

MOVING FORWARDS

*97th Annual Report and Consolidated Financial Statements
31 March 2017*



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COMPANY INFORMATION

Isles of Scilly Steamship Company Limited
Annual Report and
Consolidated Financial Statements
Year Ended 31 March 2017

Company Registration
Number 00165746

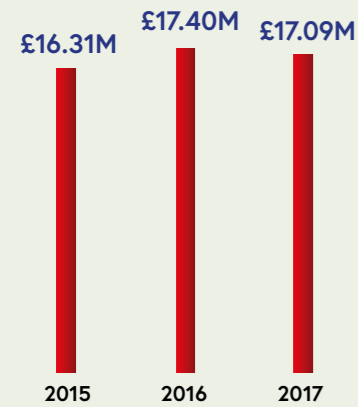
Directors
Mr R Goldsmith
Mr P Hardaker
Mr S Hicks
Mr M B Howarth
Mr A May
Mr S Reid
Mr D Rogers
Mr T Ward

Registered office
Hugh Town
St. Mary's
Isles of Scilly TR21 0LJ

Auditors
PKF Francis Clark
Statutory Auditor
Lowin House
Tregolls Road
Truro
Cornwall TR1 2NA

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TURNOVER
YEAR ENDED 31 MARCH



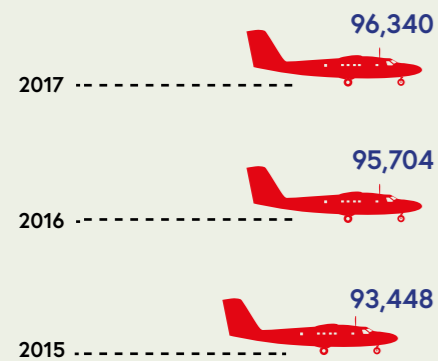
OPERATING PROFIT
YEAR ENDED 31 MARCH



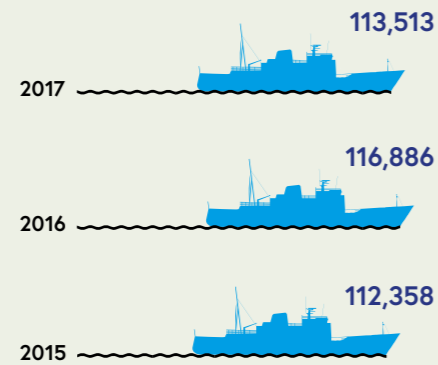
EBITDA
YEAR ENDED 31 MARCH



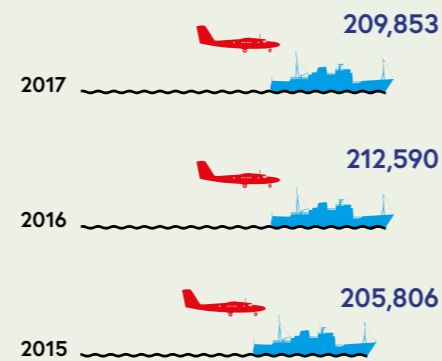
SKYBUS AIR PASSENGERS
YEAR ENDED 31 MARCH



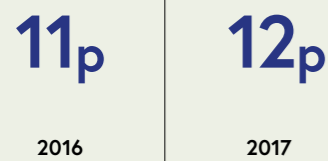
SCILLONIAN SEA PASSENGERS
YEAR ENDED 31 MARCH



COMBINED AIR AND SEA PASSENGERS
YEAR ENDED 31 MARCH

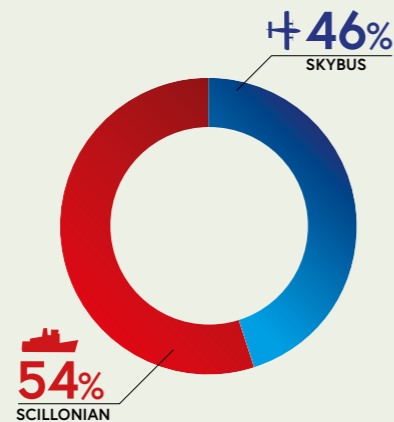


PROPOSED FULL YEAR DIVIDEND
YEAR ENDED 31 MARCH 2017

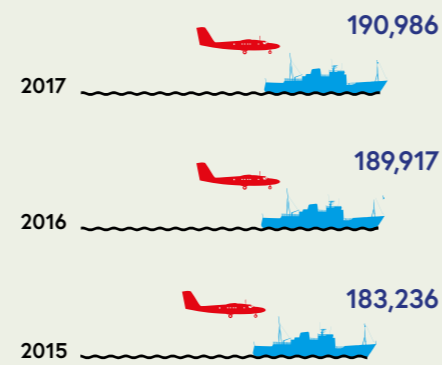


↑9%
CHANGE

PASSENGER NUMBERS
YEAR ENDED 31 MARCH 2017



PASSENGER NUMBERS
SUMMER MARKET (APR-OCT)



All figures for year ended 31 March 2017

CHAIRMAN'S STATEMENT

A very warm welcome to the Isles of Scilly Steamship Company's 97th Annual Report and Consolidated Financial Statements which cover the twelve-month period ending 31st March 2017. My colleagues on the Board and I trust that you find this document's format and content to be helpful and informative.

The pages before the statutory accounts include a summary of the Company's financial performance during the year together with the composition of the Company's Board of Directors and an outline of its work and responsibilities.

The Group's financial results in the year under review were once again very strong. The Board continues to quantify the relationship between the Group's strongly positive financial results and current levels of capital expenditure. As I observed here last year, 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.

