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The Isle of Man Steam Packet Company Limited

Directors' report and consolidated financial statements

For the year ended 31 December 2021

Company information
for the year ended 31 December 2021

Directors

	Appointed	Resigned
M Woodward	-	30 June 2021
DJ Jude	-	-
JCW Watt	-	30 June 2021
PE Dearden	-	-
DJ Oldfield	-	-
SJ Pressly	-	-
LT Ugland	-	-
B Thomson	5 July 2021	-
K Taha	26 July 2021	-

Registered agent

Ocorian Trust (Isle of Man) Limited

Registered office

Imperial Buildings
Bath Place
Douglas
Isle of Man
IM1 2BY

Auditor

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

Directors' report
for the year ended 31 December 2021

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2021.

Principal activity

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

Results

The results of the Group are set out on page 8.

	2021 £	2020 £
Loss for the year attributable to equity owners	**461,393**	7,539,984

Dividend

No dividend was declared by the Company during the year to its parent company, The Isle of Man Steam Packet Group Limited ("SPG") (2020: £346,319).

Sea Services Agreement

On 31 May 2019, the Company entered into a Sea Services Agreement ("SSA") with The Isle of Man Department of Infrastructure ("DoI"). Under the terms of the SSA, with effect from 1 January 2020 the Company enjoys sole use of King Edward and Victoria Pier linkspans, at Douglas harbour, for an initial term of 25 years, expiring 31 December 2044. The Company's rights are subject to service level, fare and investment conditions which are summarised in note 28.

A Variation Agreement, dated 30 June 2021 and a Rectification & Variation Agreement dated 30 September 2021 were agreed by the Company and DoI, to document changes to the SSA which arose from the Island's response to the Coronavirus pandemic, which has resulted in a three year extension to the SSA.

Covid-19 & going concern

The Covid-19 pandemic continued to have unprecedented consequences for the world, for the Isle of Man and for the Group throughout 2021. Isle of Man Government ("IOMG") decisions to cancel the 2021 TT and Festival of Motorcycling, and to continue with travel restrictions, had a very significant effect on the Company's passenger revenues and cashflows during the year. This impact will continue, to a greater or lesser degree, for as long as restrictions remain in place.

The Company reduced sailings and delayed the commencement of the fastcraft season in order to reduce operational costs, nevertheless, uneconomic sailings were operated, at IOMG's request, in order to maintain the Island's vital, daily lifeline service. On 30th June, a Variation Agreement was signed with the DoI to document the agreed variations to the SSA which arose from Island's response to the pandemic. More details are outlined in note 28.

The relaxation of certain measures for fully vaccinated travellers on 28th June, provided a welcome lift to passenger performance for the remainder of the year, but annual revenues remained £17.2m (2020: £26m) below 2019 pre-pandemic levels.

Lock-downs between 7th January - 1st February and 3rd March – 19th April, initially depressed freight performance but, subsequently, increased on-line and on-Island spending delivering annual revenues £0.6m ahead of normal trading.

The reduced sailing schedule, combined with other management initiatives, helped to secure cost savings of £7.1m (2020: £10.8m) during the year. Non-essential capital expenditure was also suspended in order to protect cash reserves.

On 12th May, SPG issued shares to the Group's ultimate parent, the Isle of Man Treasury ("Treasury"), raising £5m of new capital to support Group liquidity. Post year-end, SPG agreed two loan facilities with Treasury to re-finance the existing shareholder loan (£76m) and to provide finance for the new Ro-Pax "Manxman" (£84m).

Directors' report (continued)

Covid-19 & going concern (continued)

The Board is hopeful that the worst of the pandemic has passed and that revenues will continue to improve. The additional capital and recent financing has placed the Group in an excellent position to recover from two years of difficult trading. In view of this, the Directors are satisfied that the Group has adequate financial resources to continue its operations and that it is appropriate to adopt a going-concern basis for the preparation of the annual financial statements.

Manxman

Despite the considerable challenges posed by the pandemic, the construction of "Manxman" remains on schedule and within its estimated budget of £78m. The vessel will be powered by modern hybrid diesel-electric engines and will have increased passenger/freight capacity as well as additional outside decks, lounges and cabins.

Construction of the vessel is expected to complete in November 2022. Manxman is expected to enter service during the first half of 2023, whereupon Ben-My-Chree will be retained as a back-up vessel.

Directors

The directors who held office during the year and to date are set out on page 1.

None of the Directors had any interests in shares or debentures, of any member of the Group during the year and to date (2020: None).

Auditor

Our auditor, Grant Thornton Limited, being eligible, has indicated its willingness to continue in office under the terms of the Isle of Man Companies Act 2006.

By order of the Board

Director
29 March 2022

Statement of Directors' Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Isle of Man Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion

Our Opinion on the financial statements is unmodified

We have audited the financial statements of The Isle of Man Steam Packet Company Limited and its Subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

However, as we cannot predict with certainty all future events or conditions and as any subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report set out on pages 1 to 3, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation. We determined that the following laws and regulations were most significant including FRS 102, Isle of Man Companies Act 2006, and taxation laws. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

- We understood how the Group is complying with those legal and regulatory frameworks by, making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of minutes and documents provided to the board.

