ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

WELCOME MALI ROSE

96th Annual Report and Consolidated Financial Statements
31 March 2016

Isles of Scilly Steamship GROUP

COMPANY INFORMATION

Isles of Scilly Steamship Company Limited
Annual Report and
Consolidated Financial Statements
Year Ended 31 March 2016

Company Registration Number 00165746

Directors
Mr R Goldsmith
Mr P Hardaker
Mr M B Howarth
Mr S Marquis
Mr A May
Mr S Reid
Mr D Rogers
Mr T Ward

Registered office
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Isles of Scilly TR21 0LJ

Auditors
PKF Francis Clark
Statutory Auditor
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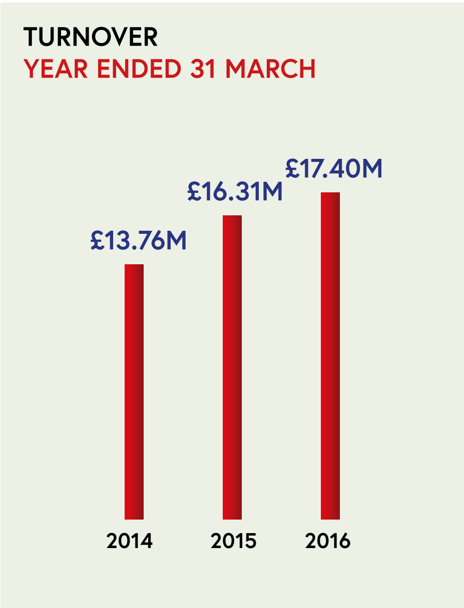
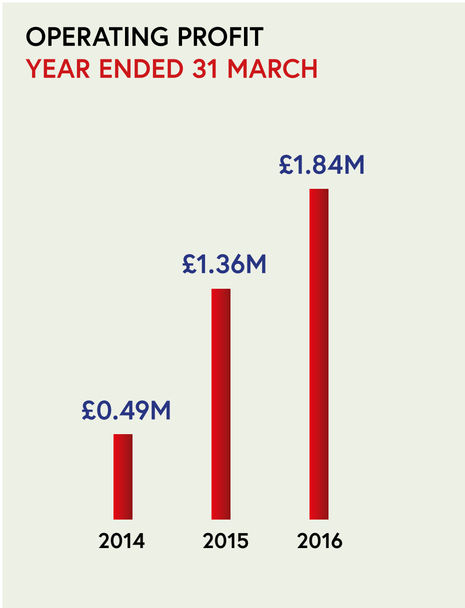
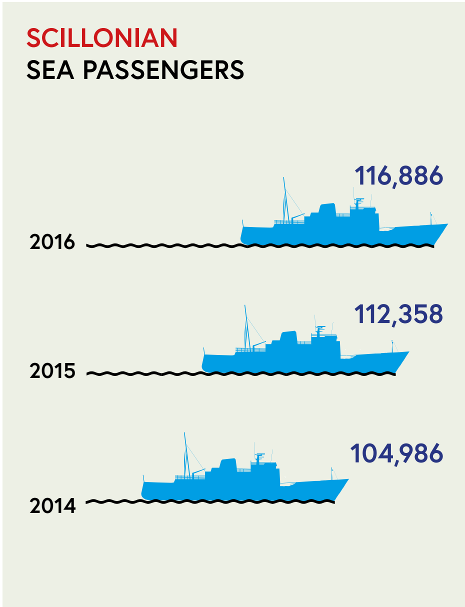
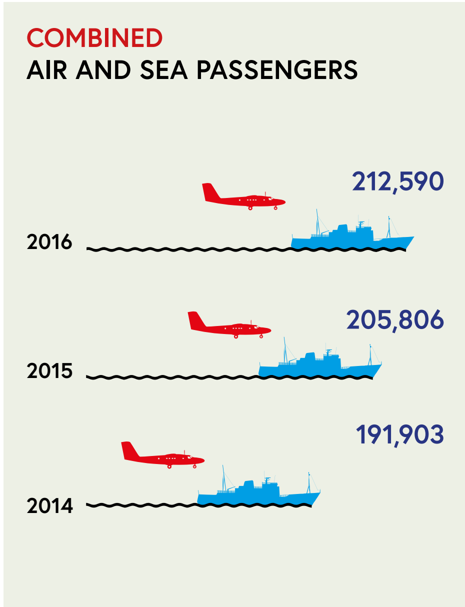
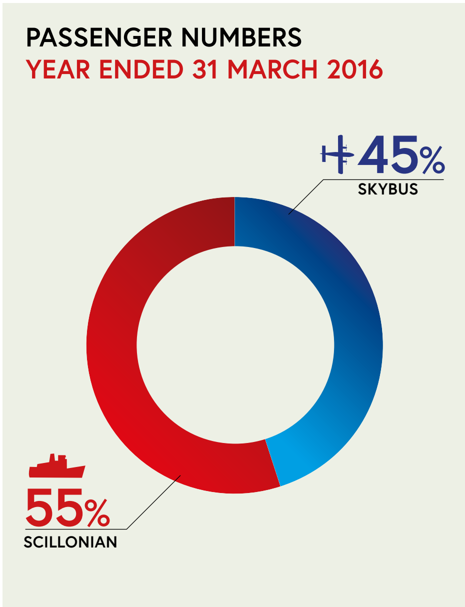
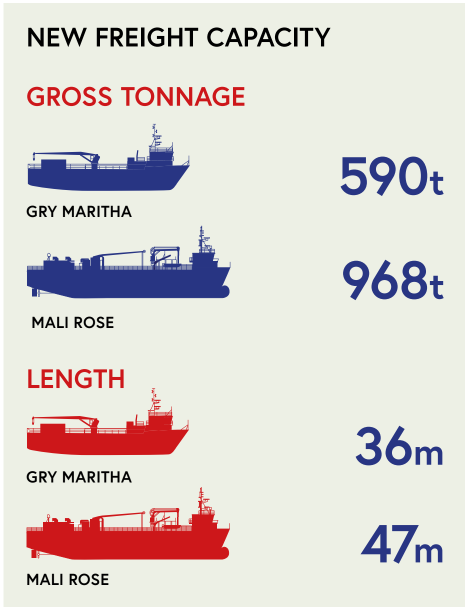












All figures for year ended 31 March 2016

CHAIRMAN'S STATEMENT

A very warm welcome to the Isles of Scilly Steamship Company's 96th Annual Report and Consolidated Financial Statements which cover the twelve-month period ending 31st March 2016. The Board of Directors hopes that you find this document's format and content to be helpful and informative.

Ahead of the statutory accounts a summary of the Company's financial performance during the year together with the composition of the Company's Board of Directors and an account of its work and responsibilities can be found over the subsequent 12 pages.

The year under review was a very successful one for the Group, and one in which it continued the pattern of strong commercial performance and growth. The Board has quantified the importance of the Group's strongly positive financial results to recent, and enhanced, levels of ongoing capital expenditure. This expenditure will be in the form of investments which will allow the Group to undertake its part in fulfilling its strategic objective of improving and upgrading every aspect of the transport system serving the Islands for the benefit of Island residents, as well as all of those who choose to visit.

