Financial Statements Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited

For the year ended 31 December 2014

Registered number: 00002404

Company Information

Registered number	00002404
Registered office	12 Bugle Street Southampton Hampshire SO14 2JY
Directors	Mrs S A Anderson Mr K E Bradbury (resigned 20 January 2014) Mr A M Carter Mr K A George (appointed 20 March 2014) Mr J M Green Mr M D C Helmore Mr L R Hudson Mr S K J Nelson Mr J M Slawson (appointed 3 October 2014) Mr P R Winter
Independent auditors	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor No 1 Dorset Street Southampton Hampshire SO15 2DP
Bankers	HSBC Bank Plc 55 Above Bar Street Southampton Hampshire SO14 7DZ
Solicitors	Hogan Lovells LLP Atlantic House Holborn Viaduct London EC1A 2FG

Contents

Strategic Report

For the year ended 31 December 2014

The directors present their report and the financial statements of the company for the year ended 31 December 2014.

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

Financial overview

Turnover of £45.4 million for the year was higher than 2013. EBITDA of £14.3 million was 16% higher than 2013.

	2014 £'000	2013 £'000	Variance £'000	%
Turnover (from continuing operations)	45,369	40,290	5,079	13
EBITDA	14,292	12,286	2,006	16

Financial performance

The financial performance throughout the year was strong within all areas and from a turnover perspective being higher than 2013. Turnover from the group's core vehicle ferry business was 15% higher than 2013. Freight revenue was 13% higher than 2013. Hi Speed revenue was 6% higher than 2013, F and B revenue 13% higher than 2013 and "Other" sales 3% higher than 2013.

Operating costs were 11% higher than 2013. There was increased expenditure on labour and training as part of the group's strategy to provide an excellent customer service as well as looking after the increasing number of passengers. Increased turnover also resulted in higher tolls and dues, credit card charges and Food and Beverage cost of sales. Occupancy costs have risen particularly rates and electricity.

Capital expenditure

£5.0 million was spent in 2014, of this £1.6 million was spent on the Red Falcon accommodation project (£2.2million in total). A £0.7million deposit was paid for the Red Osprey accommodation project. The balance of £2.7m was mainly spent on the maintenance of the Fleet.

Strategy

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

1. offering a level of customer service that exceeds expectations;

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

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

4. managing the business cost-effectively.

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

Strategic Report (continued)

For the year ended 31 December 2014

Quality and Safety

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

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

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

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

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

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

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

These 3 policies are widely circulated around the business. There are also other policies that are held on HR.net such as the Substance misuse policy - the company has implemented a best practice random testing environment for drug and alcohol limits.

Performance Management

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

	2014	**2013**
Market Share (Total vehicles) (Source IOW Council)	41.2%	37.6%
Turnover growth	13%	2%
EBITDA margin	32%	30%

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

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

Strategic Report (continued)

For the year ended 31 December 2014

Future Developments

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

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

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

Principal Risks

The main risks identified are as follows:

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

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

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

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

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

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

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

Strategic Report (continued)
For the year ended 31 December 2014

Financial Risk Management

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

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

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

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

Interest rate risk - The company's funding is currently provided by a mixture of retained earnings, bank borrowings and borrowings from its shareholders. The group's long term bank borrowings are fixed until 2017. The group's exposure to interest rate fluctuations on its borrowings are minimised by the use of interest rate swaps. The market value of such swaps at the year end were negative £42.9m (2013: £23.3m).

This report was approved by the board on 23 June 2015 and signed on its behalf.

Mr S K J Nelson
Director

Directors' Report

For the year ended 31 December 2014

The directors present their report and the financial statements for the year ended 31 December 2014.

Directors

The directors who served during the year were:

Mrs S A Anderson
Mr K E Bradbury (resigned 20 January 2014)
Mr A M Carter
Mr K A George (appointed 20 March 2014)
Mr J M Green
Mr M D C Helmore
Mr L R Hudson
Mr S K J Nelson
Mr J M Slawson (appointed 3 October 2014)
Mr P R Winter

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report which also includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The company's forecasts and projections to December 2016 take into account reasonably possible changes in trading performance and show that the group will be able to operate within its current facilities. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' Report

For the year ended 31 December 2014

Results and dividends

The profit for the year, after taxation, amounted to £9,746 thousand (2013 - £5,846 thousand).

The directors have recommended dividends of £9,134 thousand.