Report of the Independent Auditor, Grant Thornton Limited,

to the members of The Isle of Man Steam Packet Company Limited (continued)

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:

  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgements made by management in its significant accounting estimates; and
  - identifying and testing journal entries, in particular any unusual journal entry postings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Grant Thornton Limited

Grant Thornton Limited
Douglas
Isle of Man

Date: 31/03/2022

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2021

Continuing operations	Note	2021 £	2020 £
Revenue	5	**41,715,790**	28,420,735
Depreciation	11	**(7,554,458)**	(5,932,057)
Employee benefits expense	6	**(15,453,763)**	(16,351,580)
Other operating expenses	9	**(19,236,868)**	(13,719,708)
Other expenses		**(37,870)**	(79)
Operating loss		**(567,169)**	(7,582,689)
Other gains and losses		**88,159**	(55,573)
Investment revenue	7	**17,617**	98,278
Loss before tax		**(461,393)**	(7,539,984)
Income tax expense	8	**-**	-
Loss from continuing operations		**(461,393)**	(7,539,984)
Loss for the year attributable to equity owners		**(461,393)**	(7,539,984)
Other comprehensive income / (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains / (losses) on retirement benefit obligation	23 (viii)	**5,743,000**	(5,019,000)
Net fair value gain / (loss) on cash flow hedge instruments	24	**1,065,381**	(2,057,907)
Other comprehensive income / (expense) (net of tax) for the year		**6,808,381**	(7,076,907)
Total comprehensive income / (expense) for the year attributable to equity owners		**6,346,988**	(14,616,891)

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2021

	Note	**2021 £**	2020 £
Assets			
Non-current assets			
Property and equipment	11	**32,385,006**	16,593,246
		32,385,006	16,593,246
Current assets			
Inventories	13	**2,961,150**	2,963,850
Trade and other receivables	14	**7,611,793**	6,070,548
Cash and bank balances	15	**8,589,295**	18,101,897
Total current assets		**19,162,238**	27,136,295
Total assets		**51,547,244**	43,729,541
Equity and liabilities			
Equity			
Share capital	16	**7,500,001**	7,500,001
Retained earnings	17	**16,415,785**	11,134,178
Hedge Reserve	17	**(714,852)**	(2,057,907)
Equity attributable to owners of the Company		**23,200,934**	16,576,272
Non-current liabilities			
Derivative financial instruments	24	**-**	1,597,834
Retirement benefit obligation	23	**6,334,410**	11,003,410
Deferred revenue	21	**-**	4,316,955
Total non-current liabilities		**6,334,410**	16,918,199
Current liabilities			
Trade and other payables	19	**9,168,273**	3,510,418
Derivative financial instruments	24	**714,852**	460,073
Retirement benefit obligation	23	**500,000**	2,000,000
Provisions	20	**352,239**	149,648
Deferred revenue	21	**11,276,536**	4,114,931
Total current liabilities		**22,011,900**	10,235,070
Total liabilities		**28,346,310**	27,153,269
Total equity and liabilities		**51,547,244**	43,729,541

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

These financial statements were approved at a meeting of the Board of Directors held on **29 March 2022** and were signed on their behalf by:

Director

Consolidated statement of changes in equity
for the year ended 31 December 2021

	Note	Share Capital £	Retained Earnings £	Hedge Reserve £	Total £
At 1 January 2020		7,500,001	24,039,481	-	31,539,482
Loss for the year		-	(7,539,984)	-	(7,539,984)
Other comprehensive expense for the year		-	(5,019,000)	(2,057,907)	(7,076,907)
Total comprehensive expense for the year		-	(12,558,984)	(2,057,907)	(14,616,891)
Dividends	10	-	(346,319)	-	(346,319)
At 31 December 2020		7,500,001	11,134,178	(2,057,907)	16,576,272
Loss for the year		**-**	**(461,393)**	**-**	**(461,393)**
Other comprehensive income for the year		**-**	**5,743,000**	**1,065,381**	**6,808,381**
Total comprehensive income for the year		**-**	**5,281,607**	**1,065,381**	**6,346,988**
Hedging losses transferred to fixed assets		**-**	**-**	**277,674**	**277,674**
Dividends	10	**-**	**-**	**-**	**-**
At 31 December 2021		**7,500,001**	**16,415,785**	**(714,852)**	**23,200,934**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2021

	Note	2021 £	2020 £
Net cash inflow/(outflow) from operating activities	25	**13,727,840**	(1,136,424)
Cash flow from investing activities			
Interest received	7	**17,617**	98,278
Proceeds on disposal of property and equipment		**408**	32,285
Purchases of property and equipment	11	**(23,346,604)**	(7,983,423)
Net cash outflow from investing activities		**(23,328,579)**	(7,852,860)
Net cash inflow from financing activities		**-**	-
Net decrease in cash and cash equivalents		**(9,600,739)**	(8,989,284)
Cash and cash equivalents at beginning of year		**18,101,897**	27,165,924
Effect of foreign exchange rate changes		**88,137**	(74,743)
Cash and cash equivalents at end of year		**8,589,295**	18,101,897

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

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2021

1. General information

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). Details of the company's subsidiaries are given in note 12.

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

2. Statement of compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as applicable to an Isle of Man Company.

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

3. Summary of accounting policies

Basis of preparation

The financial statements have been prepared on the going concern and historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments and defined benefit plan asset/obligations. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

The following principal accounting policies have been applied:

3. Summary of accounting policies (continued)

Basis of consolidation

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

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

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

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

Going concern

The financial statements have been prepared following an assessment by the Directors of the Group's long term cash flow forecasts for a period of at least twelve months from the date the audit report is signed. Based on this, the Directors are satisfied that the Group and Company will have adequate resources for its continuing operational existence for the foreseeable future and that it is appropriate to continue to adopt the going concern basis for the preparation of the financial statements.