The numbers of people travelling between the mainland and the islands continued to grow, for the second year running. 212,590 passengers travelled during the period, (2015: 205,806) an increase of 3.3% on the prior year. It was a year, none the less, which presented challenges characterised by inclement weather around the times of peak demand on our services. That the Group rose to these challenges is testament to the work undertaken by the Chief Executive Officer Rob Goldsmith, and his team. On behalf of my non-executive Director colleagues I extend my thanks to all of the Group's employees for the dedication, flexibility and professionalism they have demonstrated over the period.

The Board includes in its discussions the relative importance of the travel experience to the overall enjoyment and satisfaction of the different groups of people choosing to spend time on the Islands. Our view, informed by independent research, as well as our own, is that the issues of resilience, reliability, affordability, accessibility and overall levels of service are identified by people travelling between the mainland and the islands, be they visiting for pleasure, for business or as residents of the Islands. The Group puts these issues at the heart of its business planning but to be successful it requires support from other public and private sector providers of transport and infrastructure services. It is encouraging to see, therefore, progress on a number of these fronts.

First, the much enhanced passenger and freight customer experiences as a result of the significant improvements to St Mary's quay. The recent dredging of Penzance harbour as well as incremental improvements to that quay's facilities are leading to better customer experiences there too, and it is encouraging that more substantial enhancements are now being discussed by a number of relevant stakeholders. Second, passengers are able to receive an enhanced service because of the improvements made to St. Mary's airport. The route network accessible from Cornwall Airport Newquay has grown, and an affordable airport transfer service to and from Truro has been introduced. Exeter airport continues to improve and it is gratifying to continue to receive plaudits for Land's End Airport. Third, a number of major transport initiatives are underway or have been announced by Cornwall Council including: the A30 Temple to Higher Carblake improvements scheduled for completion in spring 2017; the A30 Carland Cross to Chiverton dual carriageway on which work is scheduled to commence in 2020; investment in the rail network planned to deliver twelve extra services a day to and from Penzance by the end of 2018 and the upgraded Night Riviera due to enter service at the end of this year. Last, the improvements to St Mary's and some off-islands' roads, the Islands' connection of fibre broadband and the introduction of mobile 4G are all welcome.

The Board is working to a set of strategic objectives for the Group which incorporates a detailed five-year business plan, and it looks to measure the progress the Group is making in this respect against a set of headline and detailed criteria. Important amongst these are the financial metrics and the Board is pleased to report the detailed results contained in this report. Operating profit increased by 35.5% to £1,840,000 (2015: increase 178% to £1,358,000). Shareholder funds increased by £1,742,000 (2015: £1,250,000) or 16.2% (2015: 13.1%). A medium term correlation exists between these financial metrics and capital expenditure, which during the period was £1,773,000 (2015: £3,447,000) This brings the total sum the Group has invested in its asset base over the last five years to £12,545,000.

During the period under review the most significant capital investment decision was the one to acquire and modify the vessel Mali Rose as a replacement freight vessel for the long serving Gry Maritha. This investment is the first major step in recent times towards the Group's goal of replacing and upgrading its shipping assets. When she enters service later this year the Mali Rose will allow the Group to offer its customers much greater capacity than that offered by the Gry Maritha. The Mali Rose's functionality and operating characteristics are much improved such that we will be in a position to offer a fundamentally improved scheduled freight service designed to contribute towards an improvement in the quality of life and prosperity of all of those who live on the Islands. Other major investments included improvements to Penzance Dry Dock (which now presents an image of which we can be proud to all who cross the Ross bridge) while capital expenditure included a new aircraft for Skybus, a fire appliance built to Land's End Airport's specifications, new GPS landing technology for Skybus' aircraft to improve operational resilience during times of poor weather (EGNOS) and improvements to our maritime fleet in the upgrades to our inter-island launch, the Lyonesse Lady.

Looking ahead, investments are planned to the passenger and freight booking systems for both sea and air transport and to the quality, and so comfort, afforded by the interiors of our aircraft fleet. All of these investments are designed to allow the Group to add to or enhance its service around the key service issues mentioned earlier. Furthermore, the Board is looking to a potential step change increase in recent capital expenditure that would occur as a result of a new vessel replacing our current flagship, Scillonian III. It is still our view that Scillonian III could continue in service on the route until 2020, and possibly beyond, however, there exist compelling supply side and demand side reasons to look to accelerate this timetable. Scillonian III's replacement is likely to be a new build vessel designed with the comfort and needs of passengers at the forefront. The vessel will complement the service offered by the Mali Rose. Currently the supply side opportunities are in respect of key components such as steel, and facilities such as vessel design, finance and

construction. Whilst the potential implications of Brexit in this regard, if any, are not yet clear, the Board is looking to see if these opportunities can be taken. On the demand side it is clear that a new, enhanced capability vessel operating on the route, especially when taken with recent actual and other planned marine and aviation investments, would contribute significantly to the quality of life of all who live on and visit the Islands, as well as to their prosperity, and to that of west Cornwall. The Board is of the view that the precise specification of any new build vessel would be agreed taking into account market research of customer needs and the views of stakeholders on both the Islands and the mainland.

The Board is proposing a dividend payment of 11 pence per share (2015: 10 pence per share) £149,449 (2015: £134,100) to be paid to shareholders on the register at 16th June 2016. This 11.4% increase (2015: 5.3%) is consistent with the Board's progressive dividend policy and takes account of the Company's earnings, financial performance and its asset replacement plans.

The Group continues to place a high priority on the welfare and professionalism of its staff. Training in mandatory areas as well as in professional development and customer care was ongoing throughout the period. Recruitment too was ongoing in specialist areas including marine and aviation engineering, air traffic control, pilots, finance and personnel. It is with sadness that we reflect on the death of Jeff Marston on the 13th February 2016. Jeff's decade long contribution to the Group as CEO was detailed in my 2014 statement. Jeff's moving funeral took place in Durham and the family hosted a memorial event for him in the new main Land's End airport building; a project with which he was closely associated.

Much of the Executive team, and the Board, participated in a series of engagement events on 15th September 2015 at which all island residents were welcome. Further similar events are planned with agendas refined as we move towards fulfilling our major asset enhancement / replacement programme. The Group participated in the Cornwall Transport Expo at Cornwall Newquay Airport during September 2015. A major new initiative launched during the period was the Group's Community Fund. This Fund is chaired by Terry Ward and overseen by volunteers from the community. The Fund considers applications for cash grants from community organisations and individuals on the islands and in west Cornwall. This scheme has been very well received and has already made a number of awards. Further details can be found at www.islesofscilly-travel.co.uk/isles-of-scilly-steamship-group-community-fund/. The Group was pleased to continue its sponsorship of the popular Travel Club whereby island residents can claim significant discounts for travel on the Group's scheduled sea and air services. We were pleased also to continue with our support and sponsorship of many other events including the largest yet World Pilot Gig Championships.

Finally, and on behalf of my colleagues on the Board, thanks are extended to all of our customers and shareholders for your continuing interest and support of the Company.

Andrew May.

Andrew May,
Chairman 21st July 2016

BOARD OF DIRECTORS

ROBERT GOLDSMITH
CHIEF EXECUTIVE OFFICER

Robert Goldsmith replaced the longstanding former Chief Executive, Jeff Marston, in February 2014. Previously he undertook the role of Commercial Project Director at Manchester Airports Group for its equity sale and subsequent acquisition of London Stansted Airport. He has worked in the aviation industry for over 24 years holding senior roles at seven airports within the UK and overseas including Managing Director of Bournemouth Airport, Managing Director of Humberside Airport and General Manager Business Development for Adelaide and Gold Coast Airports in Australia. He is also a Director of the Islands' Tourism and Business Partnership and was previously a Director of the Hull and Humber Chamber of Commerce.

