

**Isles of Scilly Steamship Company
Limited**

Directors' report and financial statements

For the year ended 31 March 2013

Company registration number 00165746

Isles of Scilly Steamship Company Limited

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Isles of Scilly Steamship Company Limited

Chairman's Statement

A warm welcome to the Isles of Scilly Steamship Company's 2013 Annual Report and Financial Statements in this, its new format.

An overview of the Company's financial performance during the year ended 31st March 2013 together with an assessment of the risks and opportunities it faces is set out on pages 5 - 6 of the report. The composition of the Company's Board of Directors, with an account of its work and responsibilities, is set out on pages 3 - 4 and 6 - 9.

I hope that you find this document's layout to be helpful and informative.

The year under review commencing on the 1st April 2012 was a landmark year for your Group of Companies because it was one in which the decision was taken to increase significantly our capacity, sufficient to carry all of the passengers wishing to travel to and from the islands, on whichever route they chose. Not only was this decision taken but it was also implemented, such that the appropriate capacity existed on the 1st April 2013; although of course it was not fully called upon until the following month when the number of passengers travelling increased. The demands placed on the Company's management team, and indeed all of its staff, have been exceptional. The combination of the planning and execution of a major capital investment programme, the day to day running of the business, which now incorporates all of the freight, Royal Mail, etc imported and exported from the islands, and the difficult winter weather meant that our employees all faced an extraordinary workload. They all rose to this challenge, and, on behalf of my colleagues on the Board of Directors, I thank them for it.

The Company's commercial performance was successful also because, even with the relatively high level of capital expenditure undertaken during the year, the Company's key figures are evidence of a strong, resilient performance which moves the Company closer to its long term stated goal of being in a position to replace its assets:

1. Operating profit increased by 13.5% (2012: 4.8%)
2. Cash held at the year end decreased by £1,087,904 (2012: £38,960)
3. Shareholders' funds increased by 12% (2012 12.4%). This is the twelfth consecutive year during which they have grown.
4. The proposed dividend payment of £116,408 (2012: £103,474) is payable on 4th November 2013 at a rate of 9 pence per share (2012: 8 pence per share) in respect of shares on the register at 16th May 2013 is a 12.5% increase (2012: 0%) and reflects the current strength of the Company's earnings and cash generation.

The capital expenditure to which I have referred took place in the sea and air side of the business.

The investment in our marine infrastructure was made in all our vessels: to Scillonian III where passenger areas have been updated and refreshed and many of the vessels systems have been replaced: to Gry Maritha where passenger and crew accommodation has been improved: to Lyonesse Lady, and in particular to her crane, to allow more efficient operation on the inter- island routes: to Swift lady to ensure she is fit for purpose as a carrier of the Royal Mail and as a backup to the Lyonesse Lady.

The investment in our air infrastructure was to fixed and mobile assets as well as in our skilled workforce. The new terminal building at Land's End airport was opened to critical acclaim. The Twin Otter fleet was increased from three to four. A significant number of pilots, both captains and first officers were recruited, as were additional aeronautical engineers, fire crew and passenger facing staff. Land's End airport was successfully upgraded to Category 3 in order that it can operate the planned increase in aircraft movements.

Isles of Scilly Steamship Company Limited

Chairman's Statement (continued)

My colleagues and I on the Company's Board of Directors are keenly aware of the challenges and opportunities facing the Group in the re-established role in which we find ourselves as the sole provider of scheduled passenger and freight services to the Islands. The responsibilities we have to our shareholders, our customers, our employees and to the broader communities in the Islands and west Cornwall are all distinct from one another; but very much aligned and complementary. We see clearly that for the Group to prosper, so must the economies of the Islands and west Cornwall.

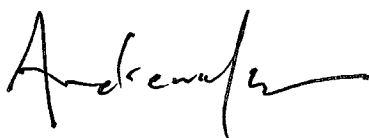
For the Group to continue to prosper in the medium to longer term it must be in a position to improve and replace its major assets in due course. So, looking ahead, this programme is underway with a detailed feasibility and implementation study being worked on regarding the re-surfacing of two of the four grass runways at Land's End airport during this calendar year. Turning to the marine side, the Group continues to work with the Local Authorities in Cornwall and on the Islands and with the Department for Transport with a view to securing major improvements to the two harbours from which we operate. The situation regarding our vessels has not changed since our last report to you earlier this year; we envisage them operating on the route until at least the end of the summer of 2018, and in the meantime we will conduct a wide ranging exercise to scope, identify and ultimately acquire replacements for them.

The Group is now a relatively large private sector employer in the region with a highly skilled workforce and it is making an increased contribution, both directly and indirectly, to the economic wellbeing of the local economy. I commend you to the website www.sharemark.com where information regarding the Company is posted, as are recent movements in the Company's shares and directions on how to trade in our shares, should you wish to do so.

I would like to introduce you to Mark Howarth who joined the Board as a non-executive Director on 18th April 2013. Mark's biography can be found on page 3 of this report and my colleagues and I are certain that Mark's wide ranging and practical experience in business, but in particular in the transport sector, will be of great benefit to the work of the Board.

The Group plans to continue its corporate and social responsibility activities and these will inevitably evolve to take account of the Group's position in our local communities. A recent highlight was the 24th World Pilot Gig Championships, of which the Group has been the main sponsor since the Championship's inception. This year we carried over 100 gigs to and from the islands, together with thousands of competitors and supporters, for a spectacular sporting festival over three days in early May.

