The Isle of Man Steam Packet Company Limited

Directors' report and consolidated financial statements

For the year ended 31 December 2019

Company information
for the year ended 31 December 2019

Directors

	Appointed	Resigned
M Woodward	-	-
DJ Jude	-	-
JCW Watt	-	-
RBM Quayle	-	31 Mar 2020
M Askew	-	31 Jan 2019
PE Dearden	-	-
DJ Oldfield	1 Feb 2019	-
SJ Pressly	1 Feb 2019	-
LT Ugland	1 Apr 2020	-

Registered agent

Estera Trust (Isle of Man) Limited

Registered office

Imperial Buildings
Bath Place
Douglas
Isle of Man
IM1 2BY

Auditor

Grant Thornton Limited
Third Floor
Exchange House
54-62 Athol Street
Douglas
Isle of Man
IM1 1JD

Directors' report
for the year ended 31 December 2019

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

Principal activity

The principal activity of the Company and its subsidiaries ("the Group") is the operation of passenger and freight ferry services and ancillary services between the Isle of Man, the UK and Ireland.

Transition from IFRS to UK GAAP (FRS 102)

In order to align the Group's financial reporting framework with its ultimate shareholder the Directors have elected to prepare financial statements for all accounting periods starting after 1 January 2018 in line with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as applicable to an Isle of Man company). The transition has not resulted in any changes to the IFRS reported financial position, financial performance or cash flows of the Group as previously reported. The last set of financial statements prepared under International Financial Reporting Standards were those for the year ended 31 December 2018.

Results

The results of the Group are set out on page 6.

	2019	2018
	£	£
Profit for the year attributable to equity owners	**14,725,097**	10,624,474

Change in ownership

As part of a reorganisation to simplify the group structure on 24 May 2019, the Company was sold by Isle of Man Steam Packet Holdings Limited to The Isle of Man Steam Packet Group Limited ("IOMSPG") for £124,606,000.

Dividend

On 30 December 2019, the Company declared a dividend of £22,378,479 (2018: £103,000,000) payable to its parent company, IOMSPG.

Sea Services Agreement

On 31 May 2019 and effective 1 January 2020, the Company entered into a Sea Services Agreement with The Isle of Man Government ("IOMG"), under which the Company is granted sole use of the IOMG owned King Edward and Victoria Pier linkspans for an initial term of 25 years expiring 31 December 2045. These rights are subject to a service level, fare and investment conditions which are summarised in note 27.

Covid-19

The Covid-19 outbreak is having unprecedented consequences for the world and our national economy. The Isle of Man Government's decisions to cancel TT 2020, and to impose travel restrictions on all visitors to the Isle of Man, will have an adverse effect on the Group's passenger revenues for as long as those restrictions remain in place.

Nevertheless, the Group will continue to operate sailings that deliver freight to the Island as well as a passenger service for those wishing to travel off the Island, where travel restrictions allow and subject to any guidance from the health authorities.

The safety, health and wellbeing of our passengers and crew remains our priority and we will continue maintain the highest standards of cleanliness for all our operations. The Isle of Man Steam Packet has faced many difficulties during its long history and has always survived. We have every confidence that it will do so again.

Directors' report (Continued)

Directors

The present membership of the Board who served throughout the year and to date is set out on page 1.

None of the Directors had any interests in shares or debentures, of any member of the Group during the year and to date (2018: None).

Auditors

On 11th September 2019, the Board approved the appointment of Grant Thornton Limited as Auditor for the year-end 31 December 2019 following Auditor rotation by the Company's ultimate parent, IOMG.

By order of the Board

Director
20 April 2020

Statement of Directors' Responsibilities

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

The directors' have elected to prepare consolidated financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The financial statements are required to give a true and fair view of the state of affairs and profit or loss of the Group for that period. In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then 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;
- 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 proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Isle of Man Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Independent Auditor, Grant Thornton Limited, to the members of The Isle of Man Steam Packet Company Limited

Opinion

We have audited the financial statements of The Isle of Man Steam Packet Company Limited and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the 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 affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Who we are reporting to

This report is made solely to the Group's members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors report set out on pages 1 to 3, 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.

Report of the Independent Auditor, Grant Thornton Limited, to the members of The Isle of Man Steam Packet Company Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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.

Grant Thornton Limited

Grant Thornton Limited
Douglas
Isle of Man

Date: 20 April 2020

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2019

Continuing operations	Note	2019 £	2018 £
Revenue	5	**61,255,897**	59,086,118
Depreciation	11	**(6,449,239)**	(8,568,822)
Employee benefits expense	6	**(15,378,942)**	(14,538,993)
Other operating expenses	9	**(24,907,945)**	(25,402,085)
Other expenses		**(99,682)**	(84,735)
Operating profit		**14,420,089**	10,491,483
Other gains and losses		**63,849**	54,090
Investment revenue	7	**241,159**	78,901
Profit before tax		**14,725,097**	10,624,474
Income tax expense	8	**-**	-
Profit from continuing operations		**14,725,097**	10,624,474
Profit for the year attributable to equity owners		**14,725,097**	10,624,474
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on retirement benefit obligation	23 (viii)	**(2,248,000)**	1,806,000
Other comprehensive (expense)/income for the year		**(2,248,000)**	1,806,000
Total comprehensive income for the year attributable to equity owners		**12,477,097**	12,430,474

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2019

	Note	2019 £	2018 £
Assets			
Non-current assets			
Property, plant and equipment	11	**14,554,995**	15,981,382
Total non-current assets		**14,554,995**	15,981,382
Current assets			
Inventories	13	**2,577,884**	2,578,178
Trade and other receivables	14	**9,293,572**	29,152,319
Cash and bank balances	15	**27,165,924**	13,076,134
Total current assets		**39,037,380**	44,806,631
Total assets		**53,592,375**	60,788,013
Equity and liabilities			
Equity			
Share capital	16	**7,500,001**	7,500,001
Share premium	17	**-**	-
Retained earnings		**24,039,481**	33,940,863
Equity attributable to owners of the Company		**31,539,482**	41,440,864
Non-current liabilities			
Retirement benefit obligation	23	**5,896,410**	4,012,410
Total non-current liabilities		**5,896,410**	4,012,410
Current liabilities			
Trade and other payables	19	**5,347,275**	4,782,090
Retirement benefit obligation	23	**500,000**	500,000
Provisions	20	**63,745**	18,674
Deferred revenue	21	**10,245,463**	10,033,975
Total current liabilities		**16,156,483**	15,334,739
Total liabilities		**22,052,893**	19,347,149
Total equity and liabilities		**53,592,375**	60,788,013