STUART REID
CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Stuart joined Isles of Scilly Steamship Group as Chief Financial Officer in July 2013 and appointed as a Board director in June 2015. Originally from Mullion, Stuart graduated from Cardiff University with a BSc (Hons) degree in Pharmacology & Toxicology and then qualified as a Chartered Accountant in 2007. Stuart has previously worked as Financial Controller at Smart Solutions Recruitment, one of Wales fastest growing companies. Stuart now lives in St Buryan and is also a governor at St Buryan Academy Primary School.

ANDREW MAY
CHAIRMAN

Andrew May joined the Board in 1992. He worked in Lincolnshire and London before returning to St Mary's where he now farms and is involved, with his wife Juliet, 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, Chairman of the Cornwall and Isles of Scilly Rural and Farming Network and Vice Chairman of the Rural Cornwall Partnership. He is the Chairman of the Group's Nominations and Remuneration Committees.

PETER HARDAKER
VICE-CHAIRMAN

Peter Hardaker joined the Board in 2003. He has worked in the Agricultural and land based industries for all of his working life, the last 34 years of full time employment being in Cornwall and the Isles of Scilly. He is a governor of The Cornwall College Group and a Director of Kernow Grain Ltd and a Council Member of the Royal Cornwall Agricultural Association. He is Chair of the Group's Audit Committee and sits on the Nominations and Remuneration Committees.

BOARD OF DIRECTORS

TERRY WARD

Terry was born and lives on St Mary's; he joined The Board in 1989. He founded The Foredeck Clothing Store in 1973 and together with his wife Jane, he has overseen considerable growth and diversification within their business. Alongside The Foredeck, the Wards also own and operate The 49 Degrees Clothing Store which is the home of the popular I.O.S. brand. The Wards, along with their two daughters and sons-in law, have also created "stand alone" brands and are involved in manufacture, wholesale, and retail consultancy. Terry also chairs the Independent Committee for the Company's Community Fund.

MARK HOWARTH

Mark has lived on the North Cornish coast for many years, joined the Board in 2013 and is a Fellow of the Chartered Institute of Logistics and Transport. He has been in the transport business for 50 years, working in both the UK and overseas. He set up his own bus company, Western Greyhound, in 1997 to revitalise bus operations in Cornwall which grew rapidly and was renowned for its good quality. He sold the business in 2014. Mark spent many years on the Council of the Confederation of Passenger Transport (CPT), additionally chairing the South West Region liaising with local authorities, the Government and Ministers whilst also chairing the Newquay Cornwall Airport Forum for many years. Mark is currently an International Transport Consultant currently working on projects in Indonesia for the Australian Government, and is also involved in farming in South Africa.

DICCON ROGERS

Diccon Rogers joined the Board in 2013. From a St Mary's farming family, he worked in business consultancy in central London in parallel with founding his own marine and construction contracting businesses in Scilly and mainland UK. Co-founding Keynvor Morlift Ltd in 2008, he continues the company's expansion of marine activity across subsea and surface marine construction, heavy lift, towage, salvage, and project cargo, with a particular focus on marine renewable energy. He has served as a trustee of two Scillonian charities and is currently a Steering Board director of the South West Marine Energy Park. He lives in Scilly and Falmouth.

SIMON MARQUIS

Simon Marquis joined the Board in 2014 and lives in Wadebridge. He worked in various advertising agencies and business publishers for over 30 years, latterly as CEO of Zenith Media UK, and has been a non-executive director of a variety of media and marketing businesses since 2003, including St Ives plc, Evolutions TV and the National Readership Survey. He has been a trustee of the RSPB and the Cornwall Bird Watching and Preservation Society.

STRATEGIC REPORT

For the year ended 31March 2016

PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of regular sea and air services for passengers and cargo between the mainland and the Isles of Scilly.

During the year under review, the Companies continued the operation of ancillary activities as follows: marine and aeronautical engineering, garage and road haulage services on St Mary's, ship repairs and operation of a dry dock, inter-island freight and mail services, operation of Land's End Airport and provision of scenic flights.

BUSINESS REVIEW

The results for the year are shown in the profit and loss account on Page 18.

The Group's turnover increased by 6.7% to £17,402,000 (2015: £16,306,000) and operating profit grew by 35.5% to £1,840,000 (2015: £1,358,000).

One of the key drivers for the increase in turnover has been the continuation of the positive trend in overall passenger traffic between the mainland and the Isles of Scilly. The Company has continued to consolidate its position as sole provider in order to both stimulate and facilitate market growth by air and sea. The Company has increased the impact and sophistication of its marketing activities and continues to provide significant support to the Islands' Partnership in order to promote the Isles of Scilly as a visitor destination. Passenger numbers across all modes increased by 3.3% to 212,590 passengers (2015: 205,806 passengers). The improvement in visitor numbers is welcome news as a reduction of visitor numbers represents the most significant risk to the long term profitability of the Group.

Turnover for services by sea increased by 3.5% to £6,195,000 (2015: £5,984,000). Passenger numbers on the Scillonian III increased by 4.0% to a record level of 116,886 (2015: 112,358 passengers) which has contributed to an increase in marine passenger revenue by 8.7% to £3,731,000 (2015: £3,432,000). However, this increase in revenue was partially offset by a 33.4% decrease in fuel sales down £217,000 to £433,000 largely due to a reduction in fuel volumes following the completion of the runway resurfacing work on St Mary's but also as a result of falling oil prices which were passed on to customers.

Turnover for services by air rose by 11.8% to £9,364,000 (2015: £8,373,000) as a result of increased passenger volumes which increased by 2.4% to 95,704 passengers (2015: 93,448 passengers) and an improved aircraft utilisation and yield management strategy.

Other operating income increased substantially this year to £446,000 (2015: £43,000). During the year the Group contracted the use of a tug boat to assist with the berthing of our ships at St Mary's Quay during the quay extension project. The cost of the hire of this vessel for the project was £383,000 and is included in Cost of Sales. The cost of the hire has been recharged at cost to Cornwall Council and is included in Other operating income.

Group staff costs have increased by 12.2% or £622,000 to £5,709,000 (2015: £5,087,000). In order to facilitate its continued growth the Group has strengthened its resilience with the appointment of a number of key management and technical positions during the year. The Group also continues to recruit operational and support staff to accommodate the increase in passenger numbers to maintain the high levels of customer service. Staff costs as a percentage of turnover has increased slightly to 32.8% in 2016 compared to 31.2% in 2015 as part of the cycle of investment in the capabilities of the Group.

Following a substantial increase in marketing costs in the previous year by 48.3% (2015: £270,000), advertising and publicity costs have increased by only a further £6,000 this year. Legal and consultancy fees have increased across the Group by £101,000 with significant costs incurred relating to a number of projects including the design and implementation of the EGNOS navigational system for the four runway directions at Land's End Airport. Repairs have increased by £471,000 this year which is primarily attributable to an increase in the aviation sector of £280,000. The increase in the Skybus aircraft fleet with the purchase of a new Britten Norman Islander and the continued rigorous maintenance programme of our existing fleet, have contributed to this increase.

