominee, Infracapital Nominees Limited. M&G Investment Management Limited is a wholly owned subsidiary of Prudential Plc, a company registered in England & Wales. Consolidated financial statements are produced by Prudential Plc, copies of which are available from the Registered Office at Laurence Pountney Hill, London, EC4R 0HH. By virtue of the control and management structure of Infracapital Partners LP, the directors consider that Prudential Plc is the ultimate parent undertaking of the company.

The company has no controlling related party.