Revenue recognition

Revenue principally comprises income from the carrying of passengers, accompanied vehicles, freight and on board sales excluding Value Added Tax.

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

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

Freight revenue: Recognised at the date of transportation.

Passenger services revenue: Recognised at the point of sale.

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

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

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

3. Summary of accounting policies (continued)

Leasing

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

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

Operating leases
Rentals payable under operating leases are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the term of the lease. Lease incentives, if applicable, are recognised in profit or loss over the term of the lease.

Foreign currencies

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

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

Employee benefits

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

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

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

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

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

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

3. Summary of accounting policies (continued)

Employee benefits (continued)

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

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

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

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

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

Termination benefits
Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment.

Taxation

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

Property and equipment

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

Conventional ferries	-	25 years
Fast ferries	-	15 years

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

Vessel under construction
Vessel under construction, the construction of which takes a substantial period of time includes advance payments, as well as other direct costs incurred to date less any impairment loss. No depreciation is charged on these amounts. Depreciation commences when the asset is ready for its intended use.

Notes to the consolidated financial statements
for the year ended 31 December 2021

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

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

The Group assesses at each reporting date whether tangible fixed assets are impaired.

Business combinations

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

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

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

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

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

In respect of acquisitions prior to 31 December 2019 when FRS 102 was adopted, goodwill was included on the basis of its deemed cost, which represents the amount recorded under the previous IFRS framework. Intangible assets previously included in goodwill, are not recognised separately. On transition, the Company reassessed goodwill and certain intangible assets which had indefinite useful lives to determine their useful lives under FRS 102 and amortise these assets over that period going forward.

3. Summary of accounting policies (continued)

Impairments – non financial assets

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

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

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

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

Inventories

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

Financial instruments

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

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

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

3. Summary of accounting policies (continued)

Basic financial instruments

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

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

Cash and bank balances
Cash and cash equivalents comprise cash on hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts, which are repayable on demand and, where relevant, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

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

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

Equity instruments

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

Notes to the consolidated financial statements
for the year ended 31 December 2021

3. Summary of accounting policies (continued)

Derivative financial instruments and hedging

The Group actively seeks to mitigate its exposure to financial risks. The mitigation of these risks can include the use of financial derivatives. The Group has hedged the exchange rate risk associated with the new vessel acquisition by entering into forward exchange contracts for the pre-delivery instalments. The Board considers that these contracts are effective as hedges of changes in the related future cash flows.

Derivative financial instruments are held in the Consolidated Statement of Financial Position at their fair value. Under "hedge accounting", changes in the fair value of derivative financial instruments that are designated, and are effective, as hedges of changes in future cash flows are recognised directly as Other Comprehensive Income. Changes in fair value for any ineffective portion of the hedge are recognised in the Consolidated Statement of Profit or Loss as they arise.

When the cash flow hedge of a firm commitment or forecasted transaction subsequently results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that were previously recognised in Other Comprehensive Income and accumulated in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or liability, amounts accumulated in equity are recognised in the Consolidated Income Statement in the same period in which the hedged item affects profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument accumulated in equity is retained in equity until the forecasted transactions occur. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss accumulated in equity is transferred to the Consolidated Statement of Profit and loss.

Provisions

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

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

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

Contingent liability

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

Financial guarantee contracts

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

Expenses

Expenses are recognised on an accruals basis.

Notes to the consolidated financial statements
for the year ended 31 December 2021

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2021

5. Revenue

	2021 £	2020 £
Revenue from contracts with customers	**41,715,790**	28,420,735

Revenue: segmental analysis	2021 £	2020 £
Passenger revenue	**13,935,264**	3,847,609
Freight revenue	**24,411,651**	22,932,487
Passenger service revenue	**2,432,732**	998,790
Non ferry income	**645,187**	548,813
Charter revenue	**290,956**	93,036
	41,715,790	28,420,735

Revenue: timing of revenue recognition	2021 £	2020 £
At a point in time	**41,424,834**	28,327,699
Over time	**290,956**	93,036
	41,715,790	28,420,735

6. Employee benefits expense

	2021 No.	2020 No.
Average number of employees during the year	**320**	323
Number of employees at year end	**302**	294

	Notes	2021 £	2020 £
Aggregate costs of employee benefits were as follows:			
Wages and salaries		**10,892,922**	10,798,400
Social welfare charge		**478,386**	449,198
Defined benefit pension scheme - current service cost	23 (viii)	**4,417,000**	3,267,000
Defined contribution pension scheme - pension (release)/cost		**(1,434,862)**	1,545,971
Termination benefits		**1,033,142**	75,000
Other benefits		**67,175**	216,011
		15,453,763	16,351,580

Defined contribution pension scheme
The defined contribution pension scheme - pension (release)/cost for the year ended 31 December 2021 includes the release of a £1.5m provision for the estimated deficit contribution emanating from the MNRPF 31 March 2020 triennial valuation which is no longer required (note 23 (iii)).