Donations	2014	2013
Other	**11,000**	1,000

During the year, the company made the contributions displayed above.

Disabled employees

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

Employee involvement

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

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

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

Policy on the payment of creditors

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

Disclosure of information to auditors

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

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

Directors' Report
For the year ended 31 December 2014

Auditors

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 23 June 2015 and signed on its behalf.

Mr S K J Nelson
Director

P R Winter
Director

Grant Thornton

Independent Auditors' Report to the Members of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited

We have audited the financial statements of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited for the year ended 31 December 2014, which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Grant Thornton

Independent Auditors' Report to the Members of Southampton Isle of Wight and South of England Royal Mail Steam Packet 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

Norman Armstrong (Senior Statutory Auditor)
For and on behalf of
Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
Southampton
Date: 26 June 2015

Profit and Loss Account

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Turnover	1 and 2	**45,369**	40,290
Cost of sales		**(27,174)**	(26,986)
Gross profit		**18,195**	13,304
Administrative expenses		**(6,935)**	(5,967)
Operating profit	3	**11,260**	7,337
Interest receivable	7	**15**	19
Interest payable and similar charges	8	**(1,550)**	(1,548)
Other finance income	9	**22**	41
Profit on ordinary activities before taxation		**9,747**	5,849
Tax on profit on ordinary activities	10	**(1)**	(3)
Profit for the financial year	25	**9,746**	5,846

All amounts relate to continuing operations.

The notes on pages 14 to 28 form part of these financial statements.

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2014

		2014 £000	2013 £000
Profit for the financial year		**9,746**	5,846
Actuarial (loss)/gain related to pension scheme	20	**(580)**	(613)
Total recognised gains and losses relating to the year		**9,166**	5,233

The notes on pages 14 to 28 form part of these financial statements.

Balance Sheet
As at 31 December 2014

	Note	£000	2014 £000	£000	2013 £000
Fixed assets					
Tangible assets	11		**28,818**		27,669
Investments	12		**3**		3
			28,821		27,672
Current assets					
Stocks	13	**405**		452	
Debtors	14	**11,926**		16,870	
Cash at bank		**10,565**		6,260	
		22,896		23,582	
Creditors: amounts falling due within one year	15	**(7,088)**		(6,493)	
Net current assets			**15,808**		17,089
Total assets less current liabilities			**44,629**		44,761
Creditors: amounts falling due after more than one year	16		**(2,944)**		(3,570)
Provisions for liabilities					
Pensions			**(18)**		(18)
Net assets excluding pension scheme liability			**41,667**		41,173
Defined benefit pension scheme liability	20		**(2,244)**		(1,782)
Net assets including pension scheme liability			**39,423**		39,391
Capital and reserves					
Called up share capital	24		**5,245**		5,245
Revaluation reserve	25		**1,061**		1,061
Profit and loss account	25		**33,117**		33,085
Shareholders' funds	26		**39,423**		39,391

Balance Sheet (continued)
As at 31 December 2014

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
23 June 2015

Mr S K J Nelson
Director

Mr P R Winter
Director

The notes on pages 14 to 28 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2014

1. Accounting Policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

1.2 Related parties

As the company is a wholly owned subsidiary of Falcon Acquisitions Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Falcon Acquisitions Limited, within which the company is included, can be obtained from Companies House.

1.3 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.4 Turnover

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

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

1.5 Tangible fixed assets and depreciation

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

Freehold Property	-	50 years
L/Term Leasehold Property	-	5-50 years
S/Term Leasehold Property	-	Over the term of the lease
Plant and Machinery	-	5-20 years
Motor Vehicles	-	2-10 years
Fixtures and Fittings	-	2-10 years
Engine Overhauls	-	2-17 years
Ferries	-	30 years
Hi-Speed Catamarans	-	20 years

Notes to the Financial Statements

For the year ended 31 December 2014

1. Accounting Policies (continued)

1.6 Stocks and work in progress

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

1.7 Marine Spares

Marine spares are valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of marine spares.

1.8 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.9 Operating leases

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

1.10 Pensions

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

The company operates a defined benefits pension scheme and the pension charge is based on a full actuarial valuation dated 31 January 2014.

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

Notes to the Financial Statements
For the year ended 31 December 2014

1. Accounting Policies (continued)

1.11 Taxation

Current tax is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provisions are made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

1.12 Repairs and renewals

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

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

1.13 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

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

1.14 Capitalised interest

The cost of vessels in the course of construction includes interest capitalised when financed by specific borrowings.