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

These financial statements were approved at a meeting of the Board of Directors held on **20 April 2020** and were signed on their behalf by:

Director

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Share Capital £	Share Premium £	Retained Earnings £	Total £
At 1 January 2018		7,500,001	44,227,465	80,282,924	132,010,390
Profit for the year		-	-	10,624,474	10,624,474
Other comprehensive income for the year		-	-	1,806,000	1,806,000
Total comprehensive income for the year		-	-	12,430,474	12,430,474
Dividends	10	-	(44,227,465)	(58,772,535)	(103,000,000)
At 31 December 2018		7,500,001	-	33,940,863	41,440,864
Profit for the year		-	-	14,725,097	14,725,097
Other comprehensive expense for the year		-	-	(2,248,000)	(2,248,000)
Total comprehensive expense for the year		-	-	**12,477,097**	**12,477,097**
Dividends	10	-	-	(22,378,479)	(22,378,479)
At 31 December 2019		**7,500,001**	-	**24,039,481**	**31,539,482**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2019

	Note	2019 £	2018 £
Net cash inflow from operating activities	24	**18,807,634**	12,344,327
Cash flow from investing activities			
Interest received		**241,159**	78,901
Proceeds from sale of property and equipment		**53,500**	53,699
Purchases of property and equipment		**(5,022,852)**	(5,892,422)
Net cash outflow from investing activities		**(4,728,193)**	(5,759,822)
Net cash outflow from financing activities		**-**	-
Net increase in cash and cash equivalents		**14,079,441**	6,584,505
Cash and cash equivalents at beginning of year		**13,076,134**	6,491,236
Effect of foreign exchange rate changes		**10,349**	393
Cash and cash equivalents at end of year		**27,165,924**	13,076,134

The Group does not have any debt, therefore a reconciliation of net debt has not been presented.

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2019

1. General information

The Isle of Man Steam Packet Company Limited (IOMSPC) is a private company limited by shares incorporated in the Isle of Man with registration number 002092V. The address of its registered office and principal place of business is Imperial Buildings, Bath Place, Douglas, Isle of Man, IM1 2BY.

Details of the company's subsidiaries are given in note 12.

The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activities of the Group are the operation of passenger and freight ferry services and ancillary services between the Isle of Man, the UK and Ireland.

2. Statement of compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as applicable to an Isle of Man Company. These are the Company's first financial statements prepared in accordance with FRS 102. The date of transition has been determined to be 1 January 2018

In the transition to FRS 102 from International Financial Reporting Standards ("IFRS"), the Group has made no measurement and recognition adjustments.

FRS 102 grants certain exemptions during the transition period, the following of which have been taken in these financial statements:

- Business combinations- Business combinations that took place prior to 1 January 2018 have not been restated
- Employee benefits – All cumulative gains and losses on re-measurement of defined benefit plans have been recognised in equity at 1 January 2018
- Lease arrangements - In order to determine whether an arrangement contains a lease, the Company has analysed facts and circumstances existing at 1 January 2018 rather than commencement date of the arrangement.

The financial statements have also been prepared in accordance with the Companies Act 2006.

3. Summary of accounting policies

Basis of preparation
The financial statements have been prepared on the going concern and historical cost basis except for defined benefit plan asset/obligations. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group has not retrospectively changed its accounting under IFRS for derecognition of financial assets and liabilities before the date of transition.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The financial statements are prepared in Sterling which is the Group's functional currency and are rounded to the nearest £.

The following principal accounting policies have been applied:

3. *Summary of accounting policies (continued)*

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included or excluded in the consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains or ceases to control the subsidiary.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Going concern
The financial statements have been prepared following an assessment by the Directors of the Group's long term cash flow forecasts. Based on this the Directors are satisfied that the Group will have adequate resources for its continuing operational existence for the foreseeable future and that it is appropriate to continue to adopt the going concern basis for the preparation of the financial statements.

Revenue recognition
The adoption of FRS 102 with effect from 1 January 2018 has not resulted in changes to the Group's revenue recognition policies. Revenue principally comprises income from the carrying of passengers, accompanied vehicles, freight and on board sales excluding Value Added Tax.

Revenue from contracts with customers
Revenue is measured at the fair value of the consideration received or receivable from passenger and freight services supplied to third parties, net of discounts and value added tax in accordance with standard terms and conditions.

Passenger Revenue: Recognised at the date of travel. Unused tickets which are non-refundable once the booked travel date has passed are treated as revenue in accordance with the Group's terms and conditions of sale. Cancellation fees are recognised at the point of cancellation. Passenger tickets sold before the year-end for a travel date after the year end are included in the Statement of Financial Position in current liabilities under the caption "Deferred revenue", with any unpaid element included within trade and other receivables.

Freight Revenue: Recognised at the date of transportation.

Passenger Services Revenue: Recognised at the point of sale.

Charter Revenue: Recognised on a daily basis at the applicable daily rate under the terms of the charter agreement.

Non Ferry Income: Includes revenues from travel agency sales which are recognised at the date of travel and workshop revenues which are recognised at the point of sale.

Investment revenue
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount in initial recognition.

3. Summary of accounting policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases
There were no finance leases during the financial year.

Operating leases
Rentals payable under operating leases are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Incomes on a straight line basis over the term of the lease.

Foreign currencies

All the Group's subsidiaries have sterling as their functional and presentational currency, so no currency translations are required for consolidation purposes.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement and retranslation of monetary items are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for that year.

Employee benefits

Defined contribution pension schemes
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the periods during which services are rendered by employees. Any contributions outstanding at the period end are included within trade and other payables in the Consolidated Statement of Financial Position.

Defined benefit pension schemes – Group operated
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted.

The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset, taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling, if any (excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Notes to the consolidated financial statements
for the year ended 31 December 2019

3. Summary of accounting policies (continued)

Employee benefits (continued)

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The net interest cost on defined benefit pension schemes is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under employee benefits.

Multi employer defined benefit schemes accounted for as defined contribution schemes
In addition to the pension scheme operated by the Group, certain employees are members of the Merchant Navy Officers Pension Fund (MNOPF) and the Merchant Navy Ratings Pension Fund (MNRPF), both multi employer schemes.