Notes to the consolidated financial statements
for the year ended 31 December 2021

7. Investment revenue

	2021 £	2020 £
Interest on bank deposits	**17,617**	98,278

8. Income tax

The Group is liable to taxation in the Isle of Man and Guernsey charged at 0% (2020: 0%). There are no known factors that would affect future tax charges.

9. Loss for the year from continuing operations

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

	2021 £	2020 £
Gain on disposal of property and equipment	**(22)**	(19,170)
Depreciation of property and equipment	**7,554,458**	5,932,057
Directors fees	**88,330**	84,270
Auditors remuneration	**65,000**	70,170
Lease payments recognised as an expense	**1,237,120**	1,101,848

Operating costs consist of:

	2021 £	2020 £
Staff Costs (excluding wages and salaries)	**1,396,423**	1,248,350
Fuel	**5,520,728**	2,849,907
Repairs & maintenance	**974,736**	874,765
Insurance	**937,471**	1,005,736
Charter costs	**609,155**	490,585
Marine & other vessel costs	**325,573**	265,110
Port dues and charges	**6,174,416**	5,017,362
Other operating costs	**1,389,112**	719,895
Administration costs	**1,909,254**	1,247,998
	19,236,868	13,719,708

10. Dividends

No dividend was declared during the year by the Company to its parent company, The Isle of Man Steam Packet Group Limited (2020: £346,319).

Notes to the consolidated financial statements
for the year ended 31 December 2021

11. Property and equipment

	Passenger ships	Vessel under construction	Equipment	Vehicles	Land & buildings	Total
	£	£	£	£	£	£
Cost or deemed cost						
At 1 January 2020	82,523,576	87,610	14,827,584	1,474,718	1,101,246	100,014,734
Additions	3,236,813	4,027,357	597,723	58,670	62,860	7,983,423
Disposals	(40,281,129)	-	(693,568)	(52,460)	(730,251)	(41,757,408)
At 1 January 2021	45,479,260	4,114,967	14,731,739	1,480,928	433,855	66,240,749
Additions	5,162,078	17,643,130	359,679	152,145	29,572	23,346,604
Disposals	(2,948,536)	-	(9,796,477)	(78,796)	-	(12,823,809)
At 31 December 2021	**47,692,802**	**21,758,097**	**5,294,941**	**1,554,277**	**463,427**	**76,763,544**
Accumulated depreciation and impairment						
At 1 January 2020	69,899,128	-	13,663,436	1,145,883	751,292	85,459,739
Eliminated on disposals	(40,281,129)	-	(693,568)	(39,345)	(730,251)	(41,744,293)
Depreciation for the year	5,079,801	-	572,564	213,964	65,728	5,932,057
At 1 January 2021	34,697,800	-	13,542,432	1,320,502	86,769	49,647,503
Eliminated on disposals	(2,948,536)	-	(9,796,091)	(78,796)	-	(12,823,423)
Depreciation for the year	6,795,569	-	566,912	104,241	87,736	7,554,458
At 31 December 2021	**38,544,833**	-	**4,313,253**	**1,345,947**	**174,505**	**44,378,538**
Carrying amount						
At 31 December 2021	**9,147,969**	**21,758,097**	**981,688**	**208,330**	**288,922**	**32,385,006**
At 31 December 2020	10,781,460	4,114,967	1,189,307	160,426	347,086	16,593,246

Under the terms of the Credit Agreements (note 27), first fixed charges are registered against the Group's passenger ships, land and buildings to secure amounts outstanding under that facility. Fixed charges are also held over all other property and equipment. At 31 December 2021, amounts outstanding under the facility were £75,354,000 (2020: £75,354,000).

During the year, fully depreciated assets amounting to £12.8m were removed from the asset registers, these mainly relate to vessel overhauls and equipment.

On 31 July 2020 the Company entered into a contract with South Korean ship builder, Hyundai Mipo Dockyard ("HMD") for the construction of a new Ro-Pax ship to be named "Manxman". Under the contract, the Company is committed to paying US$90.7m in instalments on completion of certain performance milestones. US$27.2m had been settled as at 31 December 2021. Industrial Bank of Korea has provided a Refund Guarantee which secures HMD's obligation to refund payment advances plus interest should HMD fail to deliver on the contract. In order to hedge the currency risk on the contract payments the Company entered into forward exchange contracts of which $63.4m remained open as at 31 December 2021 (2020: $81.6m). See note 24 for further details.

Notes to the consolidated financial statements
for the year ended 31 December 2021

12. Group subsidiaries

The composition of the Group's subsidiaries at 31 December 2021 is as follows:

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

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

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

13. Inventories

	2021 £	2020 £
Vessel spares	**2,365,097**	2,435,894
Fuel and lubricating oil	**323,591**	251,581
Retail and catering stocks	**94,497**	127,936
Other	**177,965**	148,439
	2,961,150	2,963,850

The cost of inventories recognised as an expense during the year in respect of continuing operations was £7,251,995 (2020: £3,965,530).

