**Incorporation Financial Model Assumptions.**

The original assumptions presented to the States in P.70/2012 in October 2012 have been updated and validated as described below:

| | **P.70/2012 Assumption.** | **Development of the Assumption.** | **Impact.** |
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| Period / Timing. | The model period is to 2032 and the incorporation date set at 1st January 2014. The current project plan has identified 1st January 2015 as the target date for incorporation, which should not have a material impact on the overall 20 year financial model. | 2013 actual results have replaced 2012 actual results as the basis for extrapolation. The period and timing of the financial model has been extended to 2038 to match the States long-term capital and revenue reporting. | The impact of moving from 2012 actual to 2013 actual results for extrapolation purposes has had a positive effect on the cash flow (£48m). However, extending the model by five years resulted in a net increase in cashflow of £28 million over the life of the model, mainly due to a lower than average requirement for capital expenditure over the final five years of the model. |
| Capital Programme. | Capital expenditure is based upon the Capita Symonds Review undertaken in 2011. | The Long-Term Capital Programme has been significantly altered since the 2011 Capita Symonds Review. A revised version was developed by the Executive Team in September 2013 which has subsequently been reviewed by Validus (via Capita Symonds) and recommended changes have been made to the timing of some projects. | The impact of the new Long Term Capital Programme has been an adverse movement of £49 million in cashflow over the life of the model. |

| | P.70/2012 Assumption. | Development of the Assumption. | Impact. |
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| Balance Sheet. | The balance sheet is based upon States of Jersey's published accounts. It is important to note that the asset base is therefore as currently stated and not, for example, the property estate identified [in P.70/2012.] This is an identified workstream in conjunction with Treasury / Jersey Property Holdings and it is anticipated that any net difference in valuations will not be material. | The properties to be transferred to and from Jersey Property Holdings have been identified with no material changes to those specified in P.70/2012. Any additions to the property portfolio, and their associated net revenues, over the life of the model have been treated separately as Commercial Projects. | None at present. |
| Staff. | Employees will be transferred on existing terms and conditions | None – the assumption has been reaffirmed. | None. |
| Pension. | Liability (£17.6 million) to be paid in full on incorporation from existing Trading Fund balances. | None. The Committee of Management for PECRS has clarified that the liability must be paid in full upon incorporation. It is still the intention for the full liability to be paid from existing Trading Fund balances. The latest advice shows the liability to be £17.6 million which has been apportioned across Airport and Harbours at £13 million and £4.6 million respectively. | No impact as the latest advice represents a change in presentation only. |

| | P.70/2012 Assumption. | Development of the Assumption. | Impact. |
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| Inflation. | Set at 2.5% per annum throughout the model for both tariffs and costs. Airport Dues increases have been set at inflation less 0.5%. | The Model has been updated with the latest R.P.I. information from the States' Economic Advisor, and the assumption of 'inflation less 0.5%' has been removed in relation to Airport Dues. | A favourable movement in cashflow over the life of the model of £6 million. |
| Borrowing. | No borrowing was included in the model. | Borrowing used to resolve liquidity issues from 2013. It is fully repaid by the end of the model and there is no liability on the closing balance sheet. However, borrowing may also be used to fund separate Commercial Projects which provide a return on investment within the life of the model. | None in relation to 'business as usual' activities. The cost of any borrowing for Commercial Projects will be included in the Return on Investment for each project. |
| Growth Volumes. | No increases in passenger volumes are included in respect of Harbours and are limited to +1% per annum in respect of the Airport. A cumulative +5% increase in freight volume is also included. | Harbours and Airport predicted volumes have been developed and validated by Route Development Company (aviation) and Fishers (maritime.) | The impact on the model of the revised volumes has been a drop in income of £5.6 million for Harbours and £28.4 million for the Airport. |

| | P.70/2012 Assumption. | Development of the Assumption. | Impact. |
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| Channel Island Control Zone. | It was assumed that the provision of services to the U.K. and France will continue through the life of the model on substantially the same basis as currently exists. | The current contract expires in December 2014, with a new contract currently under negotiation for 2015–2017. | The impact of any potential movement in exchange rates has not yet been confirmed; therefore no changes have been made to the model. |
| Commercial Opportunities. | Commercial projects targeted at a minimum of 8% return. | A number of conceptual commercial investment projects, called ‘Commercial Projects’ have been initiated. Nine specific projects are expected to commence before 2020 and the assumption is that a tranche of similar projects will be repeated from 2026. | In total, the proposed projects are estimated to have a positive cashflow of £90 million. |
| Taxation. | Taxation is charged at 20% net profit before depreciation and after an estimate for capital allowances payable in the following year. The pension liability has been deemed a tax deductible expense and therefore 20% of the value added to the deferred tax asset. | None. | None. |
| Capitalisation. | States to own 100% Ordinary Shares (no Preference Shares.) | None. | None. |

| | P.70/2012 Assumption. | Development of the Assumption. | Impact. |
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| Dividend. | A dividend policy will be agreed with the shareholder in due course; however for the purposes of the model, a dividend assumption of 12.5% Profit Before Tax has been made. | Amended to comply with Companies Law. | Reduction in dividend of £5m |
| Return. | All Public Service Obligations will continue, for example the coastguard, as a return to the States and services received will continue on the same basis. | The treatment of the Public Service Obligations is to be reviewed by BDO as part of their validation of the model. | None. |
| Cash. | The cash from both businesses will be combined and available funds used for investment in either business. | None. | None. |