In addition to this important work, the Group has again this year committed significant sums, directly in the form of cash, and indirectly through subsidised ticket prices and services, to the communities it serves. I'll say more about this part of our work later in this statement.

Passenger numbers continued to grow between the mainland and the islands, for the third consecutive calendar year. The picture was a little confused, however, due to the unusual occurrence of two Easter periods falling in the prior period under review. 213,765 passengers travelled during the 2016 calendar year, (2015: 211,251) an increase of 1.2% on the prior calendar year.



Highlighted in last year's statement was the degree of importance the Board attaches to a number of vital elements of our scheduled services specifically; resilience, reliability, affordability and accessibility. To this list the Board has added the issue of capacity.

We recognise that, within the bounds defined by the nature of the Islands' relatively niche market, the Steamship Company must strive to have seats available for all who would wish to occupy them on our ships and aeroplanes, on the day and indeed at the time of day, that they wish to travel. These issues have been brought into sharp focus by the recent public debate around the proposal to introduce a helicopter service between Cornwall and the Islands and, separately, the proposal for a new heliport in Penzance.

The Board's clear position is that it believes the best long-term interests of the Islands, and all of their passengers, would be served through the introduction of any helicopter service operating from Land's End Airport. Clearly there are many factors which must be carefully considered before any decision on a major change to the infrastructure serving the Islands' transport network, perhaps for the next 50 years, can be taken.

These include the merits and dis-merits of Land's End Airport and Penzance as an operational base for any helicopter service. Each site has both. These must be weighed, objectively and on the basis of evidence, in respect of a number of factors including; weather characteristics, operational benefits /constraints, regulatory issues and cost.

Only then can a truly informed decision be reached. The Steamship Group's Board is taking its responsibilities seriously in this regard and is doing all within its authority to facilitate an evidence based debate between all interested parties to achieve an outcome which is in the Islands' best interests.

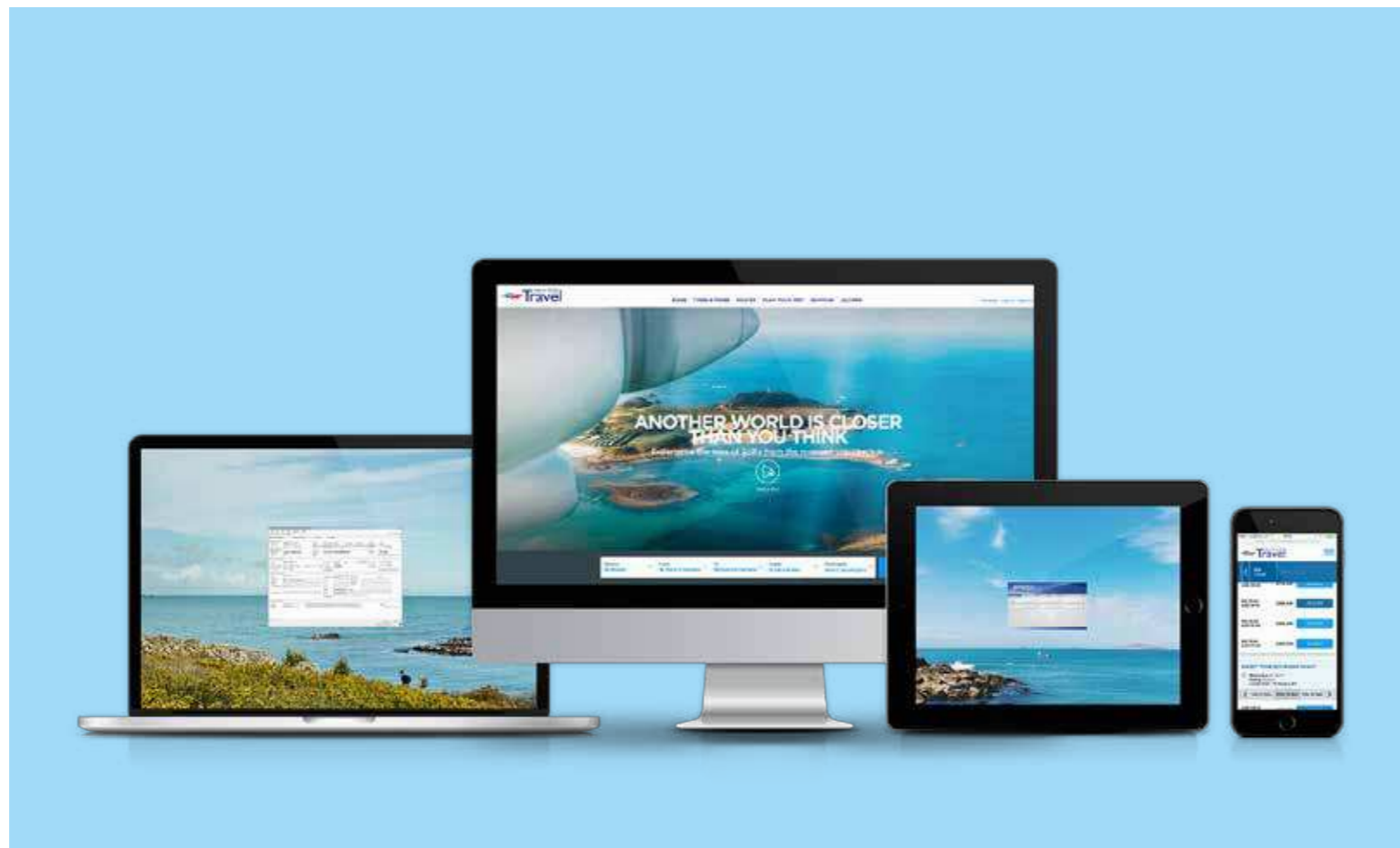
As a part of this process the Group has commenced a formal review of its current capabilities and of the options, marine and aviation, open to it which could allow it to offer enhanced levels of service. The Board and the Executive team together with external resources are involved in this review, the outcomes of which will encompass not just the short term, but medium and long terms too. The Board's wish is for this to be an inclusive process and so it will be looking to talk to all interested stakeholders as this process progresses.