Notes to the consolidated financial statements
for the year ended 31 December 2021

14. Trade and other receivables

	2021 £	2020 £
Trade receivables	**6,568,126**	5,088,228
Allowance for doubtful debts	**(26,030)**	(26,030)
	6,542,096	5,062,198
Prepayments	**1,069,747**	1,017,571
Insurance claims receivable/(deductibles payable)	**(8,500)**	(10,000)
Other receivables	**8,450**	779
	7,611,793	6,070,548

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

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

Trade receivables are analysed as follows:

	2021 £	2020 £
Not past due		
- Within terms	**6,578,544**	5,098,782
Past due		
- Within 3 months	**(6,140)**	2,505
- After 3 months	**(4,278)**	(13,059)
	(10,418)	(10,554)
	6,568,126	5,088,228

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

Movement in the allowance for doubtful debts
In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration risk is limited due to the exposure being spread over a large number of counterparties and customers. 27% (2020: 37 %) of trade receivables are owed by the Group's ten largest freight customers. Accordingly, the Directors believe that there is no further allowance required in excess of the allowance for doubtful debts. Prepayments, and other receivables are neither past due nor impaired at 31 December 2021.

Notes to the consolidated financial statements
for the year ended 31 December 2021

15. Cash and bank balances

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

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

The geographic spread by deposit institution was as follows:

	2021 £	2020 £
Ireland	5,984	182,152
Isle of Man	8,573,737	14,464,671
Jersey	9,574	3,455,074
	8,589,295	18,101,897

The liquidity analysis was as follows:

	2021 £	2020 £
Cash in hand	14,508	14,944
Deposit accounts	8,571,888	14,765,424
Notice accounts (31-95 day notice)	2,899	3,321,529
	8,589,295	18,101,897

16. Share capital

	2021 Number	2021 £	2020 Number	2020 £
Authorised				
Ordinary shares of par value of £0.25 each	32,000,000	8,000,000	32,000,000	8,000,000
	32,000,000	8,000,000	32,000,000	8,000,000
Allotted, called up and fully paid - ordinary shares				
At 1 January	30,000,001	7,500,001	30,000,001	7,500,001
Share issue	-	-	-	-
At 31 December	30,000,001	7,500,001	30,000,001	7,500,001

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

17. Analysis of equity

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

Hedge reserve
Hedge reserve comprises the fair value of forward contracts (note 24).

Notes to the consolidated financial statements
for the year ended 31 December 2021

18. Financial instruments and risk management

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

i. *Foreign currency risk management*
The Group undertakes certain transactions denominated in foreign currencies, giving rise to exposure to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters, which includes the use of hedging instruments where the currency risk is assessed to be high.

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

	Sterling	Euro	USD	Other	Total
2021	£	£	£	£	£
Trade and other receivables	7,207,720	404,073	-	-	7,611,793
Cash and bank balances	7,027,980	198,492	1,362,823	-	8,589,295
Total assets	**14,235,700**	**602,565**	**1,362,823**	**-**	**16,201,088**
Deferred revenue	10,077,153	1,199,383	-	-	11,276,536
Trade and other payables	9,207,774	(16,203)	-	(23,298)	9,168,273
Derivative financial instruments	-	-	714,852	-	714,852
Total liabilities	**19,284,927**	**1,183,180**	**714,852**	**(23,298)**	**21,159,661**
Net monetary (liabilities) / assets	**(5,049,227)**	**(580,615)**	**647,971**	**(23,298)**	**(4,958,573)**
2020	£	£	£	£	£
Trade and other receivables	5,768,176	302,372	-	-	6,070,548
Cash and bank balances	14,199,758	216,186	3,685,953	-	18,101,897
Total assets	**19,967,934**	**518,558**	**3,685,953**	**-**	**24,172,445**
Deferred revenue	7,383,036	1,048,850	-	-	8,431,886
Trade and other payables	3,479,877	30,541	-	-	3,510,418
Derivative financial instruments	-	-	2,057,907	-	2,057,907
Total liabilities	**10,862,913**	**1,079,391**	**2,057,907**	**-**	**14,000,211**
Net monetary assets / (liabilities)	**9,105,021**	**(560,833)**	**1,628,046**	**-**	**10,172,234**

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

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

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

All monetary financial liabilities are repayable within 1 year.

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

Notes to the consolidated financial statements
for the year ended 31 December 2021

18. Financial instruments and risk management (continued)

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

19. Trade and other payables

	2021 £	2020 £
Trade payables and accruals	**3,184,178**	2,266,918
Payroll taxes and social security	**36,330**	100,647
Value added tax	**806,940**	924,171
Other payables	**210,607**	218,682
Amounts due to group undertakings	**4,930,218**	-
	9,168,273	3,510,418
Analysed as:		
- Current liabilities	**9,168,273**	3,510,418
	9,168,273	3,510,418

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

The average trade credit period outstanding was 26 days (2020: 26). Certain suppliers reserve the right to charge interest on balances past their due date. The Group has appropriate procedures in place to ensure that all payables are paid within the credit timeframe.

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

Amounts due to group undertakings are interest free and repayable on demand.

20. Provisions

	2021 £	2020 £
At 1 December	**149,648**	63,745
Utilisation of provisions	**(11,164)**	(63,745)
Increase in provisions	**213,755**	149,648
At 31 December	**352,239**	149,648
Analysed as:		
- Current liabilities	**352,239**	149,648
	352,239	149,648

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

Notes to the consolidated financial statements
for the year ended 31 December 2021

21. Deferred revenue

	2021 £	2020 £
Analysed as:		
- Current liabilities	**11,276,536**	4,114,931
- Non-current liabilities	**-**	4,316,955
	11,276,536	8,431,886

22. Operating leases

Outstanding commitments under non-cancellable operating leases are payable as follows:

	2021 £	2020 £
Within one year	**4,078,900**	4,239,476
Later than 1 year and not later than 5 years	**6,626,527**	7,456,027
Later than five years	**12,006,279**	11,098,832
	22,711,706	22,794,335

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

On 31 May 2019, the Company entered into a SSA with The Isle of Man Department of Infrastructure ("DoI"), effective 1 January 2020, under which the Company is granted sole use of DoI owned linkspans situated at King Edward Pier and Victoria Pier, Douglas. The initial term was for 25 years, extended by 3 years under the Variation Agreement dated 30 June 2021, with an annual commitment of £515,378. Details of the SSA and its extension are disclosed in note 28.