Notes to the Financial Statements
For the year ended 31 December 2014

2. Turnover

An analysis of turnover by class of business is as follows:

	2014	2013
	£000	£000
United Kingdom	**45,369**	40,290

All turnover arose within the United Kingdom.

3. Operating profit

The operating profit is stated after charging:

	2014	2013
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	**3,736**	3,755
- held under finance leases	**161**	161
Operating lease rentals:		
- plant and machinery	**1,106**	914
- other operating leases	**735**	701

4. Auditors' remuneration

	2014	2013
	£000	£000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	**13**	12
Fees payable to the company's auditor and its associates in respect of:		
The auditing of the FAIII Group	**28**	28
Audit-related assurance services	**7**	7
All taxation advisory services not included above	**4**	18
All assurance services not included above	**2**	4

	2014	2013
	£000	£000
Fees payable to the company's auditor and its associates in connection with the company's pension scheme(s) in respect of:		
The auditing of accounts of the scheme(s)	**5**	5

Notes to the Financial Statements

For the year ended 31 December 2014

5. Staff costs

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

	2014	2013
	£000	£000
Wages and salaries	**10,212**	9,212
Social security costs	**958**	859
Other pension costs (Note 20)	**357**	225
	11,527	10,296

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

	2014	2013
	No.	No.
Administration	**62**	57
Sea-faring staff	**210**	208
Shore-based staff	**129**	118
	401	383

6. Directors' remuneration

	2014	2013
	£000	£000
Remuneration	**627**	420
Company pension contributions to defined contribution pension schemes	**61**	41

During the year retirement benefits were accruing to 7 directors (2013 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £185 thousand (2013 - £123 thousand).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £19 thousand (2013 - £10 thousand).

7. Interest receivable

	2014	2013
	£000	£000
Bank interest receivable	**15**	19

Notes to the Financial Statements

For the year ended 31 December 2014

8. Interest payable

	2014 £000	2013 £000
Interest payable on group bank borrowing	**1,161**	1,168
Interest on other loans	**236**	230
Interest payable to group undertakings	**153**	150
	1,550	1,548

9. Other finance income

	2014 £000	2013 £000
Expected return on pension scheme assets	**484**	466
Interest on pension scheme liabilities	**(462)**	(425)
	22	41

10. Taxation

	2014 £000	2013 £000
UK corporation tax charge on profit for the year	**1**	3

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2013 - lower than) the standard rate of corporation tax in the UK of 20% (2013 - 20%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	**9,747**	5,849
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2013 - 20%)	**1,949**	1,170
Effects of:		
Non-taxable income	**(1,948)**	(1,167)
Current tax charge for the year (see note above)	**1**	3

Notes to the Financial Statements

For the year ended 31 December 2014

10. Taxation (continued)

Factors that may affect future tax charges

The company has elected for its results to be assessed under the United Kingdom Tonnage Tax Regulations. HMRC is currently challenging whether "sheltered water" ferry companies like SIOW actually operate at "sea". The directors have assessed that the charge to tax would not materially change if SIOW was to exit the tonnage tax regime.

11. Tangible fixed assets

	Freehold Property £000	L/Term Leasehold Property £000	Ships £000	Plant and Machinery £000	Total £000
Cost or valuation					
At 1 January 2014	2,719	921	51,653	9,603	64,896
Additions	247	-	4,260	539	5,046
At 31 December 2014	2,966	921	55,913	10,142	69,942
Depreciation					
At 1 January 2014	688	493	28,860	7,186	37,227
Charge for the year	58	60	3,200	579	3,897
At 31 December 2014	746	553	32,060	7,765	41,124
Net book value					
At 31 December 2014	2,220	368	23,853	2,377	28,818
At 31 December 2013	2,031	428	22,793	2,417	27,669

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

Included within the cost of ships at 31 December 2014 is an amount of £1.4 million which comprises cumulative capitalised interest (2013: £1.4 million).

Notes to the Financial Statements

For the year ended 31 December 2014

Finance lease agreements

Included within the net book value of £28,818 thousand is £1,436 thousand (2013: £1,597 thousand) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £161 thousand (2013: £161 thousand).

Assets not in use

Included within the cost of £69,942 thousand is £2,195 thousand (2013: £1,830 thousand) of assets in the course of construction. These assets are not depreciated until they are brought into use.

12. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2014 and 31 December 2014	**3**
Net book value	
At 31 December 2014	**3**
At 31 December 2013	3

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding
Masthead Services Limited	Ordinary	100%
Red Funnel Steamers Limited	Ordinary	100%
Red Funnel (Pension Trustees) Limited	Ordinary	100%

All subsidiaries are dormant.

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

13. Stocks

	2014 £000	2013 £000
Fuel Oil	**109**	166
Marine Spares	**225**	212
Catering stocks	**71**	74
	405	452

Notes to the Financial Statements

For the year ended 31 December 2014

14. Debtors

	2014 £000	2013 £000
Trade debtors	**1,277**	1,197
Amounts owed by group undertakings	**9,814**	14,676
Other debtors	**199**	290
Prepayments and accrued income	**636**	707
	11,926	16,870

15. Creditors: Amounts falling due within one year

	2014 £000	2013 £000
Other loans	**403**	467
Finance lease agreements	**219**	255
Trade creditors	**1,973**	2,175
Amounts owed to group undertakings	**42**	354
Corporation tax	**1**	1
Taxation and social security	**278**	255
Other creditors	**1,147**	900
Accruals and deferred income	**3,025**	2,086
	7,088	6,493

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

	2014 £000	2013 £000
Finance lease agreements	**-**	219
MNOPF pension liability	**2,944**	3,351
	2,944	3,570

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

	2014 £000	2013 £000
Repayable by instalments	**293**	922

Notes to the Financial Statements

For the year ended 31 December 2014

16. Creditors: Amounts falling due after more than one year (continued)

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	2014	2013
	£000	£000
Between one and five years	-	219

The amount outstanding over 5 years relates to the defined benefit scheme for the MNOPF 2009 and 2012 valuations. The repayments commenced in 2010 and 2013 respectively and will continue until 2020 and 2023 at interest rates of 8.83% and 6.3%.

17. Deferred taxation

	2014	2013
	£000	£000
At beginning and end of year	-	-

Potential deferred taxation of £318 thousand (2013: £318 thousand) arising on the revaluation surplus has not been provided and would become payable if the properties were disposed of at the revalued amount. The company has elected for it's results to be assessed under Tonnage Tax. HMRC is currently challenging whether the company should be in the tonnage tax scheme. The directors have assessed that the charge to tax would not materially change if the company was to exit the tonnage tax regime. No provision for accelerated capital allowances is required.

18. Dividends

	2014	2013
	£000	£000
Dividends paid on equity capital	**9,134**	3,800

19. Capital commitments

The company had capital commitments of £1,834 thousand (2013: £Nil) as at 31 December 2014.

20. Pension commitments

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

The company operates a Defined benefit pension scheme.

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

Notes to the Financial Statements

For the year ended 31 December 2014

20. Pension commitments (continued)

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

The cost of contributions to the scheme totalled £47.1 thousand (2013: £35.3 thousand). An actuarial valuation of the fund was undertaken as at 31 March 2003 which showed that the old section of the scheme had a surplus of £167 million and the new section of the scheme had a deficit of £194 million. The trustees have calculated that the company's share of the new section deficit is £1.8 million which is being paid for at the rate of £202 thousand per annum over ten years to September 2014.

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

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

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

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

The amounts recognised in the Balance sheet are as follows:

	2014	2013
	£000	£000
Present value of funded obligations	**(11,200)**	(10,214)
Fair value of scheme assets	**8,956**	8,432
Net liability	**(2,244)**	(1,782)

The amounts recognised in profit or loss are as follows:

	2014	2013
	£000	£000
Interest on obligation	**(462)**	(425)
Expected return on scheme assets	**484**	466
Total	**22**	41

Notes to the Financial Statements

For the year ended 31 December 2014

20. Pension commitments (continued)

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

	2014 £000	2013 £000
Opening defined benefit obligation	**10,214**	9,604
Interest cost	**462**	425
Actuarial Losses	**847**	518
Benefits paid	**(323)**	(333)
Closing defined benefit obligation	**11,200**	10,214

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

	2014 £000	2013 £000
Opening fair value of scheme assets	**8,432**	8,298
Expected return on assets	**484**	466
Actuarial gains and (losses)	**267**	(95)
Contributions by employer	**96**	96
Benefits paid	**(323)**	(333)
	8,956	8,432

The cumulative amount of actuarial losses recognised in the Statement of total recognised gains and losses was £580 thousand (2013 - £613 thousand).