Sufficient information is not available to adopt defined benefit accounting for these schemes, therefore the schemes are accounted for as a defined contribution schemes.

Where the Group has entered into deficit recovery contracts connected with the Scheme, the Group recognises its deficit share payments as a retirement benefit obligation with any change in the value of the liability recognised in the Consolidated Statement of Profit or Loss.

Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Taxation

In line with current Isle of Man and Guernsey taxation legislation, the Group is liable to income tax at 0%.

Property and equipment

Passenger and freight ships
Passenger and freight ships are stated at deemed cost, less accumulated depreciation and any accumulated impairment losses. Carrying values are reviewed for impairment when there is any indication that the carrying values may not be recoverable in which case the assets are written down to their recoverable amount. Depreciation on ferries is charged so as to write off the deemed cost less residual value, where applicable, over the estimated useful economic life on a straight line basis over the following periods:

Conventional ferries	-	25 years
Fast ferries	-	15 years

Drydocking
Vessels incur major repairs and maintenance which cannot be performed whilst the assets are operating. The Group capitalises costs associated with major repairs and maintenance (including labour and certain vessel charter costs) as a separate component within passenger and freight ships. Charter costs are capitalised when the chartered vessel is providing overhaul cover or is laid-up. Carrying values are fully depreciated in the year the cost is incurred.

3. Summary of accounting policies (continued)

Property and equipment (continued)

Other assets
Property and equipment, other than passenger and freight ships, are stated at deemed cost upon transition to FRS 102 less accumulated depreciation and any accumulated impairment losses. Depreciation on property and equipment is charged so as to write off the cost or deemed cost over the estimated useful lives, using the straight-line method, on the following bases:

Machinery & IT equipment	-	3 to 5 years
Motor vehicles	-	3 years
Building and other works	-	Life of lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The Group assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired

Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the Group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Company elected not to restate business combinations that took place prior to 1 January 2018. In respect of acquisitions prior to 31 December 2019, goodwill is included on the basis of its deemed cost, which represents the amount recorded under IFRS. Intangible assets previously included in goodwill, are not recognised separately. On transition, the Company reassessed goodwill and certain intangible assets which had indefinite useful lives to determine their useful lives under FRS 102 and amortise these assets over that period going forward.

3. Summary of accounting policies (continued)

Impairments – non financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its non financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset doesn't generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit or Loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. Net realisable value represents the estimated selling price less all costs to be incurred in marketing, selling and distribution.

3. Summary of accounting policies (continued)

Financial instruments

The adoption of FRS 102 on 1 January 2018 has not resulted in any changes to the accounting for the Group's financial assets.

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instruments.

The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic Financial instruments

Trade receivables
Trade receivables are recognised at initial invoice value, which approximates to fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income when there is objective evidence that the carrying value of the asset exceeds the recoverable amount.

Trade receivables are classified as loans and receivables which are subsequently measured at amortised cost, using the effective interest method.

Cash and bank balances
Cash and cash equivalents comprise cash on hand, demand 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 changes in value. Bank overdrafts, which are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities and equity
The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Ordinary shares are classified as equity. Equity instruments issued are recognised at the proceeds received, net of direct issue costs.

3. Summary of accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present, legal or constructive obligation, as a result of a past event, that can be reliably measured and when it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expected future cash flows to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liability

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial guarantee contracts

Contracts entered into by group entities to guarantee the financial indebtedness of another party are treated as contingent liabilities, until it becomes probable that the Group will be required to make a payment under the contract.

Expenses

Expenses are recognised on an accruals basis.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not really apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these amounts. The estimates and underlying assumptions are reviewed on an ongoing basis.

Key sources of estimation uncertainty and critical accounting judgements are as follows:

Post-retirement benefits
The Group's total obligation in respect of defined benefit pension schemes is calculated by independent, qualified actuaries, updated at least annually. The size of the obligation is sensitive to actuarial assumptions. These include demographic assumptions covering mortality and longevity, and economic assumptions covering price inflation, benefit and salary increases together with the discount rate used. The size of the scheme assets is also sensitive to asset return levels and the level of contributions from the Group.

The Group is a participating employer of both the Merchant Navy Officer Pension Fund (MNOPF) and the Merchant Navy Ratings Pension Fund (MNRPF), both multi employer defined benefit schemes. Under their scheme rules all employers are jointly and severally liable for the deficit. Any deficits recorded in the Group accounts represents an apportionment of the overall scheme deficit based on notifications received from their respective Trustees. Should other participating employers default on their respective obligations, the Group will be required to absorb a larger share of the scheme deficit calculated in the same manner as the current apportionment.

Useful lives for property and equipment
Long-lived assets comprising primarily of passenger ships represent a significant portion of total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of residual values. Management regularly reviews these lives and changes them if necessary to reflect current conditions. In determining these useful lives, management considers technological change, patterns of consumption, physical condition and expected utilisation of the asset. Changes in the useful lives or residual values may have a significant impact on the annual depreciation and amortisation charge. Details of the useful lives are included in the accounting policy headed property and equipment.

Impairment
The Group assessed its property and equipment assets to determine if there were any indications of impairment. Factors considered in identifying whether there were any indications of impairment included the economic performance of assets, technological developments, and new rules and regulations. No internal or external indications of impairment were identified and consequently no impairment review was performed.

Notes to the consolidated financial statements
for the year ended 31 December 2019

5. Revenue

	2019 £	2018 £
Revenue from contracts with customers	**61,255,897**	59,086,118
	61,255,897	59,086,118

Revenue: Segmental analysis	2019 £	2018 £
Passenger Revenue	**31,185,052**	29,658,578
Freight Revenue	**23,720,933**	22,939,297
Passenger Service Revenue	**5,227,880**	5,060,674
Non Ferry Income	**1,030,546**	943,755
Charter Revenue	**91,486**	483,814
	61,255,897	59,086,118

Revenue: Timing of revenue recognition	2019 £	2018 £
At a point in time	**61,164,411**	58,602,304
Over time	**91,486**	483,814
	61,255,897	59,086,118

6. Employee benefits expense

	2019 No.	2018 No.
Average number of employees during the year	**383**	374
Number of employees at year end	**323**	317

	Notes	2019 £	2018 £
Aggregate costs of employee benefits were as follows:			
Wages and salaries		**12,153,069**	11,524,998
Social welfare charge		**484,406**	424,226
Defined benefit pension scheme - cost	23 (viii)	**2,550,000**	2,717,000
Defined contribution pension scheme - pension cost		**71,930**	(195,000)
Termination benefits		**35,406**	-
Other benefits		**84,131**	67,769
		15,378,942	14,538,993

Defined contribution pension scheme
The defined contribution pension scheme - pension cost for the year ended 31 December 2018 included a credit of £331,543, which represented a reduction in the Group's share of the MNRPF 31 March 2017 triennial valuation which was paid during that financial year.