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

Notes to the consolidated financial statements
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23. Retirement benefit schemes

Defined Contribution ("DC") Scheme

The Group operates a number of defined contribution pension schemes:

- Carey Workplace Pension Trust, an auto enrolment, workplace pension scheme which provides retirement benefits for UK employees who are not members of The Isle of Man Steam Packet Company Limited Staff Pension Fund or the Ensign Retirement Plan.
- Aviva Group Personal Pension Schemes, defined contribution schemes to replace the Isle of Man Steam Packet Company Limited Staff Pension Fund defined benefit scheme, which was closed to new entrants on 1 July 2021.

The total expense charged in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of £47,715 (2020: £30,922) represents contributions payable to these externally administered defined contribution pension scheme at rates specified in the rules of the scheme. There were no outstanding contributions as at 31 December 2021 (2020: £Nil).

Defined Benefit ("DB") Pension Schemes

The Group has the following defined benefit retirement scheme obligations:

Deficit by Scheme:	Note	Type of scheme	Accounting adopted	2021 £'000	2020 £'000
The Isle of Man Steam Packet Company Limited Staff Pension Fund ("SPPF")	(i)	DB	DB	**6,549**	11,218
MNOPF	(ii)	DB	DC	**-**	-
MNRPF	(iii)	DB	DC	**285**	1,785
				6,834	13,003
Analysed as:					
Retirement benefit obligation <1 year				**500**	2,000
Retirement benefit obligation > 1 year				**6,334**	11,003
Net Deficit				**6,834**	13,003

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

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

With effect from 1 July 2021 and having completed the statutory consultation process the SPPF was closed to new entrants and has been replaced with a defined contribution scheme.

The most recent triennial actuarial valuation for the scheme, which is not available to the public, was carried out at 31 March 2021 by Mercer Limited, the preliminary results of which were:

	£m
Assets	61.0
Liabilities	(65.9)
Deficit	**(4.9)**
Net funding level	**93%**

23. Retirement benefit schemes (continued)

The valuations employed for disclosure purposes have been based on the most recent funding valuation for the scheme adjusted by the independent actuaries to allow for the accrual of liabilities at 31 December 2021 and to take account of financial conditions at this date. The present value of the defined benefit obligation and the related current and past service cost, were measured using the projected unit credit method; assets have been valued at bid value.

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

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

In addition to the SPPF operated by the Group, one employee is a member of the MNOPF, an industry wide multi-employer defined benefit scheme registered in the UK. The scheme is closed to future accrual.

Insufficient information is available to the Group to enable defined benefit accounting, therefore defined contribution accounting has been adopted. As at 31 December 2021 the Group has no outstanding retirement benefit obligations (2020: £nil).

As at 31 March 2021, the date of the most recent triennial actuarial valuation carried out by an independent actuary, the scheme valuation was:

	£m
Assets	3,250
Liabilities	(3,192)
Surplus	**58**
PV of outstanding instalments	3
Net surplus	**61**
Net funding level	**102%**

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

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

The Group has liabilities to the scheme but insufficient information is available to facilitate defined benefit accounting, therefore defined contribution accounting has been adopted. The Group accounts for the funding payments as defined contributions and recognises the full annual cost in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

As at 31 March 2020, the date of the most recent triennial actuarial valuation carried out by an independent actuary, the scheme valuation was:

	£m
Assets	1,333
Liabilities	(1,429)
Deficit	**(96)**
Net funding level	**93%**

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

The Group settled the majority of its 31 March 2017 triennial valuation during 2018, with only £285k (2020: £285k) remaining.

23. Retirement benefit schemes (continued)

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

MNRPF Trustees made the Company aware of possible further liabilities associated with legal uncertainties relating to the rights of certain members to ill-health early retirement pensions "IHER benefits" since 1991. A settlement agreement has been reached and a confidential, non-binding Heads of Terms has been signed, the formalisation of which will require Court approval during 2022. The Group made a £1.5m provision in its 31 December 2020 financial statements for its estimated deficit contribution arising from the preliminary MNRPF 31 March 2020 triennial valuation which included an IHER benefits reserve. The triennial valuation was subsequently finalised on 16 June 2021 and the Trustees confirmed no further deficit contributions were payable by employers, resulting in the release of the Group's provision.