It remains for me to thank my colleagues on the Board of Directors for their unstinting hard work on behalf of the Group and for their sense of purpose and optimistic approach to their remit; and most especially to thank you, our shareholders for your continuing support.



AJ May
Chairman

Isles of Scilly Steamship Company Limited

Board of Directors

Jeff Marston

JEFF MARSTON (Chief Executive Officer) lives in Cornwall; he joined the Company as Chief Executive in January 2001. He was previously Managing Director (South) of ADT Fire and Security PLC and has held a number of senior board positions including Managing Director Compair Maxam Ltd., Managing Director Wardle Storeys PLC Safety and Survival Equipment Division and Managing Director, Meggitt Aerospace Components. He is also a Director of the Islands' Tourism and Business Partnership and Chairman of the trustees of Carn Brea Leisure Centre.

Andrew May

ANDREW MAY (Chairman) joined the Board in 1992. He worked in Lincolnshire and London before returning to St Mary's where he now farms and is involved in a number of diversified businesses. He is also the Chairman and a founder Director of Mainland Marketing Ltd, Chairman of the Cornwall Agri-food Council and Vice Chairman of the Rural Cornwall Partnership. He is the Chairman of the Group's Nominations Committee.

John East

JOHN EAST (Vice Chairman) lives in Surrey; he joined the Board in April 2004. He was a partner with Clifford Chance in London and Asia working in the Projects/Banking Department and was Chairman of the New Partner Selection Group. He is now retired but continues to work part time as a consultant for that firm. He is a Director of the Colets Sports Club in Thames Ditton, which is connected with St Paul's School in London. He is Chairman of the Group's Audit and Remuneration Committees.

Peter Hardaker

PETER HARDAKER joined the Board in 2003. He has worked in land based industries for all of his working life and in the Agricultural Supply Sector for the last 34 years of employment in Cornwall. He chairs the Rural Development Programme for England Implementation Group for Cornwall and the Isles of Scilly; he is a Director of the Cornwall Agri-food Council, Director of Cornwall College Corporation, Vice Chair of the Council of Duchy College and a Director of Kernow Grain Ltd. He sits on the Group's Audit and Remuneration Committees.

Terry Ward

TERRY WARD lives on St Mary's; he joined the Board in 1989. He operates retail outlets on St Mary's and in the West Country.

Mark Howarth

MARK HOWARTH lives near Newquay, Cornwall and joined the Board this year. He has been in the transport business for over 40 years, working in the UK and overseas and set up his own bus company, Western Greyhound, in 1997 which has grown rapidly and is renowned for its good quality. Mark is on the Council of the Confederation of Passenger Transport (CPT), liaising with Government and Ministers and also chairs the South West Region of CPT as well as chairing the Newquay Cornwall Airport Forum.

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Board of Directors (continued)

Julia Walder

JULIA WALDER lives on St. Martins. She joined the board in 1998. She has been working and then operating St. Martins Post Office and Stores for many years, and will now be concentrating on running Carron Farm self-catering lets and the family farm. She sits on the Group's Remuneration Committee.

Roy Duncan

ROY DUNCAN lives in St Mary's; he joined the Board in 1990. He operated a boating business and has been involved with tourism and many other aspects of Island community life including over 40 years on the Island's Council. He is actively involved in the Group's CSR activities. He sits on the Group's Audit Committee.

Isles of Scilly Steamship Company Limited

Directors' Report

For the year ended 31 March 2013

The Directors present their annual report and financial statements of the Group for the year ended 31st March 2013.

Principal activities

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

During the year under review, the companies continued the operation of ancillary activities as follows: marine engineers, garage services, ship repairers and operation of a dry dock, operation of the inter-island launch service, operation of Land's End Aerodrome, operation of scenic flights and aeronautical engineering.

Review of business

The results for the year are shown in the profit and loss account on Page 13.

The Group's turnover increased by 7.2% (2012: 4.0%) to £12,485,719. This increase was primarily due to the additional volume of passengers carried by Skybus in the winter of 2012/13 following the cessation of scheduled helicopter operations to the Isles of Scilly at the end of October 2012.

Turnover for services by sea fell by 9.6% (2012: increase 1.6%) following the completion of a contract with Kiers for the transport of materials for the build of the new school on St. Mary's.

Turnover for services by air rose by 25.7% (2012: 1.5%) as a result of increased passenger volumes and also the commencement of the new Royal Mail Contract in August 2012.

The decline in visitor numbers to the Isles of Scilly experienced since 2003/4 continued in the year under review. The Group again increased its share of the market in the period prior to the cessation of scheduled helicopter services. Since then the Group has been the sole provider of scheduled passenger services to the Islands. The continuing reduction in visitor numbers represents the most significant risk to the long term profitability of the Group.

In the short term the Group faces increased costs for the use of the airport and quay on St. Mary's and has not felt it appropriate to pass these costs on through higher pricing. In the light of the current market conditions, the Group made a proactive decision to try to absorb these prices.

Group operating profit before the exceptional item was £1,073,535 (2012: £859,511). The Group made provision for its share of the deficit in the Merchant Navy Officers Pension Fund. The cost of this is shown as an exceptional item of £97,977 (2012: Nil) and is due for payment in June 2013. Profit before Tax rose to £1,069,587 (2012: £944,927) an increase of 13.2% (2012: 6.4%).