The Group has continued to make substantial capital investments in upgrading the transport system between the mainland and the Isles of Scilly. The capital programme in the current financial year saw further investment of £1,773,000. Skybus accounted for 84% of this investment with additions exceeding £1.5 million in the year. This included the purchase of the new Britten Norman Islander and £424,000 in replacement engines for other aircraft. Depreciation charges in the year in total amount to £1,112,000 which is £156,000 more than in 2015.

I am pleased to report another strong financial performance with Group Operating Profit recorded at £1,840,000 (2015: £1,358,000) an increase of 35.5% and a significant financial improvement on what was an impressive year in 2015. The increase is attributed to a number of factors, in particular the increase in passenger numbers and improved efficiency and yield management of our passenger services. The Group has benefited from strong cost control and other efficiencies together with the benefits of lower oil prices. The combined effect of all of these factors resulted in an improvement in our operating margin to 10.6% (2015: 8.3%).

Net current assets increased during the year by £1,437,000 to £1,701,000 (2015: £265,000) showing a marked solvency improvement for the Group.

Shareholder funds ended the year at £12,504,000 (2015: £10,762,000) an increase of 16.2% (2015: 13.1%)

The Group had a net cash inflow from operating activities of £2,919,000 (2015: £4,690,000) through an improved operating profit which was partially offset by a net negative working capital movement. The net cash outflow from Capital expenditure was £1,554,000 (2015: £3,386,000). Despite the significant net cash outflow on Capital Expenditure I am pleased to report that cash increased by £1,286,000 (2015: £1,227,000).

ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks which include price risk, credit risk and foreign exchange risk.

The Group continues to face price risks through an increase in costs of aviation parts and consumables due to a fall in manufacturing output. Certain companies within the Group are also retailers of oil-related products that are subject to changes in world commodity price for crude oil. However, the relatively low stock holding maintained and price monitoring systems enables the Group to effectively manage the risk of gross margin erosion.

Credit checks are performed on potential and established customers. The amount of credit risk exposure to any individual customer is controlled by means of a credit limit that is set and monitored by the business.

The Group has aircraft lease commitments and aviation consumable suppliers with liabilities which are settled in dollars. The further weakening of Sterling has been identified as a business risk and the Group manages this currency risk through a combination of forward contracts and spot rate buys when favourable. There were no forward contracts in operation at the year end.

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.

As at the date of approval of the Group accounts, the Board comprises 6 Non-Executive Directors (including the Chairman) and two Executive Directors. The Directors believe that the Board functions effectively and efficiently. The Directors provide a mix of skills, experience and expertise appropriate to the size of the business and its activities.

All Board appointments are made by the Board 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 committees are refreshed at appropriate intervals.

	Salary and bonus £	Fees	Benefits in kind £	Other £	Total 2016 £	Total 2015 £	Pension contributions 2016 £	Pension contributions 2015 £
EXECUTIVE DIRECTORS								
R Goldsmith	147,256	-	9,547	22,518	**179,321**	139,151*	16,983	15,855
S Reid	69,117	-	-	-	**69,117****	-	-	-
NON EXECUTIVE DIRECTORS								
P D Hardaker	-	10,600	-	-	**10,600**	8,555	-	-
A J May	-	24,865	-	-	**24,865**	20,555	-	-
T B Ward	-	6,639	-	-	**6,639**	5,405	-	-
M Howarth	-	6,466	-	-	**6,466**	5,405	-	-
D S Rogers	-	6,466	-	-	**6,466**	5,405	-	-
S Marquis	-	5,929	-	-	**5,929**	4,087	-	-
PAST DIRECTORS								
J Walder	-	2,718	-	-	**2,718**	4,905	-	-
	216,373	63,683	9,547	22,518	**312,121**	193,468	16,983	15,855

Mr Goldsmith's benefit in kind relates to the provision of a fully expensed car and medical insurance. The company compensated Mr Goldsmith for relocation expenses and this is shown under "other" remuneration.

* Mr Goldsmith was appointed to the Board part way through the financial year on 16th May 2014

** Mr Reid was appointed to the Board part way through the financial year on the 1st June 2015.

REMUNERATION COMMITTEE

The Remuneration committee comprises Andrew May (Chairman) Peter Hardaker (Vice-Chairman) and Mark Howarth. The Committee's remit includes the review and recommendation to the Board of changes to the salary and benefits payable to Executive Directors having regard to a wide range of comparables as well as the performance of the Company and that of the Executive.

The Committee was active throughout the year, meeting formally regularly as well as by email and telephone.

The committee's work in the main concerned; the Chief Executive Officer's (CEO) remuneration from 1st April 2016 and his performance related bonus payable in respect of the prior year as well as years commencing April 2017 & 2018; the Chief Financial Officer's (CFO) remuneration from June 2016 and his performance related bonus in respect of the prior year. Regarding the committee's recommendation in respect of the former the committee sought the views of, and information from, a number of individuals and organisations, including: the CEO, Non-Executive Directors, the Company's external advisors and a number of external organisation such as the Institute of Directors. The Board endorsed the committee's recommendations that the CEO's salary be increased by 4%.

The Company makes a contribution to the CEO's pension based on a percentage of base salary and so from April 2016 onwards this contribution will be the same percentage of the higher salary. The Board further agreed that the calculation of the CEO's performance related bonus for the period should continue as previously at 1.5% of the increase in shareholder value.

Continuing the work commenced last year, agreement was reached that the methodology under which the performance related bonus is to be calculated in future years will evolve such that the outcome will be a percentage of the CEO's base salary.

Regarding the committee's recommendations in respect of the CFO the committee sought the views of the CFO, the CEO and Non-Executive Directors, as well as information from the external individuals and organisations listed above. The Board endorsed the committee's recommendations that the CFO's salary be increased by 4.1% from 1st June 2016, and that his performance related bonus for the prior year be paid at the rate of 12% of base salary.