MNRPF Trustee is investigating a number of possible administration and benefit calculation errors (called Project Delta) which may result in rectification of benefits being required and additional liabilities.

iv) Principal risks and assumptions – SPPF

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

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

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

Significant actuarial assumptions	2021	2020
Weighted average assumptions to determine defined benefit obligations:		
Discount rate	**1.75%**	1.45%
Salary increase rate	**3.20%**	2.85%
Price of inflation rate (RPI/CPI)	**3.20%/2.50%**	2.85%/2.05%
Rate of pension increases:		
- LPI max 5%	**3.05%**	2.75%
- LPI max 5%	**2.00%**	1.95%
Assumed life expectancy on retirement at age 65:		
- Retiring today (member age 65)	**21.2**	21.8
- Retiring in 20 years (member currently age 45)	**22.3**	23.2
Weighted average assumptions to determine defined benefit cost:		
Discount rate	**1.45%**	2.10%
Salary increase rate	**2.85%**	2.90%
Price of inflation rate (RPI/CPI)	**2.85%/2.05%**	2.90%/2.10%
Rate of pension increases:		
- LPI max 5%	**2.75%**	2.75%
- LPI max 5%	**1.95%**	1.95%
Assumed life expectancy on retirement at age 65:		
- Retiring today (member age 65)	**21.8**	21.8
- Retiring in 20 years (member currently age 45)	**23.2**	23.2

Notes to the consolidated financial statements
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23. Retirement benefit schemes (continued)

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

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

	2021 £'000	2020 £'000
Amounts recognised in the statement of financial position		
Defined benefit obligation	74,025	73,635
Fair value of plan assets	(67,476)	(62,417)
Total retirement benefit obligations	**6,549**	11,218

Schemes in a net surplus position are shown in non-current assets in the Consolidated Statement of Financial Position. Schemes in a net deficit position are shown in non-current liabilities. As at 31 December 2021 and 2020 the Scheme was in a net deficit position.

The deficit as at 31 December 2021 is lower than the comparable figure as at 31 December 2020, reflecting a lower discount rate and changes to mortality assumptions, that have been partially offset by an increase in expected future inflation.

vi) Change in defined benefit obligation - SPPF

	2021 £'000	2020 £'000
Change in defined benefit obligation		
Defined benefit at end of prior year	73,635	60,863
Service cost - current	4,008	2,887
Interest expense	1,055	1,260
Cashflows:		
-Benefit payments from plan assets	(1,707)	(1,739)
-Participant contributions	679	646
-Insurance premiums for risk benefits	(58)	(55)
Re-measurements		
-Effect of changes in financial assumptions	(4,639)	9,773
-Effect of experience adjustments	1,052	-
Defined benefit obligation at end of year	**74,025**	73,635

Notes to the consolidated financial statements
for the year ended 31 December 2021

23. Retirement benefit schemes (continued)

vii) Change in fair value of plan assets - SPPF

	2021 £'000	2020 £'000
Change in fair value of plan assets		
Fair value of plan assets at end of prior year	62,417	54,752
Interest income	915	1,165
Cashflows:		
-Employer contributions	3,343	3,179
-Participant contributions	679	646
-Benefit payments from plan assets	(1,707)	(1,739)
-Administrative expenses from plan assets	(269)	(285)
-Insurance premiums for risk benefits	(58)	(55)
Re-measurements		
-Return on plan assets (excluding interest income)	2,156	4,754
Fair value of plan assets at end of year	**67,476**	62,417

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

	2021 £'000	2020 £'000
Components of defined benefit cost		
Current service cost	4,008	2,887
Net interest cost		
-Interest expense on DBO	1,055	1,260
-Interest income on plan assets	(915)	(1,165)
Total net interest cost	140	95
Administrative expenses and/or taxes (not reserved within DBO)	269	285
Defined benefit cost included in Sol	**4,417**	3,267
Re-measurements (recognised in OCI)		
-Effect of change in financial assumptions	(4,639)	9,773
-Effect of experience adjustments	1,052	-
-Return on plan assets (excluding interest income)	(2,156)	(4,754)
Total re-measurements included in OCI	**(5,743)**	5,019
Total defined benefit (income)/cost recognised in Sol and OCI	**(1,326)**	8,286

Notes to the consolidated financial statements
for the year ended 31 December 2021

23. Retirement benefit schemes (continued)

ix) Net defined benefit liability reconciliation - SPPF

	2021 £'000	2020 £'000
Net defined benefit liability reconciliation		
Net defined benefit liability brought forward	11,218	6,111
Defined benefit cost included in Sol	4,417	3,267
Total measurements included in OCI	(5,743)	5,019
Cashflows:		
-Employer contributions	(3,343)	(3,179)
Net defined benefit liability at end of year	**6,549**	11,218

x) Analysis of plan assets - SPPF

	2021 £'000	2020 £'000
Plan assets		
Fair value of plan assets		
-Cash and cash equivalents	4,537	3,228
-Debt instruments	12,454	11,291
-Investment funds	50,485	47,898
Total fair value of plan assets	**67,476**	62,417
Actual return on plan assets	**3,071**	5,919

24. Derivatives

	2021 £	2020 £
Derivatives designated and effective as hedging instruments carried at fair value	**714,852**	2,057,907
	714,852	2,057,907
Analysed as:		
- Current liabilities	**714,852**	460,073
- Non-current liabilities	-	1,597,834
	714,852	2,057,907

On 11 November 2020, the Company entered into four US$ forward exchange contracts with execution dates co-terminus with Manxman instalment payments (note 11) in order to hedge the Group's currency risk. The fair value movement of the forward exchange contracts during the year was £1,065,381 (2020: £-2,057,907).