The Group undertook significant capital expenditure in the year. The planned development of the Land's End site, the freehold of which was acquired in 2012, commenced in July 2012 and will be completed during the course of 2013. The Board completed its strategic reviews of ship replacement options and concluded that as uncertainty continued to surround the final nature of the improvements to the quays in Penzance and St. Mary's, a programme of work to extend the life of its key shipping assets would be the most sensible solution. The work required to extend the operational life of the *Lyonesse Lady*, the *Gry Maritha* and the *Scillonian III* until at least the 2018 season was undertaken in the Penzance Dry Dock.

The net cash outflow from Capital expenditure was £3,502,399 (2012: £1,656,697).

Isles of Scilly Steamship Company Limited

Directors' Report (continued)

For the year ended 31 March 2013

Review of business (continued)

The Group generated cash from its operating activities of £2,416,110 (2012: £1,607,390). However as a result of the capital investment programme there was a net cash decrease in the year of £1,087,904 (2012: £38,960).

Shareholder funds ended the year at £9,064,769 (2012: £8,096,082).

Directors and their interests

The Directors who held office during the year were:

	Committees
R W Banfield (retired September 2012)	-
H R Duncan	A
J H M East (Vice Chairman)	A, R, N
P D Hardaker	A, R
J Marston (Chief Executive)	N
A J May (Chairman)	N
Mrs. J. M. Walder	R
T B Ward	-

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

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

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

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

The interests of the Directors in the ordinary shares of the Company as at 31st March 2013 are set out below. There have been no changes between these interests between 1st April 2013 and 18th July 2013.

	<u>2013</u>	<u>2012</u>
R W Banfield	21,665	21,665
H R Duncan	25,807	15,807
J H M East	3,869	3,869
P D Hardaker	3,049	3,049
J Marston	34,336	34,336
A J May	58,663	58,663
Mrs. J. M. Walder	19,691	19,691
T B Ward	16,506	16,506

Dividend

The Directors recommend the payment of a final dividend of £116,408 (2012: £103,474), 9p (2012: 8p) per share (or a scrip issue of 1 share for every £2 of dividend). This is based on shareholding at 16 May 2013 and will be paid on 4 November 2013.

Isles of Scilly Steamship Company Limited

Directors' Report (continued)

For the year ended 31 March 2013

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution proposing that Francis Clark LLP be re-appointed as auditors of the Company will be put to the Annual General Meeting.

Corporate Governance

The Group is committed to high standards of corporate governance, business integrity and professionalism.

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

The roles of the Chairman and Chief Executive are distinct and separate.

The Chief Executive has responsibility for all operating companies and acts in accordance with the authority delegated to him by the Board.

A minimum of 9 Board Meetings are held each year. These meetings are structured to allow open discussion and all Directors participate in discussing the Group's strategic aims and performance as well as financial and risk management. The Board is supplied with comprehensive and timely information in advance of each meeting, including financial and operational reports covering all the Group's business activities.

The Board comprises 7 Non-Executive Directors (including the Chairman) and one Executive Director. The Directors believe that the Board functions effectively and efficiently and is of an appropriate size. The Directors provide a mix of skills, experience and expertise appropriate to the size of the business and its activities.

All Board appointments are made by the Board on recommendation of the Nominations Committee.

The Chairman ensures that all Directors receive clear, accurate and timely information on all relevant matters. On appointment a Director receives a formal induction including an introductory meeting with the Chairman and Chief Executive.

The performance of Non Executive Directors is assessed by the Chairman and Chief Executive. The performance of the Chief Executive is assessed by the Remuneration Committee.

The Board has established a number of committees with specific responsibilities. The chairmanship and membership of these is refreshed at appropriate intervals.

Remuneration Committee

The Remuneration Committee consists of John East (Chairman), Peter Hardaker and Julia Walder. Its remit is to review, and recommend to the Board appropriate changes to, the salary and benefits payable to the Executive Directors; at present the only such individual is the Chief Executive Officer, Jeff Marston.

Isles of Scilly Steamship Company Limited

Directors' Report (continued)

For the year ended 31 March 2013

Remuneration Committee (continued)

The Committee meets as necessary, in person or by telephone and e-mail, in the early part of each calendar year in order to complete its review and recommendations so that they may be implemented with effect from 1st April in each year. The Committee seeks information from such publicly available and private sources as are available to it on the arrangements existing for other Chief Executives of comparably sized organisations operating in the South West, particularly in the transport sector. To this end this year the Group paid to enable the Remuneration Committee to access and review the results of a Salary Search Analysis, which of course is not specific to any particular organisation, but claims to be based on an analysis of over 4000 organisations. The Committee also recognises that the Group's operations are considerably more regulated, and more diverse, than most other comparably sized businesses in the South West. This year, in addition, the Committee was aware of the fact that the Group has been through an extraordinary year with the demise of the helicopter service at the end of October 2012.

Over recent past years the Committee has indicated that it felt that the Chief Executive's compensation has been in lower half of the comparability scale for similar sized organisations, and this year it was felt that this continued to be the case, so that in making its recommendations, the Committee has felt it appropriate to allow an element of increase to overcome this, particularly bearing in mind the complexities of the Group's overall operations and the fact that the Group has navigated its way through an extremely challenging year in terms of both operations and new investments. The Committee has retained the incentive element of the Chief Executive's overall compensation, so that it is directly aligned with the increase in the overall Group's shareholder funds, or value.

Consequently our recommendations this year were to increase the Chief Executive's basic salary by 6% and to continue the incentive bonus of 1½% of the annual increase in Group Shareholder funds to 31/3/2013. Our recommendations were accepted by the Board at its meeting in April 2012 and implemented with effect from 1st April 2013.