Notes to the consolidated financial statements
for the year ended 31 December 2019

7. Investment revenue

	2019 £	2018 £
Interest on bank deposits	**241,159**	78,901

8. Income tax

The Group is liable to taxation in the Isle of Man and Guernsey charged at 0% (2018: 0%). There are no known factors that would affect future tax charges.

9. Profit for the year from continuing operations

Profit for the year from continuing operations is stated after charging / (crediting):

	2019 £	2018 £
Gain on disposal of property and equipment	**(53,500)**	(53,699)
Depreciation of property and equipment	**6,449,239**	8,568,822
Auditor's remuneration	**65,000**	79,251
Lease payments recognised as an expense	**1,816,325**	2,453,903

Operating costs consist of:

	2019 £	2018 £
Staff Costs (excluding wages and salaries)	**1,357,248**	1,473,326
Fuel	**7,104,993**	7,174,254
Repairs & Maintenance	**1,432,272**	1,348,624
Insurance	**840,401**	875,365
Charter Costs	**571,101**	1,205,063
Marine & Other Vessel Costs	**410,481**	420,123
Port dues and charges	**7,786,901**	7,626,527
Other operating costs	**2,566,906**	2,605,684
Administration costs	**2,837,641**	2,673,118
	24,907,945	25,402,085

10. Dividends

On 30 December 2019, the Company declared a dividend of £22,378,479 (2018: £103,000,000) payable to its parent company, The Isle of Man Steam Packet Group Limited ("IOMSPG"), with a consequent reduction in amounts due from related undertakings (note 14).

Notes to the consolidated financial statements
for the year ended 31 December 2019

11. Property and equipment

	Passenger ships	Machinery & IT Equipment	Motor Vehicles	Buildings	Total
	£	£	£	£	£
Cost or deemed cost					
At 1 January 2018	73,768,246	13,724,996	1,183,476	733,801	89,410,519
Additions	4,822,837	729,752	339,833	-	5,892,422
Disposals	-	(109,700)	(57,340)	-	(167,040)
At 1 January 2019	78,591,083	14,345,048	1,465,969	733,801	95,135,901
Additions	4,020,103	482,536	152,768	367,445	5,022,852
Disposals	-	-	(144,019)	-	(144,019)
At 31 December 2019	**82,611,186**	**14,827,584**	**1,474,718**	**1,101,246**	**100,014,734**
Accumulated depreciation and impairment					
At 1 January 2018	56,356,829	12,833,937	828,939	733,032	70,752,737
Eliminated on disposals	-	(109,700)	(57,340)	-	(167,040)
Depreciation for the year	7,756,582	544,564	266,966	710	8,568,822
At 1 January 2019	64,113,411	13,268,801	1,038,565	733,742	79,154,519
Eliminated on disposals	-	-	(144,019)	-	(144,019)
Depreciation for the year	5,785,717	394,635	251,337	17,550	6,449,239
At 31 December 2019	**69,899,128**	**13,663,436**	**1,145,883**	**751,292**	**85,459,739**
Carrying amount					
At 31 December 2019	**12,712,058**	**1,164,148**	**328,835**	**349,954**	**14,554,995**
At 31 December 2018	14,477,672	1,076,247	427,404	59	15,981,382

Under the terms of the Credit Agreements (note 26), first fixed charges are registered, securing amounts outstanding under that facility on the Group's passenger ships and land and building. Fixed charges are also held over all other property and equipment. At 31 December 2019, amounts outstanding under the facility were £75,354,000 (2018: £75,854,000).

With effect from 1 January 2018 the Ben-My-Chree transitioned from a biennial overhaul to an annual overhaul. This accelerated the depreciation charged on additions in the year ended 31 December 2018.

Included within passenger ships is £87,610 (2018: £nil) of assets in the course of construction.

Notes to the consolidated financial statements
for the year ended 31 December 2019

12. Group subsidiaries

The composition of the Group's subsidiaries at 31 December 2019 is as follows:

Name of subsidiary	*Country of incorporation and operation*	*Proportion of ownership in ordinary share capital*	*Proportion of voting power held*	**Principal activity**
Steam Packet Holidays Limited	Isle of Man	100%	100%	Package holidays
Manx Sea Transport Limited	Isle of Man	100%	100%	Employment agency services
Manx Sea Transport Guernsey Limited	Guernsey	100%	100%	Crew management

The registered office for Manx Sea Transport Guernsey Limited is 4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, Guernsey, GY1 2JA.

The registered office for all other subsidiaries is Imperial Buildings, Bath Place, Douglas, Isle of Man, IM1 2BY.

13. Inventories

	2019	2018
	£	£
Vessel spares	**2,072,087**	2,083,367
Fuel and lubricating oil	**256,553**	258,424
Retail and catering stocks	**110,367**	124,646
Other	**138,877**	111,741
	2,577,884	2,578,178

The cost of inventories recognised as an expense during the year in respect of continuing operations was £10,149,050 (2018: £10,130,507).

Notes to the consolidated financial statements
for the year ended 31 December 2019

14. Trade and other receivables

	2019 £	2018 £
Trade receivables	8,310,235	8,349,972
Allowance for doubtful debts	(6,738)	(6,856)
	8,303,497	8,343,116
Prepayments	971,151	950,902
Amounts due from related parties	-	19,825,995
Insurance claims receivable/(payable)	(18,985)	(15,059)
Other receivables	37,909	47,365
	9,293,572	29,152,319

Included within amounts due from related parties is a balance of £nil (2018: £19,802,967) due from The Isle of Man Steam Packet Group Limited ("IOMSPG"), the immediate parent company. On 30 December 2019 the intercompany balance between the Company and IOMSPG was reduced following the Company's dividend declaration (note 10).

Insurance claims receivable comprise costs incurred, less insurance deductibles, for a number of claims arising in the normal course of business.