The Board looks to ensure the Group's on-going infrastructure investment progresses having due regard for the changes taking place in the wider landscape, and so it is pleasing to see the good work by Cornwall Council come to fruition with the newly opened dual carriageway over Bodmin Moor which will assist road users greatly with their journeys to Land's End and Cornwall Newquay airports and Penzance, from where they are able to depart for the Islands. The Council has further confirmed the timetable, and preferred route, for the next stage of major road improvements between Carland Cross & Chiverton Cross which, when complete, will aid journeys to and from the Islands yet further.

The Steamship Group is working with interested parties in Penzance and Cornwall Council on the long-awaited improvements to Penzance harbour. The planning stage is underway and a key outcome will be much improved facilities for embarking and disembarking users of our services, as well as for our sea freight operations. We are already seeing the benefits of the much upgraded GWR Night Riviera service, now based in Penzance and departing every evening for London Paddington. Major improvements to the rail signalling system will shortly allow a greatly enhanced service between Penzance and Plymouth and beyond, further improving accessibility to and from the Islands.

The Board continues to work 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 decreased by 17.4% to £1,519,000 (2016: increase 35.5% to £1,840,000). Shareholder funds increased by £1,473,000 (2016: £1,742,000) or 11.8% (2016: 16.2%). A medium term correlation still exists between these financial metrics and capital expenditure, which during the period was £4,499,000 (2016: £1,773,000). This brings the total sum the Group has invested in its asset base over the last five years to £15,201,000.

During the period under review investment in capital assets was made in a number of areas. This included a comprehensive refurbishment of the interiors of Skybus' fleet as well as a



brand-new livery for the aircrafts' exterior. Land's End Airport took possession of a new, bespoke fire appliance. The introduction of a new web-site and passenger booking system, Bookit, has led to improvements in customers' booking experience. A significant investment for the Group was the vessel Mali Rose where investment over many months continued in enhancing the vessel's functionality. She is now able to offer our customers 25 pallet capacity frozen facilities and a further 49 pallet capacity temperature controlled (to +1* C) facility. Further, she is equipped with a new crane with a maximum lift capability of 15 tonnes thus giving her the ability to carry a more extensive range of freight items than could the Gry Maritha. The Gry has offered the Islands a splendid service over the last 28 years and it will be with much gratitude, and a little sadness, that we wave goodbye to her when she departs to her new owners.

At the time of writing the Mali Rose is on the cusp of entering service. Once she has settled into her routine the marine team plan to turn their attention once again to the Scillonian IV project. The Board is determined that all, and especially local, views and ideas will be listened to and carefully considered before it forms a view on the design and capability parameters desirable in any new vessel(s) which are likely to serve the Islands until at least the middle of this century.

A number of positive developments have flowed from the comprehensive passenger and user survey undertaken by the Group last year. A Customer Engagement Panel is in the process of being constituted and this has the potential to be one excellent way in which ideas, including about vessel parameters, can be communicated. A further significant development is that Travel Club members are now able to make and amend bookings on line, thereby simplifying this process and allowing more capacity in our Travel Centres for customers who wish to speak to an advisor.

The Board is proposing a dividend payment of 12 pence per share (2016: 11 pence per share) £164,849 (2016: £149,449) to be paid to shareholders on the register at 18th May 2017. This 9% increase (2016: 11.4%) is consistent with the Board's progressive dividend policy and takes account of the Company's earnings, financial performance and its asset replacement plans.

Just shortly after the end of the year under review our flagship vessel, Scillonian III reached a very special anniversary - 40 years since she entered service in July 1977. The Stirling work she has done, and continues to do, and her special place in the life of the Islands and Penzance was celebrated on board the ship, and further community events are planned for later in the season.

Now in its 98th year the Steamship Group still holds strong to its founding principles - to foster prosperity and well-being in the communities it serves. Separate from, and in addition to, the capital investment in our services detailed earlier in my report, the Group continues to subsidise a considerable number of services and initiatives which it, with its local stakeholders, deems worthy of financial support. These include the offer of membership to a Travel Club to Islands' residents entitling them to discounts of published fares, by air to and from all the destinations served by Skybus: Land's End, Newquay & Exeter of up to 42%, and up to 64% to and from Penzance by sea.

The Groups' Community Fund continues to support good causes on the Islands and in west Cornwall. The Board continues to sanction the subsidy necessary to keep off-island freight charges lower than they would be otherwise. Many tens of thousands of pounds are contributed towards initiatives looking to promote the Islands' interests and similar sums are expended providing tickets by air and sea at no cost, or subsidising them, to, variously: patients travelling to NHS appointments on the mainland, good causes, travel writers and others looking to promote the Islands to new and returning customers in the UK and abroad. We remain strongly in support, including as its main sponsor, of the extraordinarily successful World Pilot Gig Championships.

Finally, and on behalf of my colleagues on the Board, thanks are extended to the Group's staff for their work over the period, as well as to our customers and shareholders for your continuing interest and support of the Company.

Andrew May

Andrew May, Chairman July 2017

BOARD OF DIRECTORS



ROBERT GOLDSMITH
CHIEF EXECUTIVE
OFFICER

Rob 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 and now living in St. Just, 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.