	Salary	Fees	Benefits in kind	Other		Total	Pension contributions	
	£	£	£		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
					£	£	£	£
<u>Executive Directors</u>								
J Marston	75,000	-	11,731	5,120	91,851	94,202	48,214	33,637
<u>Non Executive Directors</u>								
H R Duncan		5,016			5,016	4,875		
J H M East		6,945			6,945	6,725		
P D Hardaker		5,402			5,402	5,250		
A J May		16,206			16,206	15,750		
J Walder		5,016			5,016	4,875		
T B Ward		4,630			4,630	4,500		
<u>Past Directors</u>								
R W Banfield		2,250			2,250	4,500		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	75,000	45,465	11,731	5,120	137,316	140,677	48,214	33,637
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Isles of Scilly Steamship Company Limited

Directors' Report (continued)

For the year ended 31 March 2013

Remuneration Committee (continued)

Mr. Marston's benefit in kind relates to the provision of a fully expensed car.

The Board compensated Mr. Marston for holiday not taken and this is shown under other remunerations.

Nominations Committee

The Directors who sit on this committee are Andrew May (Chairman), John East and Jeff Marston. The committee undertakes a range of duties including, but not limited to, first, reviewing the Board's structure, size and composition, second, identifying and nominating candidates to fill Board vacancies, third, reviewing the time commitment required from non-executive directors to fulfil their responsibilities on the Board and to consider performance evaluation in this respect, and fourth, to formulate succession plans for both executive and non-executive directors.

The committee met on five occasions during the year (three during prior year), mainly in person. The committee's work was primarily concerned with identifying and assessing suitable non-executive director candidates, a process in which the whole Board was involved as well as the Company's professional advisors. The committee made significant progress in this area, one outcome of which was that in the early part of 2013 it was able to recommend the appointment of Mr. Mark Howarth to the Board. The Board endorsed this recommendation and Mark's appointment will come before shareholders at the AGM in September when they will be asked to approve his, together with TB Ward and JM Walder's re-appointment.

The committee was active in a number of other areas including, reviewing elements of the Company's Article of Association, researching options in relation to Directors' performance evaluation and reviewing the membership of the Company's other two committees, Audit and Remuneration.

Audit Committee

The Audit Committee comprises John East (Chairman), Roy Duncan and Peter Hardaker. The Committee's remit is principally to review the integrity of the financial statements of the Group, including its annual and interim reports, and any significant financial issues and judgements which they contain. It also considers and makes recommendations to the Board, to be put to Shareholders for approval at the AGM, regarding external auditors. Although neither the Chairman nor the Chief Executive is a member of the Committee they are both invited to attend the Committee's meetings as and when appropriate.

During the year ended 31/3/2013, the Audit Committee considered the 2011/2012 statutory accounts and audit draft memorandum, together with the Directors' Annual review and the appropriate audit fee.

The new auditor outlined his firm's audit process, which was explained as substantially tests of detail but also based partly on analytical review (comparing what they found in the accounts with what they would have expected to find in comparable situations). The Auditor also took the opportunity to outline his approach to dealing with what he saw as some of the key risks (from an audit perspective) to the business.

The Audit Committee received a presentation on the compilation of the detailed Risk Register which was being finalised for each part of the Group's activities (although at the time of the presentation Nike was a new acquisition and the risk register would need to be extended to cover that Company's activities). Substantial progress has been made and although the full Risk Register has not yet been completed it was anticipated that it would be concluded shortly.

Isles of Scilly Steamship Company Limited

Directors' Report (continued)

For the year ended 31 March 2013

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit and 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 judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

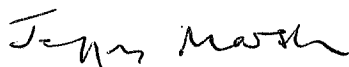
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



J Marston
Secretary

Hugh Town
St Mary's
Isles of Scilly

Isles of Scilly Steamship Company Limited

Independent auditor's report to the shareholders of Isles of Scilly Steamship Company Limited

We have audited the financial statements of Isles of Scilly Steamship Company Limited for the year ended 31 March 2013 set out on pages 13 to 30. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

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

Isles of Scilly Steamship Company Limited

Independent auditor's report
to the shareholders of Isles of Scilly Steamship Company 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.



Andrew Allen BSc FCA (Senior Statutory Auditor)
for and on behalf of Francis Clark LLP, Statutory Auditor

Lowin House
Tregolls Road
TRURO
TR1 2NA

29 July 2013

Isles of Scilly Steamship Company Limited

Group profit and loss account

For the year ended 31 March 2013

	Notes	2013 £	2012 £
Turnover	2		
Continuing operations		12,485,719	11,343,093
Acquisitions		-	302,461
		<hr/>	<hr/>
		12,485,719	11,645,554
Cost of sales before exceptional item		(11,443,550)	(10,833,893)
		<hr/>	<hr/>
Gross profit		1,042,169	811,661
Other operating income		31,366	47,850
		<hr/>	<hr/>
Operating profit before exceptional item			
Continuing operations		1,073,535	945,742
Acquisitions		-	(86,231)
		<hr/>	<hr/>
		1,073,535	859,511
Cost of sales – exceptional item	3	(97,977)	-
		<hr/>	<hr/>
Operating profit	4		
Continuing operations		975,558	945,742
Acquisitions		-	(86,231)
		<hr/>	<hr/>
		975,558	859,511
Other interest receivable and similar income		94,029	85,416
		<hr/>	<hr/>
Profit on ordinary activities before taxation		1,069,587	944,927
Taxation	5	2,574	1,634
		<hr/>	<hr/>
Profit on ordinary activities after taxation and profit for the financial year	17	1,072,161	946,561
		<hr/> <hr/>	<hr/> <hr/>

There were no discontinued operations within the group during the years ended 31 March 2013 or 2012.