Credit risk
The Group reviews all receivables that are past their agreed credit terms and assesses whether any amounts are irrecoverable, determined by reference to past default experience, together with any particular risk factors applicable to an individual customer. The Group extends credit to certain trade customers after conducting a credit risk assessment. A large proportion of trade customers have provided direct debit guarantees. UK customers are credit assessed on an ongoing basis by an external rating agency. Periodic credit reviews are conducted for Isle of Man customers as the majority are not rated by external agencies. Trade receivables are analysed as follows:

	2019 £	2018 £
Not past due		
- Within terms	8,328,563	8,324,564
Past due		
- Within 3 months	(4,814)	28,508
- After 3 months	(13,514)	(3,101)
	(18,328)	25,407
	8,310,235	8,349,971

The amounts presented in the Statement of Financial Position are net of allowances for doubtful debts. An allowance for doubtful debts is made where there is an expected credit loss which, based on previous experience, is evidence of a reduction in the recoverability of the cashflows.

Movement in the allowance for doubtful debts
In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration risk is limited due to the exposure being spread over a large number of counterparties and customers. 21% (2018: 20%) of trade receivables are owed by the Group's ten largest freight customers. Accordingly, the Directors believe that there is no further allowance required in excess of the allowance for doubtful debts. Prepayments, amounts due from related parties and other receivables are neither past due nor impaired at 31 December 2019.

Notes to the consolidated financial statements
for the year ended 31 December 2019

15. Cash and bank balances

For the purpose of the consolidated statement of cashflows, cash and cash equivalents include cash on hand and in banks, net of outstanding overdrafts. Occasionally the Group holds a number of term and notice deposits with maturities over 3 months which are included within cash and cash equivalents as the Directors are of the view that they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Directors consider the credit risk of its counterparties to be compatible with the Group's credit policy and operational requirements.

The geographic spread by deposit institution was as follows:

	2019 £	2018 £
Ireland	**362,397**	178,375
Isle of Man	**19,897,141**	12,897,759
Jersey	**6,906,386**	-
	27,165,924	13,076,134

The liquidity analysis was as follows:

	2019 £	2018 £
Cash in hand	**16,434**	29,839
Deposit Accounts	**2,801,462**	2,289,295
Notice Accounts (35-100 day notice)	**19,506,387**	10,257,000
Term Deposits (<3 months)	**4,841,641**	500,000
	27,165,924	13,076,134

16. Share capital

	2019 Number	2019 £	2018 Number	2018 £
Authorised				
Ordinary shares of par value of £0.25 each	**32,000,000**	**8,000,000**	32,000,000	8,000,000
	32,000,000	**8,000,000**	32,000,000	8,000,000
Allotted, called up and fully paid - ordinary shares				
At 1 January	**30,000,001**	**7,500,001**	30,000,001	7,500,001
Share issue	**-**	**-**	-	-
At 31 December	**30,000,001**	**7,500,001**	30,000,001	7,500,001

Holders of ordinary shares are entitled to such dividends that may be declared from time to time. On return of capital on a winding-up, the holder of ordinary shares is entitled to participate in a distribution of surplus assets of the Company.

17. Analysis of equity

Share premium
The share premium account comprised the excess of monies received in respect of share capital over the nominal value of shares issued. Share premium of £44,257,465 was utilised to fund a proportion of the £103m dividend declaration paid in the year ended 31 December 2018.

Retained earnings
Retained earnings comprises accumulated profits and losses less dividends paid.

Notes to the consolidated financial statements
for the year ended 31 December 2019

18. Financial instruments and risk management

The Group's activities expose it to a variety of financial risks including foreign currency risk, liquidity risk and credit risk. The Group's funding, liquidity and exposure to interest and foreign exchange rate risks are managed by the Group's accounting department. A combination of treasury management techniques are used to manage these underlying risks.

i. *Foreign currency risk management*
The Group undertakes certain transactions denominated in foreign currencies, giving rise to exposure to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters.

The currency profile of the carrying amounts of the Group's monetary assets and monetary liabilities at the statement of financial position date are as follows:

2019	Sterling £	Euro £	Total £
Trade and other receivables	8,647,281	646,292	9,293,572
Cash and bank balances	26,778,762	387,162	27,165,924
Total assets	**35,426,043**	**1,033,454**	**36,459,496**
Deferred revenue	9,184,256	1,061,207	10,245,463
Trade and other payables	5,340,935	6,340	5,347,275
Total liabilities	**14,525,191**	**1,067,547**	**15,592,738**
Net monetary assets / (liabilities)	**20,900,851**	**(34,093)**	**20,866,758**
2018			
Trade and other receivables	28,456,730	695,589	29,152,319
Cash and bank balances	12,833,526	242,608	13,076,134
Total assets	**41,290,256**	**938,197**	**42,228,453**
Deferred revenue	9,076,734	957,241	10,033,975
Trade and other payables	4,772,088	10,002	4,782,090
Total liabilities	**13,848,822**	**967,243**	**14,816,065**
Net monetary assets / (liabilities)	**27,441,434**	**(29,046)**	**27,412,388**

ii. *Liquidity risk*
The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term obligations and derivative transactions. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cashflows, and by matching the maturity profiles of financial assets.

The Group's policy is to ensure that sufficient resources are available from cash balances, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- Monitors credit rating of institutions with which the Group maintains balances; and
- Limits maturity of cash balances

All monetary financial liabilities are repayable within 1 year.

iii. *Credit risk*
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable). Credit risk in relation to trade and other receivables and cash is addressed in note 14 and 15. The maximum exposure to credit risk is represented by the carrying amounts in the Statement of Financial Position.

Notes to the consolidated financial statements
for the year ended 31 December 2019

18. Financial instruments and risk management (continued)

iv. Capital management
The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the overall cost of capital.

19. Trade and other payables

	2019	2018
	£	£
Trade payables and accruals	**4,439,706**	3,807,737
Payroll taxes and social security	**96,199**	42,813
Value added tax	**612,110**	763,296
Other payables	**199,260**	168,244
	5,347,275	4,782,090
Analysed as:		
- payable within one year	**5,347,275**	4,782,090
- payable after one year	**-**	-
	5,347,275	4,782,090

Trade payables and accruals comprise amounts outstanding for trade purchases and on-going costs and are non-interest bearing.