ANDREW MAY
CHAIRMAN

Andrew (Chairman) joined the Board in 1992. He worked in Lincolnshire and London before returning to St Mary's where he now farms and is involved, 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 was awarded a Fellowship of the Royal Agricultural Society, England, during the last year. He is the Chairman of the Group's Nominations and Remuneration Committees.



PETER HARDAKER
VICE-CHAIRMAN

Peter 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.



MARK HOWARTH

Mark 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 2013.

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 various projects overseas, and is also involved in farming in South Africa.



DICCON ROGERS

Diccon 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 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 31 March 2017

It is important to note that 2016 passenger numbers were also significantly higher as the 2017 Financial Year did not include an Easter Weekend due to Easter falling later into the 2018 year end.

Turnover for services by sea increased by 5.5% to £6,537,000 (2016: £6,196,000). As highlighted above, like-for-like sales increased by 12.5% following the divesting of the purchase and resale of gas oil. Passenger numbers on the Scillonian III decreased by 2.9% to 113,513 passengers (2016: 116,886 passengers) which followed a record year in 2016 due to a higher than expected number of transfers following weather disruption. Despite the decline in passenger numbers by sea, marine passenger revenue increased by 4.9% to £3,913,000 (2016: £3,731,000). The increase in marine passenger sales has been generated through improved yield management with only a very modest increase in headline sales prices.

Turnover for services by air rose by 3.0% to £9,641,000 (2016: £9,364,000) partially as a result of increased passenger volumes which increased by 0.7% to 96,340 passengers (2016: 95,704 passengers) but more significantly due to further improvements in yield management strategy. Passenger growth was modest but significantly impacted in the reduction in Winter (November to March) passenger sectors which reduced by 16.8% to 18,867 (2016: 22,673 passengers).

Other operating income decreased substantially this year to £114,000 (2016: £446,000). Amortisation of the £1.3M ERDF grant received has increased by 38.3% to £87,000 (2016: £63,000). In 2016 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 Sale in the comparative figures. The cost of the hire was recharged at cost to Cornwall Council and is included in Other operating income in the previous year.

Group staff costs have increased by 4.2% (2016: 12.2%) to £5,950,000 (2016: £5,709,000). Due to the nature of the group's activities being largely service based the expectation would be to see staff costs grow alongside sales. The increase in

staff costs during the year, by £241,000, is largely to "catch-up" with sales growth since 2014. Over this three year period sales have increased by 24.3% with a corresponding 24.0% in staff costs. Average numbers of employees have increased by 4.6% to 228 (2016: 218) following the formation of a dedicated customer services department and the continued drive to ensure staff resilience across all services.

Leasing costs of our DH-6 Twin Otter G-ISSG have increased by £87,000 following the weakening of Sterling against the Dollar as a result of the Brexit Vote on the 23rd June 2016. In addition the Group continues to monitor financial market activity and manages exchange rate risk through a combination of forward contracts and favourable spot rate transactions.

Landing fee and passenger load supplement (PLS) charges increased by 5.2% to £1,578,000 (2016: £1,500,000). Airport fees will fluctuate with the demand of aircraft landings and passenger departures at each of our departure and arrival airports. This year the Council of the Isles of Scilly voted to increase St Mary's airport charges by 6% without consultation. It is therefore anticipated that fees will increase considerably for the year ending 2018.

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 £4,499,000. The Group incurred intangible asset expenditure of £298,000 in a new passenger reservation, freight booking system and e-commerce website with improved functionality. During the year the Group also invested £2,585,000 in the purchase and conversion of our new freight vessel the Mali Rose. The conversion costs include investment in a new crane and cold storage facility. In addition, the Group purchased at a cost of £746,000, three aircraft engines for our DH-6 Twin Otters which required scheduled engine changes. Finally, £186,000 was spent on a new Rosenbauer Fire Engine following a successful tender process.

Depreciation and amortisation charges in the year in total amount to £1,166,000



which is £43,000 higher than in 2016. There has been no deprecation charge on the Mali Rose expenditure during the financial year as the asset was under construction at the year end.

I am pleased to report another strong financial performance with Group Operating Profit recorded at £1,519,000 (2016: £1,840,000). Operating profit declined by 17.4% due to a number of factors, in particular the increase in staff costs combined with external factors such as the weakening of Sterling which has inflated the cost of our leased aircraft and cost of aircraft parts. Costs were partially offset by increase in passenger revenue through further yield management of our passenger services. The combined effect of all of these factors resulted in a decline in our operating margin to 8.9% (2016: 10.6%).

Shareholder funds ended the year at £13,977,000 (2016: £12,504,000) an increase of 11.8% (2016: 16.2%).

The Group had a net cash inflow from operating activities of £4,028,000 (2016: £2,918,000). The increase is driven by a net positive working capital movement. The net cash outflow from Capital expenditure was £4,379,000 (2016: £1,554,000). Due to the significant net cash outflow on Capital Expenditure



cash decreased by £444,000 (2016: increase £1,286,000).

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. By the 31st March 2017 the cost of a barrel of crude oil had climbed to \$53 per barrel, a 47% year on year increase. The Group has successfully negotiated a five year contract and enhanced its fuel stock holding to improve the purchase price of aviation fuel. In addition the Group manages the price risk of fuel through a combination of forward contracts and spot rate buys when favourable.