There are no recognised gains or losses in the above years other than those passing through the profit and loss account.

Isles of Scilly Steamship Company Limited

Note of group historical cost profits and losses

For the year ended 31 March 2013

	2013 £	2012 £
Reported profit on ordinary activities before taxation	1,069,587	944,927
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	-	1,535
Historical cost profit on ordinary activities before taxation	<u>1,069,587</u>	<u>946,462</u>
Historical cost profit retained after taxation	<u>1,072,161</u>	<u>948,096</u>

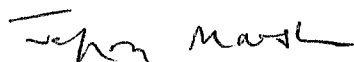
Isles of Scilly Steamship Company Limited

Balance sheet

As at 31 March 2013

	Notes	The Company		The Group	
		2013 £	2012 £	2013 £	2012 £
Fixed assets					
Intangible assets	7	-	-	35,999	47,999
Tangible assets	8	2,605,472	1,332,711	8,582,799	5,470,006
Investments	9	264,787	264,787	-	-
		<u>2,870,259</u>	<u>1,597,498</u>	<u>8,618,798</u>	<u>5,518,005</u>
Current assets					
Stocks	10	-	-	818,770	872,794
Debtors	11	2,520,988	1,886,302	2,113,754	1,270,609
Cash at bank and in hand		3,587,447	4,659,104	3,621,620	4,709,524
		<u>6,108,435</u>	<u>6,545,406</u>	<u>6,554,144</u>	<u>6,852,927</u>
Creditors: amounts falling due within one year	12	(3,313,581)	(3,074,119)	(5,829,173)	(3,992,850)
Net current assets		2,794,854	3,471,287	724,971	2,860,077
Total assets less current liabilities		5,665,113	5,068,785	9,343,769	8,378,082
Provisions for liabilities and charges	13	-	-	(279,000)	(282,000)
Net assets		5,665,113	5,068,785	9,064,769	8,096,082
Capital and reserves					
Called up share capital	15	1,293,422	1,293,422	1,293,422	1,293,422
Profit and loss account	16	4,371,691	3,775,363	7,771,347	6,802,660
Shareholders' funds	17	5,665,113	5,068,785	9,064,769	8,096,082

These financial statements were approved by the Board of directors on 18th July 2013 and were signed on its behalf by:



J Marston
Director

Company Registration No. 00165746

Isles of Scilly Steamship Company Limited

Group cash flow statement

For the year ended 31 March 2013

	Notes	£	2013 £	£	2012 £
Net cash inflow from operating activities	21		2,416,110		1,607,390
Returns on investments and servicing of finance					
Interest received		102,387		64,789	
Net cash inflow from returns on investments and servicing of finance			102,387		64,789
Taxation					
Corporation tax paid		(528)		(498)	
Capital expenditure			(528)		(498)
Payments to acquire tangible fixed assets		(3,710,553)		(1,898,459)	
Receipts from sales of tangible fixed assets		208,154		301,761	
Payments to acquire intangible fixed assets		-		(59,999)	
Net cash outflow from capital expenditure			(3,502,399)		(1,656,697)
Equity dividends paid			(103,474)		(53,944)
Decrease in cash in the year	22		(1,087,904)		(38,960)

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain assets.

1.2 Turnover

Turnover represents charges for the supply of sea and air passenger and freight services and associated income. Revenue is recognised when the group fulfils its contractual obligations to customers in respect of the goods and services provided and excludes Value Added Tax.

1.3 Goodwill and other intangible assets

Acquired goodwill and other intangible assets are written off in equal instalments over their estimated useful economic lives.

1.4 Tangible fixed assets and depreciation

Depreciation is calculated at the following annual rates which are intended to write off the cost or valuation less residual value of assets over their estimated useful lives as follows:

Freehold properties	50 years (straight line)
Aircraft engines and major components	number of hours flown (straight line)
Leasehold properties	over the period of the lease (straight line)
Plant and equipment	At various rates appropriate to the relevant asset (straight line)

1.5 Investments

Investments are included in the financial statements at cost less amounts written off for permanent diminution in value.

1.6 Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value after provision has been made for obsolete and slow-moving stock. For work in progress cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

1.7 Taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.8 Assets acquired under mortgage loans and hire purchase agreements

Where assets are acquired under a mortgage or hire purchase agreement which gives rights approximating to ownership, the amount representing the outright purchase price of such assets is included in tangible fixed assets. The capital element of future repayments is treated as a liability and the interest is charged to the profit and loss account over the period of the mortgage or hire purchase agreement.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

1.9 Consolidation

The consolidated financial statements incorporate the financial statements of Isles of Scilly Steamship Company Limited and its subsidiary undertakings. The financial statements of all group companies are made up to 31 March 2013. In accordance with the exemptions granted under Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company only has not been presented.

1.10 Pension costs

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17 (Revised). Defined benefit pension funds have been accounted for as defined contribution schemes since these are multi-employer schemes and the company has been unable to identify its share of the underlying assets or liabilities of these funds.

1.11 Ship maintenance

When the ships are dry-docked for overhaul, the costs of these overhauls are charged against the profit and loss account as incurred.

Other repair or service costs are also charged against the profit and loss account as incurred.