The average trade credit period outstanding was 23 days at 31 December 2019 (2018: 17). Certain suppliers reserve the right to charge interest on balances past their due date. The Group has appropriate procedures in place to ensure that all payables are paid within the credit timeframe.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

20. Provisions

	2019	2018
	£	£
At 1 January	**18,674**	112,500
Utilisation of provisions	**(18,674)**	(107,500)
Increase in provisions	**63,745**	13,674
At 31 December	**63,745**	18,674
Analysed as:		
- Current liabilities	**63,745**	18,674
- Non-current liabilities	**-**	-
	63,745	18,674

Provisions relate to items that arise in the ordinary course of business.

Notes to the consolidated financial statements
for the year ended 31 December 2019

21. Deferred revenue

	2019 £	2018 £
Analysed as:		
- payable within one year	**10,245,463**	10,033,975
- payable after one year	**-**	-
	10,245,463	10,033,975

22. Operating lease agreements

Minimum lease payments under operating leases recognised as an expense during the year:

	2019 £	2018 £
At the statement of financial position date outstanding commitments under non cancellable operating leases fall due as follows		
Within one year	**3,958,400**	4,126,737
Later than 1 year and not later than 5 years	**10,140,655**	4,641,613
Later than five years	**11,544,518**	1,496,973
	25,643,573	10,265,323

Operating lease payments represent rentals payable by Group entities for property, vessel charters and the Sea Services Agreement ("SSA"). All operating lease contracts contain market review clauses but no options to purchase at the expiry of the lease period.

On 31 May 2019 the Company entered into a SSA with The Isle of Man Government ("IOMG"), effective 1 January 2020, under which the Company is granted the sole use of IOMG's linkspans situated at King Edward Pier and Victoria Pier, Douglas for an initial term of 25 years, with an annual commitment of £515,378. The previous User Agreement was automatically terminated on 1 January 2020.

On 10 July 2015 the Company entered into a long term charter for M.V. Arrow with an expiry of 15 August 2019 with a one year option available to 30 September 2020. On 24 October 2019 the Company extended the charter for a further 30 months to 31 March 2023, plus an additional option for a further 9 months to 31 December 2023.

23. Retirement benefit schemes

Defined Contribution ("DC") Scheme

The Group operates a defined contribution pension scheme, the Carey Workplace Pension Trust, an auto enrolment, workplace pension scheme which provides retirement benefits for UK employees who are not members of The Isle of Man Steam Packet Company Limited Staff Pension Fund or the Ensign Retirement Plan

The total expense charged in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of £25,186 (2018: £16,922) represents contributions payable to these externally administered defined contribution pension scheme at rates specified in the rules of the scheme. There were no outstanding contributions as at 31 December 2019 (2018: £Nil).

Defined Benefit ("DB") Pension Schemes

The Group has the following defined benefit retirement scheme obligations:

Deficit by Scheme:	Note	Type of scheme	Accounting adopted	2019 £'000	2018 £'000
The Isle of Man Steam Packet Company Limited Staff Pension Fund ("SPPF")	(i)	DB	DB	**6,111**	4,227
MNOPF	(ii)	DB	DC	**-**	-
MNRPF	(iii)	DB	DC	**285**	285
				6,396	4,512
Analysed as:					
Retirement benefit obligation <1 year				**500**	500
Retirement benefit obligation > 1 year				**5,896**	4,012
Net Deficit				**6,396**	4,512

On Friday 26th October 2018 the UK High Court reached a landmark judgment confirming that pension schemes are required to equalise male and female members' benefits for the effect of guaranteed minimum pensions (GMPs). This will increase the liabilities of affected schemes, a cost that will ultimately need to be met either from scheme assets or from additional contributions from employers. Legal advice provided to the Trustees confirms that IOM members will not require GMPs to be equalised and that only UK members are affected. The SPPF valuation includes such a provision, but reliable estimates are not yet available for the Group's potential obligations to MNOPF/MNRPF.

i) Isle of Man Steam Packet Company Limited Staff Pension Fund ("SPPF")

The Group operates a contributory, defined benefit pension scheme, which provides retirement and death benefits for all permanent employees. The defined benefit pension scheme provides benefits to members in the form of a guaranteed level of pension payable for life, the level of the benefits depend on the member's length of service and salary. The Trustees of SPPF are responsible for ensuring the scheme is run in accordance with the applicable trust deed and the pension laws of the relevant jurisdiction.

The most recent actuarial valuation for the scheme, which is not available to the public, was carried out at 31 March 2018 by Mercer Limited:

	£m
Assets	47.6
Liabilities	(52.6)
Deficit	**(5)**
Net funding level	**91%**

The valuations employed for disclosure purposes have been based on the most recent funding valuation for the scheme adjusted by the independent actuaries to allow for the accrual of liabilities at 31 December

23. Retirement benefit schemes (continued)

2019 and to take account of financial conditions at this date. The present value of the defined benefit obligation and the related current and past service cost, were measured using the projected unit credit method; assets have been valued at bid value.

The Group concluded a deficit funding agreement with the Trustees of the SPPF on 16 May 2019, whereby it committed to annual instalments of £500k/annum to 2030, a 5 year extension to the previous agreement.

ii) Merchant Navy Officers Pension Fund ("MNOPF")

In addition to the SPPF operated by the Group, certain employees are members of the MNOPF, an industry wide multi-employer defined benefit scheme registered in the UK. The scheme is closed to future accrual..

Insufficient information is available to the Group to enable defined benefit accounting, therefore defined contribution accounting has been adopted. As at 31 December 2019 the Group has no outstanding retirement benefit obligations (2018: £nil).

As at 31 March 2018, the date of the most recent triennial actuarial valuation carried out by an independent actuary, the scheme valuation was:

	£m
Assets	3,278
Liabilities	(3,351)
Deficit	**(73)**
PV of outstanding instalments	64
Net deficit	**(9)**
Net funding level	**100%**

iii) Merchant Navy Ratings Pension Fund ("MNRPF")

The MNRPF is an industry wide multi-employer defined benefit pension scheme registered in the UK. The scheme is closed to future accrual.