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 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

	Salary and bonus £	Fees	Benefits in kind £	Other £	Total		Pension contributions		
					2017 £	2016 £	2017 £	2016 £	
EXECUTIVE DIRECTORS									
R Goldsmith	147,821	-	10,388	19,787	177,996	179,321	16,983	16,983	
S Reid*	83,700	-	-	-	83,700	69,117	-	-	
NON EXECUTIVE DIRECTORS									
P D Hardaker	-	10,140	-	-	10,140	10,600	-	-	
A J May	-	23,290	-	-	23,290	24,865	-	-	
T B Ward	-	7,585	-	-	7,585	6,639	-	-	
M Howarth	-	6,570	-	-	6,570	6,466	-	-	
D S Rogers	-	6,570	-	-	6,570	6,466	-	-	
S Marquis	-	6,568	-	-	6,568	5,929	-	-	
PAST DIRECTORS									
J Walder	-	-	-	-	-	2,718	-	-	
	231,521	60,723	10,388	19,787	322,419	312,121	16,983	16,983	

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 S Reid was appointed to the Board on the 1 June 2015.

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 7 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.

REMUNERATION COMMITTEE

Remuneration committee members are: Andrew May (Chairman) Peter Hardaker (Vice-Chairman) and Mark Howarth. The Committee's remit includes the review and recommendation to the Board of any 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 2017 (as well as 1st April 2018) and his performance related bonus payable in respect of the prior year; the Chief Financial Officer's (CFO) remuneration from June 2017 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 % of base salary and so from April 2017 onwards this contribution will be the same % of the higher salary. The Board further confirmed the recommendation that the calculation of the CEO's performance related bonus for the period should be calculated on the basis of agreed parameters such that any bonus is expressed as a percentage of the CEO's prior year 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% from 1st June 2017, and that his performance related bonus for the prior year be paid at the rate of 10% of the base salary.



NOMINATIONS COMMITTEE

Members of the Nominations Committee are: 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 committee continued to be active in its core area of responsibility of identifying candidates to enter the Company's Non-Executive Director selection process. Committee members met a number of potential candidates. The criteria by which the committee felt candidates should be assessed together with the specific experience and skills the committee deemed appropriate in candidates was reviewed during the year, reflecting the Company's evolving circumstances. Similarly, the timing imperative of any new appointment was reviewed in the light of planned and appropriate non - executive directors' rotation. Simon Marquis served on the committee for the full period under review.

He subsequently resigned his position as a Non-Executive director of the Company.

Sam Hicks of Troytown Farm, St Agnes, Isles of Scilly, was appointed to the Board during July 2017. Sam's timely appointment brings to the Board considerable business experience gained elsewhere in the UK as well as here on the islands. He brings also his knowledge and a perspective of one living amongst our Islands' community; this latter point was a key one identified by the committee, and endorsed by the full Board.

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 three occasions during the year. On the 13th July 2016 to review last year's draft accounts for year ending 31st March 2016 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 22nd November 2016 the interim accounts were reviewed and approved for recommendation to the board. At a meeting on the 16th February the audit planning memorandum was discussed, agreeing tendering, the audit strategy and priorities.

Risk Reporting is a constant focus at all our meetings and we monitor the risk reporting process. The Risk Management Committee report to the Audit Committee on identified business continuity, risks and actions, identified to mitigate these risks.

As Audit Committee Chairman, I consider 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 20th July 2017 and signed on its behalf by:

R. J. Goldsmith

Mr R Goldsmith
Director

DIRECTORS' REPORT

For the year ended 31 March 2017

The directors present their report and the consolidated financial statements for the year ended 31 March 2017.

DIRECTORS OF THE COMPANY

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

	Committees
Mr D Rogers	A
Mr T Ward	A
Mr M P Howarth	R
Mr P Hardaker (Vice Chairman)	A,R,N
Mr S Hicks (appointed 20 July 2017)	–
Mr A May (Chairman)	R,N
Mr R Goldsmith	N
Mr S Marquis (resigned 4 June 2017)	N
Mr S Reid (appointed 1 June 2015)	–

'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.

	2017	2016
P D Hardaker	3,517	3,417
A J May	68,406	66,457
T B Ward	19,270	18,078
D S Rogers	411	411
S Marquis	600	600
M Howarth	2,058	2000

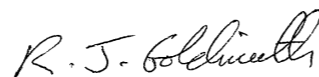
DIVIDENDS

The directors recommend a final dividend payment of £164,849 (2016: £149,449), 12.0p (2016: 11.0p) per share (or a scrip issue of 1 share for every £3.95 of dividend). This is based on shareholdings at 18 May 2017 and will be paid on 6 November 2017. 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 20th July 2017 and signed on its behalf by:



Mr R Goldsmith
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors acknowledge their responsibilities 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

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 THE 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 2017 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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 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:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>Year Ended 31 March 2017</i>	Notes	2017 (£)	2016 (£)
TURNOVER	3	17,094,386	17,402,028
Cost of sales		(15,689,474)	(16,007,171)
GROSS PROFIT		1,404,912	1,394,857
Other operating income	4	114,401	445,557
OPERATING PROFIT	5	1,519,313	1,840,414
Other interest receivable and similar income	8	20,678	16,951
PROFIT BEFORE TAX		1,539,991	1,857,365
Taxation	9	25,562	(36,438)
PROFIT FOR THE FINANCIAL YEAR		1,565,553	1,820,927
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,565,553	1,820,927

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

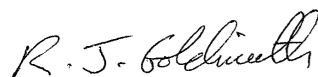
<i>Year Ended 31 March 2017</i>	Notes	2017 (£)	2016 (£)
PROFIT FOR THE YEAR		1,565,553	1,820,927
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,565,553	1,820,927
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE COMPANY		1,565,553	1,820,927

The notes on pages 23 to 31 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