2 Turnover

The analysis of turnover by activity is as follows:

	2013 £	2012 £
Services by sea	5,170,378	5,721,585
Services by air	5,843,656	4,650,391
Other non-transport activities	1,471,685	1,273,578
	<u>12,485,719</u>	<u>11,645,554</u>

3 Exceptional item

The group incurred a cost of £97,977 (2012: £Nil) in respect of the Merchant Navy Officers Pension Fund during the year, being the group's share of the fund's deficit (see note 14).

4 Operating profit

	2013 £	2012 £
Operating profit is stated after charging/(crediting):		
Depreciation of tangible assets	538,106	768,533
Profit on sale of tangible fixed assets	(148,500)	(178,564)
Amortisation of intangible fixed assets	12,000	12,000
Rental of other assets - operating leases	214,845	239,448
Hire of plant and machinery - rentals payable under operating leases	38,025	29,090
Auditors remuneration	11,950	11,150
	<u>12,485,719</u>	<u>11,645,554</u>

The total figure of net operating expenses for continuing operations includes £Nil (2012: £388,692) in respect of acquisitions.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

5 Taxation

	2013 £	2012 £
Current tax charge		
UK Corporation Tax - current year	526	528
- prior year	-	38
	<hr/>	<hr/>
Deferred tax (credit)/charge	526 (3,100)	566 (2,200)
	<hr/>	<hr/>
	(2,574)	(1,634)
	<hr/>	<hr/>
Factors affecting the tax credit for the year		
Profit on ordinary activities before taxation	1,069,587	944,927
	<hr/>	<hr/>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2012: 20%)	213,917	188,986
	<hr/>	<hr/>
Effects of:		
Non deductible expenses	20,739	1,146
Depreciation	107,057	118,062
Capital allowances	(91,223)	(83,477)
Tax losses arising	25,568	77,624
Profit of business not subject to taxation	(276,058)	(302,341)
Tonnage tax	526	528
Prior year	-	38
	<hr/>	<hr/>
	(213,391)	(188,420)
	<hr/>	<hr/>
Current tax charge	526	566
	<hr/>	<hr/>

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

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

6 Dividends

	2013 £	2012 £
Prior year final dividend	103,474	99,817

The directors propose a final ordinary dividend of £116,408 (2012: £103,474) for the year ended 31 March 2013. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 11 September 2013.

7 Intangible fixed assets – Group

	Goodwill £	Other intangible assets £	Total £
<i>Cost</i>			
At 1 April 2012 and 31 March 2013	58,000	1,999	59,999
<i>Amortisation</i>			
At 1 April 2012	11,600	400	12,000
Charge for the period	11,600	400	12,000
At 31 March 2013	23,200	800	24,000
<i>Net book value</i>			
At 31 March 2013	34,800	1,199	35,999
At 31 March 2012	46,400	1,599	47,999

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

8 Tangible fixed assets - Company

	Assets in the course of construction £	Plant and equipment £	Short leasehold property £	Freehold property £	Total £
<i>Cost or valuation</i>					
At 1 April 2012	24,196	37,372	364,476	1,238,752	1,664,796
Additions	1,266,373	73,006	-	-	1,339,379
Disposals	-	(65,732)	-	-	(65,732)
Transfers	(108,148)	-	-	108,148	-
At 31 March 2013	1,182,421	44,646	364,476	1,346,900	2,938,443
<i>Depreciation</i>					
At 1 April 2012	-	23,116	115,539	193,430	332,085
On disposals	-	(25,359)	-	-	(25,359)
Charge for year	-	13,238	13,007	-	26,245
At 31 March 2013	-	10,995	128,546	193,430	332,971
<i>Net book value</i>					
At 31 March 2013	1,182,421	33,651	235,930	1,153,470	2,605,472
At 31 March 2012	24,196	14,256	248,937	1,045,322	1,332,711

The company has taken advantage of the transitional provisions of Financial Reporting Standard 15 and prior revaluations have not been updated.

Freehold property includes property revalued by £321,366 (2012: £321,366) at 31 March 1991 at open market value. On a historical cost basis the property has an original cost of £121,384 (2012: £121,384) with depreciation charged of £36,415 (2012: £36,415) to date.

Included in freehold property is land with a cost of £735,123 (2012: £735,123) which has not been depreciated.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

Tangible fixed assets (continued) – Group

	Assets in the course of construction £	Plant and equipment £	Short leasehold property £	Freehold property £	Total £
Cost or valuation					
At 1 April 2012	24,196	13,337,073	536,578	1,238,754	15,136,601
Additions	1,266,373	2,439,634	4,546	-	3,710,553
Disposals	-	(461,940)	-	-	(461,940)
Transfers	(108,148)	-	-	108,148	-
At 31 March 2013	1,182,421	15,314,767	541,124	1,346,902	18,385,214
Depreciation					
At 1 April 2012	-	9,185,524	287,641	193,430	9,666,595
On disposals	-	(402,286)	-	-	(402,286)
Charge for year	-	525,099	13,007	-	538,106
At 31 March 2013	-	9,308,337	300,648	193,430	9,802,415
Net book value					
At 31 March 2013	1,182,421	6,006,430	240,476	1,153,472	8,582,799
At 31 March 2012	24,196	4,151,549	248,937	1,045,324	5,470,006

The group has taken advantage of the transitional provisions of Financial Reporting Standard 15 and prior revaluations have not been updated.

Included in freehold property is land with a cost of £735,123 (2012: £735,123) which has not been depreciated.