The company expects to contribute £96 thousand to its Defined benefit pension scheme in 2015.

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

	2014	2013
Equities	**29.49 %**	30.88 %
Corporate bonds	**35.74 %**	35.98 %
Property	**13.08 %**	12.06 %
Fixed Interest (mainly gilts)	**10.95 %**	10.23 %
Diversified Growth Assets	**10.34 %**	10.84 %

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

	2014	2013
Discount rate at 31 December	**3.70 %**	4.60 %
Expected return on scheme assets at 31 December	**5.81 %**	5.60 %
Inflation (RPI)	**3.00 %**	3.40 %
Inflation (CPI)	**2.25 %**	2.65 %
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	**2.25 %**	2.65 %
Allowance for pension in payment increases of RPI or 5% if less	**3.00 %**	3.40 %

Notes to the Financial Statements
For the year ended 31 December 2014

20. Pension commitments (continued)

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

Defined benefit pension schemes

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Defined benefit obligation	**(11,200)**	(10,214)	(9,604)	(9,377)	(8,949)
Scheme assets	**8,956**	8,432	8,298	7,818	8,174
Deficit	**(2,244)**	(1,782)	(1,306)	(1,559)	(775)
Experience adjustments on scheme liabilities	**(847)**	(518)	(102)	43	20
Experience adjustments on scheme assets	**267**	(95)	275	(574)	183

21. Operating lease commitments

At 31 December 2014 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings			**Other**
	2014	2013	**2014**	2013
	£000	£000	**£000**	£000
Expiry date:				
Between 2 and 5 years	-	-	-	12
After more than 5 years	**449**	397	-	-

22. Contingent liabilities

There is a fixed and floating charge over the assets of the company under an agreement dated 5 June 2007, updated 14 August 2009 to certain providers of finance to other group companies.

The company has a contingent liability of £Nil (2013: £Nil) under the terms of a counter indemnity agreement with HSBC Bank Plc, who have guaranteed a bond with the Passenger Shipping Association on behalf of the company.

23. Related party transactions

The company has taken advantage of the exemption in FRS 8 not to disclose transactions between the company and other wholly owned companies within the group.

Notes to the Financial Statements

For the year ended 31 December 2014

24. Share capital

	2014 £000	2013 £000
Allotted, called up and fully paid		
5,245,129 Ordinary shares of £1 each	**5,245**	5,245

25. Reserves

	Revaluation reserve £000	Profit and loss account £000
At 1 January 2014	**1,061**	**33,085**
Profit for the financial year		**9,746**
Dividends: Equity capital		**(9,134)**
Actuarial (loss)/gain in respect of defined benefit pension scheme		**(580)**
At 31 December 2014	**1,061**	**33,117**

The closing balance on the profit and loss account includes a £580 thousand (2013 - £613 thousand) debit, stated after deferred taxation of £Nil thousand (2013 - £Nil), in respect of pension scheme liabilities of the company pension scheme.

26. Reconciliation of movement in shareholders' funds

	2014 £000	2013 £000
Opening shareholders' funds	**39,391**	37,958
Profit for the financial year	**9,746**	5,846
Dividends (Note 18)	**(9,134)**	(3,800)
Other recognised gains and losses during the year	**(580)**	(613)
Closing shareholders' funds	**39,423**	39,391

Notes to the Financial Statements

For the year ended 31 December 2014

27. Ultimate parent undertaking and controlling party

The company is controlled by Infracapital Partners LP, a Limited Partnership, acting by its Manager M&G Investment Management Limited. Infracapital Partners LP is deemed to be controlled by Infracapital GP 1 LLP by virtue of the LPA dated 17 August 2005 (as amended from time to time). Both Infracapital GP 1 LLP and M&G Investment Management Limited are wholly owned entities of Prudential plc, a company registered in England & Wales. Consolidated financial statements are produced by Prudential plc, copies of which are available from the Registered Office at Laurence Pountney Hill, London, EC4R 0HH. By virtue of the control and management structure of Infracapital Partners LP, the directors consider that Prudential plc is the ultimate parent undertaking of the company.

The company has no controlling related party.

The smallest group in which the results of the company are consolidated is that headed by Falcon Acquisitions Limited, incorporated in England. The consolidated financial statements of this company are available to the public and may be obtained from Companies House.