Year Ended 31 March 2017	Notes	2017 (£)	2016 (£)
FIXED ASSETS			
Intangible assets	10	319,838	43,082
Tangible assets	11	15,167,810	12,178,184
		15,487,648	12,221,266
CURRENT ASSETS			
Stocks	13	1,192,296	1,291,364
Debtors	14	2,152,369	1,888,795
Cash at bank and in hand		5,050,409	5,494,884
		8,395,074	8,675,043
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(8,555,534)	(6,973,889)
NET CURRENT (LIABILITIES)/ASSETS		(160,460)	1,701,154
TOTAL ASSETS LESS CURRENT LIABILITIES		15,327,188	13,922,420
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	(1,020,157)	(1,062,173)
PROVISIONS FOR LIABILITIES		(330,000)	(356,000)
Net assets		13,977,031	12,504,247
CAPITAL AND RESERVES			
Called up share capital	19	1,373,745	1,358,631
Share premium account		135,206	93,642
Profit and loss account		12,468,080	11,051,974
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		13,977,031	12,504,247
TOTAL EQUITY		13,977,031	12,504,247

Approved and authorised by the Board
on 20th July 2017 and signed for by:



Mr. R Goldsmith
Director

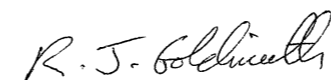
Company Registration Number 00165746

The notes on pages 23 to 31 form an integral part of these financial statements.

BALANCE SHEET

Year Ended 31 March 2017	Notes	2017 (£)	2016 (£)
FIXED ASSETS			
Intangible assets	10	287,756	–
Tangible fixed assets	11	5,168,598	5,299,170
Investments	12	264,793	264,793
		5,721,147	5,563,963
CURRENT ASSETS			
Debtors	14	581,223	32,871
Cash at bank and in hand		5,026,941	5,431,326
		5,608,164	5,464,197
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(1,981,564)	(2,326,685)
NET CURRENT ASSETS		3,626,600	3,137,512
TOTAL ASSETS LESS CURRENT LIABILITIES		9,347,747	8,701,475
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	(1,020,157)	(1,062,173)
NET ASSETS		8,327,590	7,639,302
CAPITAL AND RESERVES			
Called up share capital		1,373,745	1,358,631
Share premium reserve		135,206	93,642
Profit and loss account		6,818,639	6,187,029
TOTAL EQUITY		8,327,590	7,639,302

Approved and authorised by the Board
on 20th July 2017 and signed for by:



Mr. R Goldsmith
Director

Company Registration Number 00165746

The notes on pages 23 to 31 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>Year Ended 31 March 2017</i>	Share capital (£)	Share premium (£)	Profit and loss account (£)	Total equity (£)
At 1 April 2016	1,358,631	93,642	11,051,974	12,504,247
Profit for the year	-	-	1,565,553	1,565,553
Total comprehensive income	-	-	1,565,553	1,565,553
Dividends	-	-	(149,447)	(149,447)
New share capital subscribed	15,114	41,564	-	56,678
At 31 March 2017	1,373,745	135,206	12,468,080	13,977,031

	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

The notes on pages 23 to 31 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

<i>Year Ended 31 March 2017</i>	Share capital (£)	Share premium (£)	Profit and loss account (£)	Total (£)
At 1 April 2016	1,358,631	93,642	6,187,029	7,639,302
Profit for the year	-	-	781,057	781,057
Total comprehensive income	-	-	781,057	781,057
Dividends	-	-	(149,447)	(149,447)
New share capital subscribed	15,114	41,564	-	56,678
At 31 March 2017	1,373,745	135,206	6,818,639	8,327,590

	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

The notes on pages 23 to 31 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2017 (£)	2016 (£)
Profit for the year		1,565,553	1,820,927
ADJUSTMENTS TO CASH FLOWS FROM NON-CASH ITEMS			
Depreciation and amortisation	5	1,165,891	1,122,645
(Profit)/loss on disposal of tangible assets		(32,181)	26,025
Finance income	8	(20,678)	(16,951)
Corporation tax expense	9	(25,562)	36,438
		2,653,022	2,989,084
WORKING CAPITAL ADJUSTMENTS			
Decrease/(increase) in stocks	13	99,068	(156,744)
Increase in trade debtors	14	(263,574)	(114,471)
Increase in trade creditors	16	1,581,645	120,465
(Decrease)/increase in deferred income, including government grants		(42,016)	80,243
Cash generated from operations		4,028,145	2,918,577
Income taxes paid	9	(438)	(219)
Net cash flow from operating activities		4,027,707	2,918,358
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		20,678	16,951
Acquisitions of tangible assets		(4,201,033)	(1,772,925)
Proceeds from sale of tangible assets		98,621	202,216
Acquisition of intangible assets	10	(297,679)	-
Net cash flows from investing activities		(4,379,413)	(1,553,758)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(92,769)	(78,553)
Net (decrease)/increase in cash and cash equivalents		(444,475)	1,286,047
Cash and cash equivalents at 1 April		5,494,884	4,208,837
Cash and cash equivalents at 31 March		5,050,409	5,494,884

The notes on pages 23 to 31 form an integral part of these financial statements.

NOTES

to the financial statements, Year Ended 31 March 2017

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.

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 2017.

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 £781,057 (2016 - £1,041,425).

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.

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.

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:

- 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;
- 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 tax is recognised on all timing differences at the balance sheet date unless indicated below. Timing differences are differences between taxable profits and the results as stated in the consolidated profit and loss account and other comprehensive income. Deferred 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.

Intangible assets

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

The cost of intangible assets includes directly attributable incremental costs incurred in their acquisition and development.