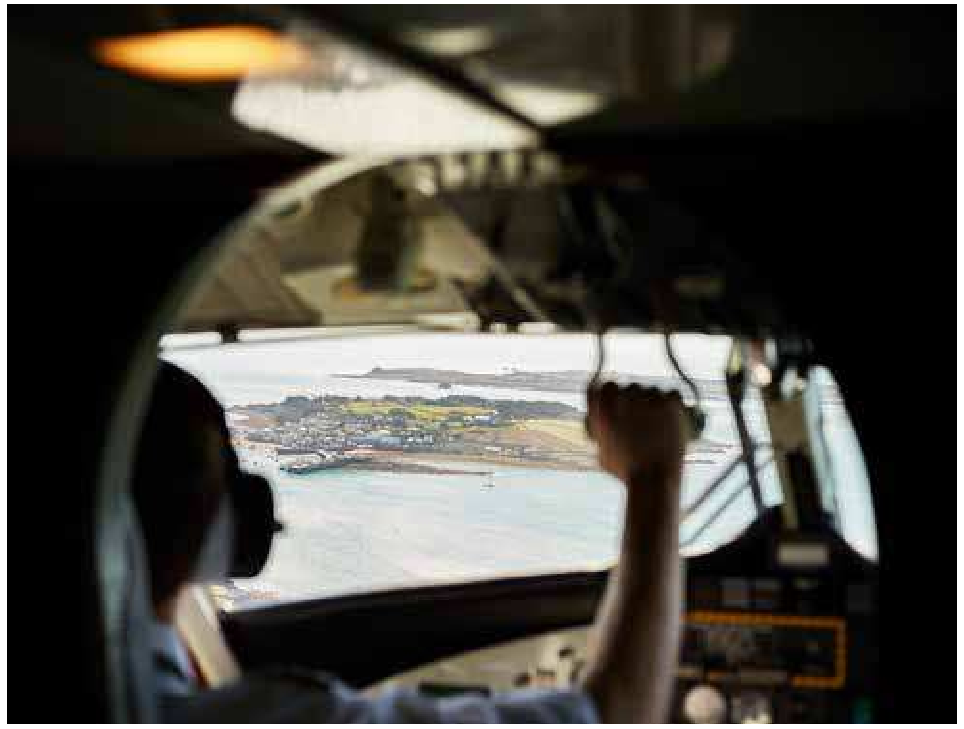
NOMINATIONS COMMITTEE

The Nominations Committee comprises Andrew May (Chairman), Peter Hardaker (Vice-Chairman), Rob Goldsmith (CEO) and Simon Marquis. The committee has a wide remit which includes:

- reviewing the Board's structure, size and composition
- identifying and nominating candidates to fill Board vacancies
- reviewing the time commitment required from non-executive directors to fulfil their responsibilities and to consider performance evaluation
- formulating succession plans for executive and non-executive directors
- recommending changes to the membership of the Audit, Nominations and Remuneration committees to the Board.

The full Board endorsed the committee's view that it should be increased in number from three to four. Simon Marquis accepted an invitation to join the committee in November 2015.

The Committee met formally on three occasions during the year, during November 2015 and February & March 2016 to consider a number of issues:



First, it continued the work, initiated last year, on the terms under which Non-Executive Directors work for the Company. These detailed terms of appointment were finalised, agreed and adopted. The committee commenced a review of the process whereby expenses are paid to Directors in respect of their work on behalf of the Company.

Second, it agreed a process under which any potential conflicts of interest would be examined. This process was endorsed by the full Board.

Third, the committee was active in its core area of responsibility of identifying candidates to enter the Company's Non-Executive Director selection process. The criteria by which the committee felt candidates should be assessed was reviewed during the year, reflecting the Company's evolving circumstances. Similarly, the timing imperative of any new appointment was reviewed. The committee was in touch with a number of candidates throughout the year and remains actively engaged in this area of its work.

AUDIT COMMITTEE

The Audit Committee members are Terry Ward, Diccon Rogers and Peter Hardaker (Chairman). The Committee possesses a broad range of experience and diverse commercial knowledge assisting us to fulfil our responsibilities. We constantly work to keep abreast of changing audit priorities, risks and changes to reporting in line with best practice and good governance.

Our principal role is to monitor the integrity of the financial statements of the Company and any formal announcement relating to the Company's performance, review the Company's internal financial controls and monitor and review the effectiveness of the Company's internal audit function. It also considers and recommends to the Board, the appointment of external auditors for approval by shareholders at the AGM. The Chairman and/or the Chief Executive are invited to attend audit meetings as and when appropriate.

The Audit Committee has formally met on four occasions during the financial year. On the 29th June 2015 to review last years draft accounts for year ending 31st March 2015 for recommendation to the board and to review the audit management letter where there were no significant audit issues and few areas for follow up or for improvement. On the 3rd December 2015 the interim accounts were reviewed and approved for recommendation to the board. At a meeting on the 25th February the audit planning memorandum was discussed, agreeing the audit strategy and priorities.

Risk Reporting is a constant focus at all our meetings and I can report continued progress in this area. The Risk Management Committee report to the Audit Committee on identified business continuity risks and actions identified to mitigate these risks.

The adoption of the Financial Reporting Standard FRS 102 was a requirement for the Group's financial statements in the current reporting period. The Audit Committee can report that this matter has been discussed with the auditors and that this annual report includes the necessary disclosures and reporting format. Other matters are discussed as appropriate but I assure you that the influence of the Audit Committee continues throughout the year.

The key role of our committee is to provide oversight and reassurance to the Board, specifically with regard to the integrity of the Company's financial reporting, audit arrangements and internal control processes and we are committed to this responsibility.

Approved by the Board on the 21st July 2016 and signed on its behalf by:

R. J. Goldsmith

Mr R Goldsmith, Director

DIRECTORS' REPORT

For the year ended 31 March 2016

The directors present their report and the consolidated financial statements for the year ended 31 March 2016.

DIRECTORS OF THE GROUP

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

	Committees
Mr R Goldsmith	N
Mr P Hardaker (Vice Chairman)	A, R, N
Mr M P Howarth	R
Mr S Marquis	N
Mr A May (Chairman)	R, N
Mr S Reid (appointed 1/6/15)	-
Mr D Rogers	A
Mrs J Walder (resigned 9/9/15)	-
Mr T Ward	A

'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 2016 are set out below. There have been no changes between these interests between 1st April 2016 and 21st July 2016.

	2016	2015
P D Hardaker	3,417	3,312
A J May	66,457	63,443
T B Ward	18,078	17,562
D S Rogers	411	411
S Marquis	600	-
M Howarth	2,000	-

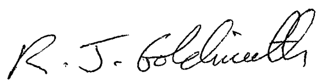
DIVIDENDS

The directors recommend a final dividend payment of £149,449 (2015: £134,100), 11.0p (2015: 10.0p) per share (or a scrip issue of 1 share for every £3.75 of dividend). This is based on shareholdings at 16 June 2016 and will be paid on 7 November 2016. This dividend has not been recognised as a liability in the financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on the 21st July and signed on its behalf by:



Mr R Goldsmith
Director

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 of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

We have audited the financial statements of Isles of Scilly Steamship Company Limited for the year ended 31 March 2016, set out on pages 18 to 31. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 AUDITOR

As explained more fully in the Statement of Directors' Responsibilities (set out on page 15), 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 to the financial statements.

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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 company's affairs as at 31 March 2016 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 Greenwood Allen BSc FCA
(Senior Statutory Auditor)
For and on behalf of PKF Francis Clark,
Statutory Auditor

Lowin House
Tregolls Road
Truro
Cornwall TR1 2NA

Date: 27th July 2016

ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT AND COMPREHENSIVE INCOME

Year Ended 31 March 2016	Notes	**2016 (£)**	2015 (£)
TURNOVER	3	**17,402,028**	16,306,209
Cost of sales		**(16,007,171)**	(14,990,617)
GROSS PROFIT		**1,394,857**	1,315,592
Other operating income	4	**445,557**	42,693
OPERATING PROFIT	5	**1,840,414**	1,358,285
Other interest receivable and similar income	8	**16,951**	9,735
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**1,857,365**	1,368,020
Tax on profit on ordinary activities	9	**(36,438)**	(41,438)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		**1,820,927**	1,326,582
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,820,927**	1,326,582
PROFIT FOR THE YEAR		**1,820,927**	1,326,582
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,820,927**	1,326,582
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: Owners of the company		**1,820,927**	1,326,582

The above results were derived from continuing operations.

The group has no recognised gains or losses for the year other than the results above.

The notes on pages 24 to 31 form an integral part of these financial statements.

ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

Year Ended 31 March 2016	Notes	**2016 (£)**	2015 (£)
FIXED ASSETS			
Intangible fixed assets	10	**43,082**	54,082
Tangible fixed assets	11	**12,178,184**	11,745,145
		12,221,266	11,799,227
CURRENT ASSETS			
Stocks	13	**1,291,364**	1,134,620
Debtors	14	**1,888,795**	1,774,324
Cash at bank and in hand		**5,494,884**	4,208,837
		8,675,043	7,117,781
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	**(6,973,889)**	(6,853,205)
NET CURRENT ASSETS		**1,701,154**	264,576
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,922,420**	12,063,803
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	**(1,062,173)**	(981,930)
PROVISIONS FOR LIABILITIES		**(356,000)**	(320,000)
Net assets		**12,504,247**	10,761,873
CAPITAL AND RESERVES			
Called up share capital	19	**1,358,631**	1,340,997
Share premium account		**93,642**	55,729
Profit and loss account		**11,051,974**	9,365,147
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**12,504,247**	10,761,873
TOTAL EQUITY		**12,504,247**	10,761,873

Approved and authorised for issue
by the Board on the 21st July 2016.

R. J. Goldsmith

Mr. R Goldsmith
Director

Company Registration Number 00165746

The notes on pages 24 to 31 form an integral part of these financial statements.

COMPANY BALANCE SHEET

Year Ended 31 March 2016	Notes	**2016 (£)**	2015 (£)
FIXED ASSETS			
Tangible fixed assets	11	**5,299,170**	5,342,481
Investments	12	**264,793**	264,788
		5,563,963	5,607,269
CURRENT ASSETS			
Debtors	14	**32,871**	2,622,040
Cash at bank and in hand		**5,431,326**	4,130,494
		5,464,197	6,752,534
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	**(2,326,685)**	(4,701,443)
NET CURRENT ASSETS		**3,137,512**	2,051,091
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,701,475**	7,658,360
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	**(1,062,173)**	(981,930)
NET ASSETS		**7,639,302**	6,676,430
CAPITAL AND RESERVES			
Called up share capital		**1,358,631**	1,340,997
Share premium account		**93,642**	55,729
Profit and loss account		**6,187,029**	5,279,704
SHAREHOLDERS' FUNDS		**7,639,302**	6,676,430

Approved and authorised for issue
by the Board on the 21st July 2016.

R. J. Goldsmith

Mr. R Goldsmith
Director

Company Registration Number 00165746

The notes on pages 24 to 31 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 March 2016	Share capital (£)	Share premium (£)	Profit and loss account (£)	**Total equity (£)**
At 1 April 2015	1,340,997	55,729	9,365,147	**10,761,873**
Profit for the year	-	-	1,820,927	**1,820,927**
Total comprehensive income	-	-	1,820,927	**1,820,927**
Dividends	-	-	(134,100)	**(134,100)**
New share capital subscribed	17,634	37,913	-	**55,547**
At 31 March 2016	1,358,631	93,642	11,051,974	**12,504,247**

Year Ended 31 March 2016	Share capital (£)	Share premium (£)	Profit and loss account (£)	**Total equity (£)**
At 1 April 2014	1,320,561	27,139	8,164,018	**9,511,718**
Profit for the year	-	-	1,326,582	**1,326,582**
Total comprehensive income	-	-	1,326,582	**1,326,582**
Dividends	-	-	(125,453)	**(125,453)**
New share capital subscribed	20,436	28,590	-	**49,026**
At 31 March 2016	1,340,997	55,729	9,365,147	**10,761,873**

The notes on pages 24 to 31 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 March 2016	Share capital (£)	Share premium (£)	Profit and loss account (£)	**Total (£)**
At 1 April 2015	1,340,997	55,729	5,279,704	**6,676,430**
Profit for the year	-	-	1,041,425	**1,041,425**
Total comprehensive income	-	-	1,041,425	**1,041,425**
Dividends	-	-	(134,100)	**(134,100)**
New share capital subscribed	17,634	37,913	-	**55,547**
At 31 March 2016	1,358,631	93,642	6,187,029	**7,639,302**

Year Ended 31 March 2016	Share capital (£)	Share premium (£)	Profit and loss account (£)	**Total (£)**
At 1 April 2014	1,320,561	27,139	4,746,826	**6,094,526**
Profit for the year	-	-	658,331	**658,331**
Total comprehensive income	-	-	658,331	**658,331**
Dividends	-	-	(125,453)	**(125,453)**
New share capital subscribed	20,436	28,590	-	**49,026**
At 31 March 2016	1,340,997	55,729	5,279,704	**6,676,430**

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	**2016 (£)**	2015 (£)
Profit for the year		**1,820,927**	1,326,582
ADJUSTMENTS TO CASH FLOWS FROM NON-CASH ITEMS			
Depreciation and amortisation	5	**1,122,645**	956,018
Loss/(profit) on disposal of tangible assets		**26,025**	(17,996)
Finance income	8	**(16,951)**	(9,735)
Income tax expense	9	**36,438**	41,438
		2,989,084	2,296,307
WORKING CAPITAL ADJUSTMENTS			
(Increase)/decrease in stocks	13	**(156,744)**	146,313
Increase in trade debtors	14	**(114,471)**	(288,853)
Increase in trade creditors	16	**120,465**	1,554,194
Increase in deferred income, including government grants		**80,243**	981,930
Cash generated from operations		**2,918,577**	4,689,891
Income taxes paid	9	**(219)**	(657)
Net cash flow from operating activities		**2,918,358**	4,689,234

CASH FLOWS FROM INVESTING ACTIVITIES	Notes	**2016 (£)**	2015 (£)
Interest received		**16,951**	9,735
Acquisitions of tangible assets		**(1,772,925)**	(3,447,090)
Proceeds from sale of tangible assets		**202,216**	106,429
Acquisition of intangible assets	10	**-**	(54,999)
Net cash flows from investing activities		**(1,553,758)**	(3,385,925)

CASH FLOWS FROM FINANCING ACTIVITIES	Notes	**2016 (£)**	2015 (£)
Dividends paid		**(78,553)**	(76,427)
Net increase in cash and cash equivalents		**1,286,047**	1,226,882
Cash and cash equivalents at 1 April		**4,208,837**	2,981,955
Cash and cash equivalents at 31 March		**5,494,884**	4,208,837

The notes on pages 24 to 31 form an integral part of these financial statements.

NOTES

to the financial statements, Year Ended 31 March 2016

1 GENERAL INFORMATION

The company is a private company limited by share capital incorporated in England and Wales.

The address of its registered office is:
Hugh Town
St. Mary's
Isles of Scilly TR21 0LJ

2 ACCOUNTING POLICIES

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Change in basis of accounting and basis statement of compliance

The group's financial statements have been prepared in accordance with FRS102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland. The group has transferred from previously extant UK GAAP to FRS102 as at 1 April 2014. There is no material impact on the reported financial position and financial performance.
There are no material departures from FRS102.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The functional currency of the group is considered to be pounds sterling because this is the currency of the primary economic environment in which the company operates.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2016.

No Profit and Loss Account is presented for the Company as permitted by section 408 of the Companies Act 2006. The company made a profit after tax for the financial year of £1,041,425 (2015 - £658,331).

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Summary of disclosure exemptions

FRS102 allows a qualifying entity certain disclosure exemptions subject to certain conditions which the company has complied with. This includes the notification of, and no objection to, the use of such exemptions by the company's shareholders.