Notes to the consolidated financial statements
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25. Net cash from operating activities

	Note	2021 £	2020 £
Loss for the year		**(461,393)**	(7,539,984)
Adjustments for:			
Depreciation	11	**7,554,458**	5,932,057
Gain on disposal of property and equipment	9	**(22)**	(19,170)
Retirement benefit obligations movements		**(426,000)**	1,588,000
Foreign exchange differences		**(88,137)**	74,743
Increase in provisions	20	**202,591**	85,903
Operating cashflows before movements in working capital		**6,781,497**	121,549
(Increase) / decrease in trade and other receivables		**(1,541,245)**	2,876,705
Increase / (decrease) in trade payables		**5,657,855**	(1,836,857)
Increase / (decrease) in deferred revenue		**2,844,650**	(1,813,577)
Decrease / (increase) in inventories		**2,700**	(385,966)
Cash generated from operations		**13,745,457**	(1,038,146)
Interest received	7	**(17,617)**	(98,278)
Net cash inflow / (outflow) from operating activities		**13,727,840**	(1,136,424)

Notes to the consolidated financial statements
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26. Related party transactions

Group undertakings
Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note.

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

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

	2021 (Income)/ Expense	**2021 Amount due / (payable)**	2020 (Income)/ Expense	2020 Amount due / (payable)
	£	**£**	£	£
Provision of admin services to The Isle of Man Steam Packet Company Limited Staff Pension Fund	**(38,076)**	**-**	(44,469)	4,447
Directors remuneration under service contracts	**-**	**-**	9,270	-

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

Compensation of key management personnel

The Group is exempt from the requirement to disclose compensation of key management personnel as its ultimate parent prepares accounts that are publicly available. These financial statements can be obtained from The Treasury, 3rd Floor Government Offices, Bucks Road, Douglas, Isle of Man IM1 3PZ.

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

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

Notes to the consolidated financial statements
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27. Contingent liabilities

Financial guarantee contract
On 24 May 2018, the Company and its parent, The Isle of Man Steam Packet Group Limited ("SPG") entered into a £76m loan facility with The Treasury, a Department of the Isle of Man Government ("IoMT"). IoMT has provided SPG with a loan of up to £76,000,000, of which £75,854,000 was initially drawn. Whilst the loan is recorded by SPG, the Company is jointly and severally liable for repayment should SPG default. Interest is charged in arrears at base rate plus 2% and is repayable on 24 May 2028. See also note 29.

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

The total value of outstanding debt owed by SPG and being guaranteed as at 31 December 2021 is £75,354,000 (2020: £75,354,000).

MNRPF
Refer to note 23 (iii) for details.

28. Sea Services Agreement

On 31 May 2019, the Company entered into a Sea Services Agreement ("SSA") with the Isle of Man Department of Infrastructure ("DoI") for a period of 25 years with effect from 1 January 2020.

Under the terms of the SSA:

- The Company is granted sole use of the King Edward and Victoria Pier linkspans at Douglas harbour, subject to concession for a number of specialist, one-off and non-group services.
- The Company is required to invest a minimum of £70m in acquiring a new Ro-Pax vessel and replacement fastcraft (less than 10 years old). The new Ro-Pax is required to provide additional passenger and freight capacity and to commence service by no later than 31 December 2022. A replacement fastcraft is required by 31 December 2026.
- The Company is required is to provide a third vessel to enhance back-up and increase capacity for selected peak periods.
- The Company is obliged to pay an annual fixed charge of £515,000, subject to annual increase by reference to the Manx Consumer Price Index ("MCPI").
- The Company guarantees minimum levels of route frequency, capacity and a range of other service measures.
- "Standard Fare" increases are restricted to annual MCPI and not less than 450,000 "Special Offer" seats must be provided with minimum discount levels.
- The Company must maintain a minimum marketing expenditure of £750k in UK/Ireland, subject to annual MCPI increases.
- The Company must conduct consultation and service reviews every five years, subject to a neutral financial effect.

A Variation Agreement, dated 30 June 2021 and a Rectification & Variation Agreement dated 30 September 2021 were agreed by the Company and DoI, to document changes to the SSA which arose from the Island's response to the Coronavirus pandemic. The key amendments were:

- A two-year extension to the agreement due to the cancellations of TT2020 and TT2021.
- A one-year extension to compensate for loss of revenues during IOMG travel restrictions.
- Waiver of minimum route frequencies, capacities and other service measures.
- Waiver of the requirement to provide a third vessel at TT/MGP if events cancelled.

28. Sea Services Agreement (continued)

- Waiver of the minimum £1.1m passenger dues obligation until such time as border restrictions are removed.
- Pro-rata reduction in the linkspan fixed charge to £206,151 until border restrictions are fully removed.
- Reduction in the minimum level of marketing expenditure.
- Extension to the deadline for the service commencement of a new Ro-Pax to 31 December 2023.

29. Events after the reporting period

On 13 January 2022 the Company's parent, The Isle of Man Steam Packet Group Limited ("SPG") entered into two loan facilities with The Treasury, a Department of the Isle of Man Government: the first, a £76m loan to refinance the existing corporate debt (see note 27); the second, a £84m facility to finance the "Manxman".

The terms for both facilities comprise a fixed rate of interest at 1.7% with straight-line bi-annual repayments over a 30-year term. The facilities are secured against all the assets of the Group with no significant financial covenants. Whilst the loans are recorded by SPG, the Company is jointly and severally liable should SPG default.

There are no other events since the balance sheet date that require adjustment or disclosure in these financial statements.

30. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on **29 March 2022**.