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
Software development costs	Straight line over 10 years
Other intangibles	Straight line over 5 years

Tangible assets

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)

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.

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**Classification**

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

All financial instruments are classified as basic.

Recognition and measurement

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets, which include trade and other receivables, cash and bank balances, and loans to related parties, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Basic financial liabilities, including trade and other payables, loans and borrowings, and loans from related parties are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Impairment

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

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:

	2017 (£)	2016 (£)
Sales by sea	6,537,025	6,195,617
Sales by air	9,641,220	9,364,094
Other non-transport activities	916,141	1,842,317
	17,094,386	17,402,028

4 OTHER OPERATING INCOME

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

	2017 (£)	2016 (£)
Government grants	86,638	62,641
Rental income	10,270	-
Other operating income	17,493	382,916
	114,401	445,557

5 OPERATING PROFIT

Arrived at after charging/(crediting):

	2017 (£)	2016 (£)
Depreciation expense	1,144,968	1,111,645
Amortisation expense	20,923	11,000
(Profit)/loss on disposal of property, plant and equipment	(32,181)	26,025
Operating lease expense - other	544,364	453,867
Auditors fees	13,190	12,805
Foreign exchange (losses)/gains	(14,765)	1,874
Government grants receivable	(86,638)	(62,641)

6 STAFF COSTS

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

	2017 (£)	2016 (£)
Wages and salaries	5,394,369	5,084,361
Social security costs	420,201	418,560
Pension costs, defined contribution scheme	135,191	205,951
	5,949,761	5,708,872

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

	2017 (No.)	2016 (No.)
Employees	220	209
Directors	8	9
	228	218

7 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2017 (£)	2016 (£)
Remuneration	322,420	312,121
Contributions paid to money purchase schemes	16,983	16,983
	339,403	329,104

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

	2017 (No.)	2016 (No.)
Accruing benefits under money purchase pension scheme	1	1

8 OTHER INTEREST RECEIVABLE & SIMILAR INCOME

	2017 (£)	2016 (£)
Interest income on bank deposits	14,915	16,951
Other finance income	5,763	-
	20,678	16,951

9 TAXATION

Tax charged/(credited) in the profit and loss account:

	2017 (£)	2016 (£)
Current tax		
UK corporation tax	438	438
Deferred taxation		
Arising from origination and reversal of timing differences	(26,000)	36,000
Tax expense in the income statement	(25,562)	36,438

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 20% (2016 - 20%).

The differences are reconciled below:

	2017 (£)	2016 (£)
Profit before tax	1,539,991	1,857,365
Corporation tax at standard rate	307,998	371,473
Profit of business not subject to taxation	(380,101)	(432,547)
Non-deductible expenses	(18,737)	2,782
Tax losses arising	34,746	89,104
Tax losses utilised	(18,285)	(77,561)
Tax increase (decrease) from effect of capital allowances and depreciation	74,379	46,749
Tax increase (decrease) from other short-term timing differences	(38,000)	57,000
Tax increase (decrease) from effect of unrelieved tax losses carried forward	12,000	(21,000)
Tonnage tax	438	438
Total tax charge	(25,562)	36,438

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

	2017 (£)	2016 (£)
Accelerated capital allowances	529,000	562,000
Unutilised losses carried forward	(199,000)	(206,000)
	330,000	356,000

10 INTANGIBLE ASSETS

Group

	Goodwill (£)	Software development costs (£)	Other intangible assets (£)	Total (£)
Cost or valuation				
At 1 April 2016	112,999	-	1,999	114,998
Additions acquired separately	-	297,679	-	297,679
At 31 March 2017	112,999	297,679	1,999	412,677
Amortisation				
At 1 April 2016	69,917	-	1,999	71,916
Amortisation charge	11,000	9,923	-	20,923
At 31 March 2017	80,917	9,923	1,999	92,839
Carrying amount				
At 31 March 2017	32,082	287,756	-	319,838
At 31 March 2016	43,082	-	-	43,082
Company				
		Software development costs (£)		Total (£)
Cost or valuation				
Additions acquired separately		297,679		297,679
At 31 March 2017		297,679		297,679
Amortisation				
Amortisation charge		9,923		9,923
At 31 March 2017		9,923		9,923
Carrying amount				
At 31 March 2017		287,756		287,756

11 TANGIBLE ASSETS

GROUP	Freehold land and buildings (£)	Leasehold land and buildings (£)	Plant and machinery (£)	Runways (£)	Assets under construction (£)	Total (£)
Cost or valuation						
At 1 April 2016	2,965,340	552,024	17,840,416	2,681,978	-	24,039,758
Additions	-	8,104	1,528,771	79,053	2,585,105	4,201,033
Disposals	-	-	(825,682)	-	-	(825,682)
At 31 March 2017	2,965,340	560,128	18,543,505	2,761,031	2,585,105	27,415,109
Depreciation						
At 1 April 2016	314,197	346,580	10,958,473	242,324	-	11,861,574
Charge for the year	37,776	15,186	938,900	153,106	-	1,144,968
Eliminated on disposal	-	-	(759,243)	-	-	(759,243)
At 31 March 2017	351,973	361,766	11,138,130	395,430	-	12,247,299
Carrying amount						
At 31 March 2017	2,613,367	198,362	7,405,375	2,365,601	2,585,105	15,167,810
At 31 March 2016	2,651,143	205,444	6,881,943	2,439,654	-	12,178,184

Included within the net book value of leasehold land and buildings above is £6,360 (2016 - £8,538) in respect of long leasehold land and buildings and £192,002 (2016 - £196,906) in respect of short leasehold land and buildings.