On this basis the company has taken advantage of the following exemptions:

i) From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows included in these financial statements includes the company's cash flows;

ii) From the financial instrument disclosures, required under FRS102 paragraphs 11.39 to 11.48A as the information is provided in the consolidated financial statement disclosures.

The group and company have also taken advantage of the exemption under FRS102 paragraph 33.1A in respect of transactions between members of the group, on the basis that the group companies are 100% owned.

Revenue recognition

Turnover represents charges for the supply of sea and air passenger and freight services and associated income. Turnover is recognised when the group fulfils its contractual obligations to customers in respect of the goods and services provided. Turnover is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the company.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

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

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current corporation tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the Group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Negative goodwill arising on an acquisition is recognised on the face of the balance sheet on the acquisition date and subsequently the excess up to the fair value of non-monetary assets acquired is recognised in profit or loss in the periods in which the non-monetary assets are recovered.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	Straight line over 5 years
Intangible assets	Straight line over 5 years

Property, plant and equipment

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold properties	Straight line over 20 or 50 years
Leasehold properties	Straight line over the term of the lease
Runways	Straight line over 18 years
Aircraft engines and major components	Straight line over the number of flight hours remaining
Plant and equipment	At various rates appropriate to the relevant asset (straight line)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade receivables

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell.

Work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade payables
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined contribution pension obligation
A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Financial instruments
Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the group is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expense in the profit and loss account.

Ship maintenance
When the ships are dry-docked for overhaul, the costs of these overhauls are charged against the profit and loss account as incurred. Other repair or service costs are also charged against the profit and loss accounts as incurred.

3 REVENUE

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

	2016 (£)	2015 (£)
Sales by sea	6,195,617	5,983,755
Sales by air	9,364,094	8,373,386
Other non-transport activities	1,842,317	1,949,068
	17,402,028	16,306,209

4 OTHER OPERATING INCOME

The analysis of the group's other operating income for the year is as follows:

	2016 (£)	2015 (£)
Government grants	62,641	42,693
Miscellaneous other operating income	382,916	-
	445,557	42,693

5 OPERATING PROFIT

Arrived at after charging/(crediting):

	2016 (£)	2015 (£)
Depreciation expense	1,111,645	955,101
Amortisation expense	11,000	917
Loss/(profit) on disposal of property, plant and equipment	26,025	(17,996)
Operating lease expense - other	453,867	497,756
Auditors fees	12,805	11,950
Foreign exchange gains/(losses)	1,874	(1,260)
Government grants receivable	(62,641)	(42,693)

6 STAFF COSTS

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

	2016 (£)	2015 (£)
Wages and salaries	5,084,361	4,579,885
Social security costs	418,560	369,570
Employees	205,951	137,768
	5,708,872	5,087,223

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

	2016 (No.)	2015 (No.)
Employees	180	189
Directors	9	8
	189	197

ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

7 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2016 (£)	2015 (£)
Remuneration	312,121	193,468
Company contributions paid to money purchase schemes	16,983	15,855
	329,104	209,323

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

	2016 (No.)	2015 (No.)
Accruing benefits under money purchase pension scheme	1	1

8 OTHER INTEREST RECEIVABLE & SIMILAR INCOME

	2016 (£)	2015 (£)
Interest income on bank deposits	16,951	9,735

9 TAXATION

Tax charged/(credited) in the income statement:

	2016 (£)	2015 (£)
Current tax		
UK corporation tax	438	438
Deferred tax		
Arising from origination and reversal of timing differences	36,000	41,000
Tax expense in the income statement	36,438	41,438

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015 - lower than the standard rate of corporation tax in the UK) of 20% (2015 - 20%).

The differences are reconciled below:

	2016 (£)	2015 (£)
Profit before tax	1,857,365	1,368,020
Corporation tax at standard rate	371,473	273,604
Profit of business not subject to taxation	(432,547)	(327,348)
Non-deductible expenses	2,782	(8,344)
Tax losses arising	89,104	93,297
Tax losses utilised	(77,561)	(61,469)
Tax increase (decrease) from effect of capital allowances and depreciation	46,749	30,260
Tax increase (decrease) from other short-term timing differences	57,000	7,000
Tax increase (decrease) from effect of unrelieved tax losses carried forward	(21,000)	34,000
Tonnage tax	438	438
Total current tax	36,438	41,438

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.

Deferred tax - Group
Deferred tax assets and liabilities

Liability	2016 (£)	2015 (£)
Accelerated capital allowances	562,000	512,000
Unutilised losses carried forward	(206,000)	(192,000)
	356,000	320,000

10 INTANGIBLE FIXED ASSETS – GROUP

	Goodwill (£)	Other intangible assets (£)	Total (£)
Cost or valuation			
At 1 April 2015	112,999	1,999	114,998
At 31 March 2015	112,999	1,999	114,998
Amortisation			
At 1 April 2014	58,917	1,999	60,916
Amortisation charge	11,000	-	11,000
At 31 March 2016	69,917	1,999	71,916
Carrying amount			
At 31 March 2016	43,082	-	43,082
At 31 March 2015	54,082	-	54,082

11 PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land and buildings (£)	Long leasehold land and buildings (£)	Short leasehold land and buildings (£)	Plant and machinery (£)	Runways (£)	Total (£)
Cost or valuation						
At 1 April 2015	2,965,340	10,900	541,124	16,810,137	2,519,770	22,847,271
Additions	-	-	-	1,610,717	162,208	1,772,925
Disposals	-	-	-	(580,438)	-	(580,438)
At 31 March 2016	2,965,340	10,900	541,124	17,840,416	2,681,978	24,039,758
Depreciation						
At 1 April 2015	276,420	182	331,210	10,400,989	93,325	11,102,126
Charge for the year	37,777	2,180	13,008	909,680	148,999	1,111,644
Eliminated on disposals	-	-	-	(352,196)	-	(352,196)
At 31 March 2016	314,197	2,362	344,218	10,958,473	242,324	11,861,574
Carrying amount						
At 31 March 2016	2,651,143	8,538	196,906	6,881,943	2,439,654	12,178,184
At 31 March 2015	2,688,920	10,718	209,914	6,409,148	2,426,445	11,745,145

Under paragraph 35.10(d) of FRS102, the directors have taken the exemption from restating the value of the property based on its original cost. The revaluations in 1986 and 1991 are therefore deemed cost.