The Group has liabilities to the scheme through Manx Sea Transport Guernsey Limited (MSTG). Insufficient information is available to the Group to enable defined benefit accounting, therefore defined contribution accounting has been adopted. The Group accounts for the funding payments as defined contributions and recognises the full annual cost in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

As at 31 March 2017, the date of the most recent full triennial actuarial valuation carried out by an independent actuary, the scheme valuation was as follows:

	£m
Assets	1,153
Liabilities	(1,374)
Deficit	**(221)**
Net funding level	**84%**

The Group is not a current employer in the MNRPF having settled its Section 75 statutory debt in 2004. The Group had not previously considered itself to have any legal obligation in relation to the ongoing deficit in the fund however following a legal challenge by Stena Line Limited, the High Court decided that the Trustees could require any employer that had ever participated in the scheme to make contributions to fund the deficit. Although the decision was appealed, it was not overturned.

The Group settled the majority of its 31 March 2017 triennial valuation during 2018, with only £285k (2018: £285k) remaining.

23. Retirement benefit schemes (continued)

iii) Merchant Navy Ratings Pension Fund ("MNRPF") - continued

MNRPF Trustees have made us aware of possible further liabilities associated with legal uncertainties relating to the rights of certain members to ill-health early retirement pensions "IHER benefits" since 1991. The Trustee has been advised to seek the directions of the Court over these issues. It is possible this could lead to a substantial increase in the Fund's liabilities, of which the Group would be allocated its share. There is a great deal of uncertainty about whether any liability does actually exist and we are unlikely to receive confirmation on this by a Court until 2020 earliest with a rectification process unlikely before 2025. Given the uncertainty no provision is accounted for within either the retirement benefit obligations reported under FRS 102 nor within the 31 March 2017 triennial valuation disclosed above.

iv) Principal risks and assumptions – SPPF

The Group is exposed to a number of actuarial risks as set out below:

Investment risk	The present value of the defined benefit pension scheme liability is calculated using a discount rate by reference to high quality corporate bond yields; if the future achieved return on scheme assets is below this rate, it will create a deficit.
Interest risk	A decrease in the bond interest rate will increase the plan liability, however, this will be partially offset by an increase in the return on the plan's debt investments
Salary risk	The present value of the defined benefit liability is calculated by reference to the projected salaries of the scheme participants at retirement based on salary inflation assumptions. As such, any variation in salary versus assumption will vary the scheme liabilities.
Longevity risk	The present value of the defined benefit pension scheme liability is calculated by reference to the best estimate of the mortality of scheme participant's both during and after their employment. An increase in the life expectancy of the scheme participants will change the scheme liabilities. The risk relating to death benefits payable to dependents of the SPPF is reinsured by an external insurance company.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Significant actuarial assumptions	2019	2018
Weighted average assumptions to determine defined benefit obligations:		
Discount rate	**2.10%**	3.00%
Salary increase rate	**2.90%**	3.10%
Price of inflation rate	**2.90%**	3.10%
Rate of pension increases:		
- LPI max 5%	**2.75%**	2.95%
- LPI max 5%	**1.95%**	2.05%
Assumed life expectancy on retirement at age 65:		
- Retiring today (member age 65)	**21.8**	22.0
- Retiring in 20 years (member currently age 45)	**23.2**	23.4
Weighted average assumptions to determine defined benefit cost:		
Discount rate	**3.00%**	2.60%
Salary increase rate	**3.10%**	3.10%
Price of inflation rate	**3.10%**	3.10%
Rate of pension increases:		
- LPI max 5%	**2.95%**	2.90%
- LPI max 5%	**2.05%**	2.00%
Assumed life expectancy on retirement at age 65:		
- Retiring today (member age 65)	**22.0**	22.1
- Retiring in 20 years (member currently age 45)	**23.4**	23.5

23. Retirement benefit schemes (continued)

v) Amounts recognised in the Statement of Financial Position - SPPF

The Directors have taken independent actuarial advice on the key judgements used in the estimate of retirement benefit scheme assets and liabilities. The amount recognised in the Consolidated Statement of Financial Position in respect of the Group's defined benefit pension scheme is as follows:

	2019 £'000	2018 £'000
Amounts recognised in the statement of financial position		
Defined benefit obligation	60,863	50,848
Fair value of plan assets	(54,752)	(46,621)
Total retirement benefit obligations	**6,111**	**4,227**

Schemes in a net surplus position are shown in non-current assets in the Consolidated Statement of Financial Position. Schemes in a net deficit position are shown in non-current liabilities. As at 31 December 2019 and 2018 the Scheme was in a net deficit position.

The deficit as at 31 December 2019 is higher than the comparable figure as at 31 December 2018. This is mainly due to a fall in bond yields, which has resulted in a lower discount rate and hence higher liabilities, although this was partly offset by a reduction to future expectations of market inflation along with a change to the life expectancy assumption.

vi) Change in defined benefit obligation - SPPF

	2019 £'000	2018 £'000
Change in defined benefit obligation		
Defined benefit at end of prior year	50,848	53,239
Service cost - current	2,257	2,366
Past service cost	-	36
Interest expense	1,489	1,352
Cashflows:		
-Benefit payments from plan assets	(2,397)	(2,492)
-Participant contributions	646	626
-Insurance premiums for risk benefits	(53)	(50)
Remeasurements		
-Effect of changes in financial assumptions	8,073	(4,319)
-Effect of experience adjustments	-	90
Defined benefit obligation at end of year	**60,863**	**50,848**

23. Retirement benefit schemes (continued)

vii) Change in fair value of plan assets - SPPF

	2019 £'000	2018 £'000
Change in fair value of plan assets		
Fair value of plan assets at end of prior year	46,621	47,425
Interest income	1,412	1,238
Cashflows:		
-Employer contributions	2,914	2,498
-Participant contributions	646	626
-Benefit payments from plan assets	(2,397)	(2,492)
-Administrative expenses from plan assets	(216)	(201)
-Insurance premiums for risk benefits	(53)	(50)
Remeasurements		
-Return on plan assets (excluding interest income)	5,825	(2,423)
Fair value of plan assets at end of year	**54,752**	**46,621**

viii)Amounts recognised in consolidated statement of profit or loss and other comprehensive income - SPPF

	2019 £'000	2018 £'000
Components of defined benefit cost		
Current service cost	2,257	2,366
Past service cost		36
Net interest cost		
-Interest expense on DBO	1,489	1,352
-Interest income on plan assets	(1,412)	(1,238)
Total net interest cost	77	114
Administrative expenses and/or taxes (not reserved within DBO)	216	201
Defined benefit cost included in SoI	**2,550**	**2,717**
Remeasurements (Recognised in OCI)		
-Effect of change in financial assumptions	8,073	(4,319)
-Effect of experience adjustments	-	90
-(Return) / loss on plan assets (excluding interest income)	(5,825)	2,423
Total remeasurements included in OCI	**2,248**	**(1,806)**
Total defined benefit cost recognised in SoI and OCI	**4,798**	**911**