COMPANY	Freehold land and buildings (£)	Leasehold land and buildings (£)	Plant and machinery (£)	Runways (£)	Total (£)
Cost or valuation					
At 1 April 2016	2,965,338	364,476	30,811	2,681,978	6,042,603
Additions	-	-	-	79,053	79,053
At 31 March 2017	2,965,338	364,476	30,811	2,761,031	6,121,656
Depreciation					
At 1 April 2016	314,197	167,570	19,342	242,324	743,433
Charge for the year	37,776	13,008	5,735	153,106	209,625
At 31 March 2017	351,973	180,578	25,077	395,430	953,058
Carrying amount					
At 31 March 2017	2,613,365	183,898	5,734	2,365,601	5,168,598
At 31 March 2016	2,651,141	196,906	11,469	2,439,654	5,299,170

12 INVESTMENTS

COMPANY	2017 (£)	2016 (£)	SUBSIDIARIES	£
Investments in subsidiaries	264,793	264,793	Cost or valuation at 1 April 2016 and 31 March 2017	264,793
			Carrying amount	
			At 31 March 2017	264,793
			At 31 March 2016	264,793

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

	2017 (£)	Group 2016 (£)	2017 (£)	Company 2016 (£)
Other inventories	1,192,296	1,291,364	-	-

Group

The cost of stocks recognised as an expense in the year amounted to £2,849,736 (2016 - £3,479,005).

Impairment of inventories

The amount of impairment loss included in profit or loss is £34,266 (2016 - £71,119).

14 DEBTORS

	2017 (£)	Group 2016 (£)	2017 (£)	Company 2016 (£)
Trade debtors	1,164,859	1,343,797	2,573	-
Amounts owed by related parties	-	-	140,487	-
Other debtors	414,515	43,829	412,793	5,569
Prepayments	572,995	501,169	25,370	27,302
	2,152,369	1,888,795	581,223	32,871

15 CASH AND CASH EQUIVALENTS

	2017 (£)	Group 2016 (£)	2017 (£)	Company 2016 (£)
Cash on hand	2,572	1,928	-	-
Cash at bank	5,047,837	5,492,956	5,026,941	5,431,326
	5,050,409	5,494,884	5,026,941	5,431,326

16 CREDITORS

DUE WITHIN ONE YEAR	Notes	2017 (£)	Group 2016 (£)	2017 (£)	Company 2016 (£)
Trade creditors		1,761,638	1,059,909	143,792	37,910
Amounts due to group undertakings		-	-	1,584,109	2,000,520
Social security and other taxes		134,572	122,857	15,541	12,883
Outstanding defined contribution pension costs		18,423	18,180	649	513
Other creditors		68,044	40,761	39,992	24,686
Accruals and deferred income		6,572,419	5,731,744	197,481	250,173
Corporation tax	9	438	438	-	-
		8,555,534	6,973,889	1,981,564	2,326,685

DUE AFTER ONE YEAR	Notes	2017 (£)	2016 (£)	2017 (£)	2016 (£)
Government grants		1,020,157	1,062,173	1,020,157	1,062,173

17 OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS**Group operating leases**

The total of future minimum lease payments is as follows:

	2017 (£)	2016 (£)
Not later than one year	469,028	478,149
Later than one year and not later than five year	370,400	370,400
Later than five years	564,733	657,333
	1,404,161	1,505,882

The amount of non-cancellable operating lease payments recognised as an expense during the year was £561,183 (2016 - £524,601).

18 DEFERRED TAX AND OTHER PROVISIONS**Deferred tax £**

At 1 April 2016	356,000
Increase (decrease) in existing provisions	(26,000)
At 31 March 2017	330,000

19 PENSION AND OTHER 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 £135,191 (2016 - £205,951).

Contributions totalling £18,423 (2016 - £18,180) 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) (MNOF) 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 MNOF 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.

Following a consultation period with Members and Employers the Trustee decided to close the MNOF to future defined benefit accrual with effect from 31 March 2016. All actively contributing members were provided with an option to enrol into a new defined contribution scheme.

The most recent triennial valuation was carried out at 31 March 2015. The 31 March 2015 valuation showed that the market value of the assets was £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 MNOF fund to future accrual from 31 March 2016, leads to a new net deficit at the 31 March 2015 of £5 million. The Trustee 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 £Nil (2016: £61,920) 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.

20 SHARE CAPITAL

Allotted, called up and fully paid shares	Group		Company	
	2017	2016	2017	2016
	No.	£	No.	£
Ordinary shares of £1 each	1,373,745	1,373,745	1,358,631	1,358,631

15,114 (2016 - 17,634) ordinary shares were issued in the year at £3.95 (2016 - £3.15) per share in lieu of dividends

21 DIVIDENDS

	2017	2015
	£	£
Dividends paid		
Interim dividends paid on ordinary share capital	149,447	134,100

The directors propose a final ordinary dividend of £164,849 (2016 - £149,449) for the year ended 31 March 2017. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 September 2017.

22 CONTINGENT LIABILITIES**Group**

The group's bankers hold bonds in respect of Air BP for £8,000 (2016 - £8,000) and National Express of £2,500 (2016 - £2,500).

23 FINANCIAL INSTRUMENTS**Group**

	2017 (£)	2016 (£)
Financial instruments that are debt instruments measured at amortised cost:		
Trade debtors	1,164,859	1,343,797
Cash in bank and in hand	5,050,409	5,494,884
Financial liabilities measured at amortised cost:		
Trade creditors	1,761,638	1,059,909
Deferred income	6,174,171	5,246,245

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

Company Registration
Number 00165746