COMPANY	Freehold land and buildings (£)	Short leasehold land and buildings (£)	Plant and machinery (£)	Runways (£)	Total (£)
Cost or valuation					
At 1 April 2015	2,965,338	364,476	30,811	2,519,770	5,880,395
Additions	-	-	-	162,208	162,208
At 31 March 2016	2,965,338	364,476	30,811	2,681,978	6,042,603
Depreciation					
At 1 April 2015	276,420	154,562	13,607	93,325	537,914
Charge for the year	37,777	13,008	5,735	148,999	205,519
At 31 March 2016	314,197	167,570	19,342	242,324	743,433
Carrying amount					
At 31 March 2016	2,651,141	196,906	11,469	2,439,654	5,299,170
At 31 March 2015	2,688,918	209,914	17,204	2,426,445	5,342,481

ISLES OF SCILLY STEAMSHIP COMPANY LIMITED

12 INVESTMENTS

COMPANY	2016 (£)	2015 (£)
Investments in subsidiaries	**264,793**	264,788

SUBSIDIARIES	£
Cost or valuation at 1 April 2015	264,788
Additions	5
At 31 March 2016	264,793
Carrying amount at 31 March 2016	264,793
At 31 March 2015	264,788

DETAILS OF UNDERTAKINGS

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	Principal activity
Isles of Scilly Skybus Limited	England & Wales	Ordinary share capital	100%	Provision of freight and passenger air services between the mainland and the Isles of Scilly
Land's End Airport Limited	England & Wales	Ordinary share capital	100%	Operation of Land's End Aerodrome
Isles of Scilly Shipping Company Limited	England & Wales	Ordinary share capital	100%	Provision of passenger and cargo services between the mainland and the Isles of Scilly
Lyonesse Shipping Company Limited	England & Wales	Ordinary share capital	100%	Leasing of ships
Lyonesse Air Transport Limited	England & Wales	Ordinary share capital	100%	Dormant
Penzance Dry Dock (2009) Limited	England & Wales	Ordinary share capital	100%	Operation of a dry dock
Nike Engineering Limited	England & Wales	Ordinary share capital	100%	Mechanical and marine engineering
Isles of Scilly Shipping (Guernsey) Limited	Guernsey	Ordinary share capital	100%	Offshore crew management
Island Carriers Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Airways Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Transport Limited	England & Wales	Ordinary share capital	100%	Dormant
Isles of Scilly Freight Company Limited	England & Wales	Ordinary share capital	100%	Dormant
The Isles of Scilly Helicopter Company Limited	England & Wales	Ordinary share capital	100%	Dormant

13 STOCKS

	Group		Company	
	2016 (£)	2015 (£)	2016 (£)	2015 (£)
Work in progress	-	19,000	-	-
Other inventories	1,291,364	1,115,620	-	-
	1,291,364	1,134,620	-	-

Group
The cost of stocks recognised as an expense in the year amounted to £3,479,005 (2015 - £3,550,442).

Impairment of inventories
The amount of impairment loss included in profit or loss is £71,119 (2015 - £28,049).

14 DEBTORS

	Group		Company	
	2016 (£)	2015 (£)	2016 (£)	2015 (£)
Trade debtors	1,343,797	1,360,498	-	-
Amounts owed by related parties	-	-	-	2,496,218
Other debtors	43,829	157,366	5,569	101,534
Prepayments	501,169	256,460	27,302	24,288
	1,888,795	1,774,324	32,871	2,622,040

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 (£)	2015 (£)	2016 (£)	2015 (£)
Cash on hand	1,928	1,763	-	-
Cash at bank	5,492,956	4,207,074	5,431,326	4,130,494
	5,494,884	4,208,837	5,431,326	4,130,494

16 CREDITORS

		Group		Company	
DUE WITHIN ONE YEAR	Notes	2016 (£)	2015 (£)	2016 (£)	2015 (£)
Trade creditors		1,059,909	1,289,176	37,910	326,494
Amounts due to related parties		-	-	2,000,520	4,127,746
Social security and other taxes		122,857	115,716	12,883	10,779
Outstanding defined contribution pension costs		18,180	16,287	513	708
Other creditors	9	40,761	92,747	24,686	29,201
Accruals and deferred income		5,731,744	5,339,060	250,173	206,515
Corporation tax		438	219	-	-
		6,973,889	6,853,205	2,326,685	4,701,443

DUE AFTER ONE YEAR	Notes	2016 (£)	2015 (£)	2016 (£)	2015 (£)
Government grants		1,062,173	981,930	1,062,173	981,930

17 OPERATING LEASES - GROUP

The group's total of future minimum lease payments is as follows:

	2016 (£)	2015 (£)
Not later than one year	478,149	435,639
Later than one year and not later than five year	370,400	374,525
Later than five years	657,333	749,933
	1,505,882	1,560,097

The amount of non-cancellable operating lease payments recognised as an expense during the year was £524,601 (2015 - £570,498).

18 PENSION SCHEMES

Defined contribution pension scheme
The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £205,951 (2015 - £137,768).

Contributions totalling £18,180 (2015 - £16,287) were payable to the scheme at the end of the year and are included in creditors.

During the year the group operated two defined benefit pension schemes - the Merchant Navy Officers Pension Fund (New Section) (MNOPF) and The Merchant Navy Ratings Pension Fund (MNRPF). These schemes are multi-employer schemes. The group has been unable to identify its share of the underlying assets or liabilities of these schemes and therefore has accounted for these schemes as defined contribution schemes in accordance with FRS 102.

Merchant Navy Officers Pension Fund
The main purpose of the actuarial valuation is to review the financial position of the MNOPF fund relative to its statutory funding objectives and to assist the Trustee to determine the appropriate level of future contributions. The actuarial valuation is required under the terms of Clause 26.0 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004.

The 31 March 2015 valuation showed that the market value of the assets were £2,898 million and disclosed a shortfall of £329 million. Allowing for the present value of deficit contributions due after this date from the Recovery Plans agreed at the 2009 and 2012 valuations, and for the closure of the MNOPF fund to future accrual from 31 March 2016, leads to a new net deficit at the 31 March 2015 of £5 million. The Trustee has confirmed that no additional deficit contributions will be collected in respect of this new net deficit.

Merchant Navy Ratings Pension Fund
An actuarial valuation was carried out at 31 March 2014 under the terms of Clause 25 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004.The main purposes of the actuarial valuation are to review the financial position of the Fund relative to its statutory funding objective and to determine the appropriate level of future contributions. The valuation reported that the market value of assets was £1,062 million and disclosed a shortfall of £325 million.

In early 2015 the High Court made a formal Order which confirmed that the Trustee has the authorisation of the Court to introduce the Fund's new deficit contribution regime (the "New Regime"). The first deficit contributions to be paid under the New Regime will be based upon the deficit resulting from the 2014 Actuarial Valuation.

In August 2015, the Trustee issued a deficit share notice in relation to the deficit revealed by the MNRPF's 31 March 2014 funding valuation. During the year the company was charged £61,920 (2015: £Nil) 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.

19 SHARE CAPITAL

	Group		Company	
Allotted, called up and fully paid shares	2016		2015	
	No.	£	No.	£
Ordinary shares of £1 each	1,358,631	1,358,631	1,340,997	1,340,997

17,634 ordinary shares were issued in the year at £3.15 per share in lieu of dividends.

20 DIVIDENDS

	2016 £	2015 £
Dividends paid		
Interim dividends paid on ordinary share capital	134,100	125,453

The directors propose a final ordinary dividend of £149,449 (2015 - £134,100) for the year ended 31 March 2016. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 September 2016.

21 CONTINGENT LIABILITIES

The group's bankers hold bonds in respect of Air BP for £8,000 (2015 - £8,000) and National Express of £2,500 (2015 - £2,500).

21 CONTINGENT LIABILITIES

The policies applied under the previous accounting framework are not materially different to FRS102. There were no changes to the previously stated equity as at 1 April 2014 and 1 April 2015 or in the profit and loss for the year ended 31 March 2015 as a result of the transition to FRS102.

Isles of Scilly Steamship Company Limited
Hugh Town
St. Mary's
Isles of Scilly TR21 0LJ

Company Registration
Number 00165746