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23. Retirement benefit schemes (continued)

ix) Net defined benefit liability reconciliation - SPPF

	2019 £'000	2018 £'000
Net defined benefit liability reconciliation		
Net defined benefit liability brought forward	4,227	5,814
Defined benefit cost included in SoI	2,550	2,717
Total measurements included in OCI	2,248	(1,806)
Cashflows:		
-Employer contributions	(2,914)	(2,498)
Net defined benefit liability at end of year	**6,111**	**4,227**

x) Analysis of plan assets - SPPF

	2019 £'000	2018 £'000
Plan Assets		
Fair value of plan assets		
-Cash and cash equivalents	576	148
-Debt instruments	11,168	9,889
-Investment funds	43,008	36,584
Total fair value of plan assets	**54,752**	**46,621**
Actual return/(loss) on plan assets	**7,237**	**(1,185)**

24. Net cash from operating activities

Group	Note	2019 £	2018 £
Profit for the year before and after tax		**14,725,097**	10,624,474
Adjustments for:			
Depreciation	12	**6,449,239**	8,568,822
Gain on disposal of property and equipment	9	**(53,500)**	(53,699)
Retirement benefit obligations movements		**(364,000)**	(1,444,356)
Foreign exchange differences		**(10,349)**	(393)
Increase/(decrease) in provisions	20	**45,071**	(93,826)
Operating cashflows before movements in working capital		**20,791,558**	17,601,022
(Increase) in trade and other receivables		**(2,519,732)**	(5,296,071)
Increase in trade payables		**565,185**	318,186
Increase/(decrease) in deferred revenue		**211,488**	(172,410)
Decrease/(increase) in inventories		**294**	(27,499)
Cash generated from operations		**19,048,793**	12,423,228
Interest received	7	**(241,159)**	(78,901)
Net cash inflow from operating activities		**18,807,634**	12,344,327

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25. Related party transactions

Group Undertakings
Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. At 31 December, the following amounts were due to, or from, Group Companies:

Amounts due from Group Companies		2019 £	2018 £
Sealion Holdings Limited	Previous intermediate holding Company	-	23,028
The Isle of Man Steam Packet Group Limited	Intermediate holding Company	-	19,802,967
		-	19,825,995

The amounts due from Group Companies are interest free and repayable on demand.

Other Related Parties
Details of transactions between the Group and other related parties are described below:

	2019 (Income)/ Expense £	2019 Amount due / (payable) £	2018 (Income)/ Expense £	2018 Amount due / (payable) £
(Receipts from Group undertakings)/settlement of liabilities on behalf of Group undertakings	(23,028)	-	(437,071)	23,028
Provision of admin services to The Isle of Man Steam Packet Company Limited Staff Pension Fund	(43,174)	4,317	(41,916)	4,192
Directors remuneration under service contracts	37,080	(9,270)	92,159	-

The Group is exempt from disclosure of related party transactions with IOM Government under Section 33.11 of FRS 102, as it is a wholly owned subsidiary of the Treasury, a Department of the Isle of Man Government.

Compensation of key management personnel

The Group is exempt from the requirement to disclose compensation of key management personnel as its ultimate parent prepares accounts that are publicly available.

Ultimate parent company and controlling party
The immediate parent company is The Isle of Man Steam Packet Group Limited, a company incorporated in the Isle of Man, with its registered office at Imperial Buildings, Bath Place, Douglas, Isle of Man, IM1 2BY.

The ultimate parent and controlling party is The Treasury, a Department of the Isle of Man Government. The Treasury produce publicly available consolidated financial statements.

Notes to the consolidated financial statements
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26. Contingent liabilities

Financial guarantee contract
On 24 May 2018 the Company and its parent, The Isle of Man Steam Packet Group Limited ("IOMSPG") entered into a £76m loan facility with The Treasury, a Department of the Isle of Man Government ("IoMT"). IoMT has provided IOMSPG with a loan of up to £76,000,000, of which £75,854,000 was initially drawn. Whilst the loan is recorded by IOMSPG, the Company is jointly and severally liable for repayment should IOMSPG default. Interest is charged in arrears at base rate plus 2% and is repayable on 24 May 2028.

Under a Charge dated 24 May 2018, the Company has provided IoMT with fixed and floating charges over all its assets and undertakings.

The total value of outstanding debt owed by IOMSPG and being guaranteed as at 31 December 2019 is £75,354,000 (2018: £75,854,000).

27. Sea Services Agreement

On 31 May 2019 the Company entered into a Sea Services Agreement ("SSA") with the Isle of Man Government ("IOMG"), effective 1 January 2020 for a period of 25 years ending 31 December 2045. As a result of this the previous User Agreement ("UA"), which was due to expire in 2026, was terminated.

Under the terms of the SSA, the Company is obliged to pay an annual fixed charge of £515,000 which is subject to annual Manx Consumer Price Index ("MCPI") increases. In consideration for the granting of the licence the Company conveyed the Victoria Pier linkspan to IOMG.

The main rights and obligations are as follows:-

- IOMG has granted the Company sole use of King Edward and Victoria Pier linkspans, Douglas. These rights are subject to a number of specialist, one-off and non group services.
- The Company is required to invest a minimum of £70m in acquiring a new Ro-Pax vessel and a replacement fastcraft (less than 10 years old). The new ro-pax, with additional passenger and freight capacity, is required to commence service no later than 31 December 2022 and the replacement fastcraft by 31 December 2026.
- The Company is to provide a third vessel to enhance back-up and increase capacity for selected peak periods.
- The Company has guaranteed minimum levels of route frequencies, capacities and a range of other service measures.
- Standard fare level increases are restricted to MCPI along with an obligation to offer not less than four hundred and fifty thousand special offer seats with minimum discount levels..
- Maintain a minimum marketing expenditure of £750k in UK/Ireland, subject to annual MCPI increases.
- Consultation and service reviews with a neutral overall financial effect to be undertaken every five years.

28. Events after the reporting period

There have been no events since the balance sheet date that would require adjustment or disclosure in these financial statements.

29. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on **20 April 2020**.