Tangible fixed assets include the following revaluations to arrive at an open market value:

	Plant and equipment £	Short leasehold property £	Freehold property £	Total £
31 March 1987	23,886	-	-	23,886
31 March 1991	-	41,225	321,366	362,591
	23,886	41,225	321,366	386,477
Historical cost of revalued assets	20,706	10,588	121,384	166,744
Depreciation on historical cost to date	20,706	10,588	36,415	67,709

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

9 Fixed asset investments - Company

	Shares in subsidiary undertakings £	Total £
Cost		
At 31 March 2012 and 31 March 2013	264,787	264,787

Details of subsidiary undertakings are as follows:

	Percentage of allotted ordinary share capital	
	2013	2012
<i>Isles of Scilly Skybus Limited</i>	100%	100%
Principal activity - provision of freight and passenger air services between the mainland and the Isles of Scilly.		
<i>Westward Airways (Lands End) Limited</i>	100%	100%
Principal activity - operation of Lands End Aerodrome		
<i>Isles of Scilly Shipping Company Limited</i>	100%	100%
Principal activity – provision of passenger and cargo services by sea between the mainland and the Isles of Scilly		
<i>Lyonesse Shipping Company Limited</i>	100%	100%
Principal activity – leasing of ships		
<i>Lyonesse Air Transport Limited</i>	100%	100%
Dormant		
<i>Penzance Dry Dock (2009) Limited</i>	100%	100%
Principal activity – operation of a dry dock		
<i>Nike Engineering Limited</i>	100%	100%
Principal activity – mechanical and marine engineering		

10 Stocks

	The Company		The Group	
	2013	2012	2013	2012
	£	£	£	£
Fuel	-	-	97,803	120,423
Engineering spares and workshop	-	-	678,663	737,470
Other consumables	-	-	42,304	14,901
	-----	-----	-----	-----
	-	-	818,770	872,794
	=====	=====	=====	=====

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

11 Debtors

	2013 £	The Company 2012 £	2013 £	The Group 2012 £
<i>Amounts falling due within one year:</i>				
Trade debtors	-	-	1,351,062	918,401
Amounts owed by group undertakings	1,492,991	1,785,544	-	-
Prepayments and accrued income	71,645	100,758	316,950	244,544
Other debtors	311,352	-	432,942	94,964
Deferred tax asset (see below)	-	-	12,800	12,700
	<u>1,875,988</u>	<u>1,886,302</u>	<u>2,113,754</u>	<u>1,270,609</u>
<i>Amounts falling due in more than one year:</i>				
Amounts owed by group undertakings	645,000	-	-	-
	<u>2,520,988</u>	<u>1,886,302</u>	<u>2,113,754</u>	<u>1,270,609</u>

Deferred tax asset – group

	Deferred taxation £
Balance at 1 April 2012	12,700
Profit and loss account	100
	<u>12,800</u>

Deferred tax is provided at 20% (2012: 20%) analysed over the following timing differences:

	2013 £	2012 £
Unutilised losses carried forward	12,800	12,700

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

12 Creditors: amounts falling due within one year

	The Company		The Group	
	2013	2012	2013	2012
	£	£	£	£
Trade creditors	72,676	573	1,572,440	858,511
Amount owed to group undertakings	3,042,414	2,979,818	-	-
Corporation tax	-	-	526	528
Other taxes and social security	10,004	8,408	53,137	52,277
Other creditors	6,982	2,025	6,982	2,025
Accruals and deferred income	181,505	83,295	4,196,088	3,079,509
	<u>3,313,581</u>	<u>3,074,119</u>	<u>5,829,173</u>	<u>3,992,850</u>

Amounts relating to payments made by customers for travel, in advance of their scheduled departure date, are included in deferred income.

13 Provisions for liabilities and charges - Group

	Deferred taxation
	£
Balance at 1 April 2012	282,000
Profit and loss account	(3,000)
	<u>279,000</u>
Balance at 31 March 2013	<u>279,000</u>

Deferred tax is analysed over the following timing differences:

	2013	Fully provided
	£	2012
	£	£
Accelerated capital allowances	516,000	532,500
Unutilised losses carried forward	(237,000)	(250,500)
	<u>279,000</u>	<u>282,000</u>

If revalued assets were realised at their net book value at the year end the potential corporation tax liability for the company and group would have been £Nil (2012: £Nil).

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

14 Pension schemes

During the year the group operated two defined benefit pension schemes – the Merchant Navy Officers Pension Fund (New Section) (MNOFF) and The Merchant Navy Ratings Pension Fund (MNRPF). These schemes are multi-employer schemes. The group has been unable to identify its share of the underlying assets or liabilities of these schemes and therefore has accounted for these schemes as defined contribution schemes in accordance with FRS 17.

Merchant Navy Officers Pension Fund

The most recent actuarial valuation for the purposes of Regulations 14 and 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 for the MNOFF was carried out on 31 March 2012. The Projected Unit funding method was used and assets valued at their stated market value. The assumptions which have the most effect on the results of the MNOFF valuation are those relating to future investment returns and changes in mortality rates.

The valuation showed that the market value of the assets was £2,169 million and disclosed a shortfall of £492 million. Interest is being charged on the deficit at 6.3% to the date of collection of the deficit of 30 June 2013. The company's share of this deficit is £97,977.

The MNOFF Employers Group and MNOFF EG Limited are currently investigating arranging the cessation of the benefit accrual under the MNOFF.

Merchant Navy Ratings Pension Fund

The most recent actuarial valuation for the purpose of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 for the MNRPF was carried out at 31 March 2011. The projected unit method was used. The assumptions which have the most effect on the results of the MNRPF valuation are those relating to the valuation rate of interest, rate of salary escalation and Section 148 order revaluation and the rate of future pension increases.

The valuation disclosed a shortfall of £212 million on an ongoing basis.

On 31 May 2001 this scheme was closed and replaced by the Merchant Navy Ratings Pension Plan.

The deficit is proposed to be repaid by the members of the fund over a period of 13 years to 31 March 2021. The company's share of this deficit has not been accurately determined. During the year the company was charged £Nil (2012: £25,884) towards the deficit.

Other Schemes

The company and group also operated defined contribution pension schemes during the year, being the Merchant Navy Ratings Pension Plan and a group sponsored pension plan.

Pension Cost Charge

The total pension cost charge for the period represents contributions payable by the group to the funds and amounted to £241,427 (2012: £133,949). Contributions amounting to £116,252 (2012: £26,560) were payable to the funds at the year end and are included in creditors. The respective figures of the company are £155,760 of contributions (2012: £59,521) and £104,959 in creditors (2012: £13,500).

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

15 Share capital

	2013 £	2012 £
<i>Allotted, called up and fully paid</i>		
1,293,422 Ordinary shares of £1 each	1,293,422	1,293,422

Nil (2012: 45,873) ordinary shares were issued in the year at par in lieu of dividend.

16 Profit and loss account

	The Company 2013 £	The Group 2013 £
At 31 March 2012	3,775,363	6,802,660
Profit for the financial year	699,802	1,072,161
Dividends	(103,474)	(103,474)
At 31 March 2013	4,371,691	7,771,347

17 Reconciliation of movements in shareholders' funds

	2013 £	The Company 2012 £	2013 £	The Group 2012 £
Profit for the financial year	699,802	630,662	1,072,161	946,561
Dividends	(103,474)	(99,817)	(103,474)	(99,817)
New share capital subscribed	596,328	530,845	968,687	846,744
	-	45,873	-	45,873
Net addition to shareholders' funds	596,328	576,718	968,687	892,617
Opening shareholders' funds	5,068,785	4,492,067	8,096,082	7,203,465
Closing shareholders' funds	5,665,113	5,068,785	9,064,769	8,096,082

18 Related party transactions

During the period services supplied by the group, where directors had an interest, amounted to £47,183 (2012: £49,163), the balance owing to the group, in respect of these transactions at 31 March 2013 was £21,954 (2012: £9,387). Dividends paid during the year to directors amounted to £13,229 (2012: £13,116).

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

19 Contingent liabilities

The Group and Company

The bankers hold bonds in respect of Air BP for £8,000 (2012: £8,000) and National Express of £2,500 (2012: £2,500).

The Company

The company has agreed to support the operation of its subsidiary companies Westward Airways (Lands End) Limited, Nike Engineering Limited and Penzance Dry Dock (2009) Limited for the foreseeable future by providing working capital via inter-company loan accounts.

20 Commitments - Group

Operating leases

Annual commitments under operating leases:

	2013 £	Other 2012 £	Land and buildings 2013 £	2012 £
Operating lease which expires in 2-5 years	272,386	-	110,000	152,000
Operating lease which expires after five years	-	-	98,680	82,980
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Capital commitment

	2013 £	2012 £
Authorised but not contracted for	165,261	19,300
	<u> </u>	<u> </u>

Commitments – Company

Capital commitment

	2013 £	2012 £
Authorised but not contracted for	165,261	-
	<u> </u>	<u> </u>

21 Reconciliation of operating profit to net cash inflow from operating activities

	2013 £	2012 £
Operating profit	975,558	859,511
Depreciation	538,106	768,533
Amortisation	12,000	12,000
Profit on sale of tangible fixed assets	(148,500)	(178,564)
Decrease/(increase) in stocks	54,024	(41,477)
(Increase)/decrease in debtors	(851,403)	8,408
Increase in creditors	1,836,325	178,979
	<u> </u>	<u> </u>
Net cash inflow from operating activities	2,416,110	1,607,390
	<u> </u>	<u> </u>

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

22 Reconciliation of net cash flow to movement in net funds		2013	2011
		£	£
Decrease in cash (note 23)		(1,087,904)	(38,960)
		<hr/>	<hr/>
Movement in net funds in the year resulting from cash flows		(1,087,904)	(38,960)
Net funds at 1 April 2012		4,709,524	4,748,484
		<hr/>	<hr/>
Net funds at 31 March 2013		3,621,620	4,709,524
		<hr/> <hr/>	<hr/> <hr/>

23 Analysis of changes in net funds				
	At 1 April	Cashflow	At 31 March	
	2012		2013	
	£	£	£	
Cash at bank and in hand	4,709,524	(1,087,904)	3,621,620	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	

24 Control

There is no particular individual who is the ultimate controlling party.

25 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	2013	2012
Directors	8	8
Employees	164	161
	<hr/>	<hr/>
	172	169
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2013	2012
	£	£
Wages and salaries	3,821,434	3,686,310
Social security costs	365,825	344,634
Other pension costs	241,427	133,949
	<hr/>	<hr/>
	4,428,686	4,164,893
	<hr/> <hr/>	<hr/> <hr/>

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

26 Remuneration of directors

	2013 £	As restated 2012 £
Directors' emoluments	<u>185,530</u>	<u>174,314</u>

The comparative figure has been restated to include directors' pension costs of £33,637. The figure for directors' remuneration as originally disclosed in the 2012 accounts was £140,677.

Retirement benefits are accruing to 1 director (2012: 1) under defined contribution pension schemes.