APPENDIX 1: ASSUMPTIONS WITHIN THE FORECASTS

1 PROFIT AND LOSS ACCOUNT FORECASTS

1.1 Income

1.1.1 The income projections have been based on actual income for the period to 31 March 2018 ("the base year") as due to ferry refit issues, 31 March 2019 figures are not considered to be reflective on a normal year of operations being a major refit year.

1.1.2 The maximum chargeable cash tolls for passenger vehicles, goods vehicles and cycles have been phased in across thirteen years at an average increase of 3% per annum. The single ticket tolls are rounded down to the nearest 5p.

1.1.3 Appendix 8 provides details of the phased toll increase, as well as the rate of discounts applicable to books of tickets. The forecast income for each passenger category has been arrived at by dividing the total income for that category by the present toll and multiplying it by the new toll. For refit years, income has also been decreased as noted in point 1.1.4 below.

1.1.4 Appendix 8 also gives detailed workings regarding current and proposed tolls by class, as well as forecast income by class and also by category of passenger, before taking account of fluctuations arising in non-refit years.

1.1.5 Income has been adjusted for refit years to reflect decrease in revenue from ferry closure. Monthly average traffic volumes have been compared for both refit and non refit years to calculate the average reduction in income for each traffic class. It was used to arrive at the annual income figures, whereby forecast monthly income in a non-refit year was increased by the average percentages calculated. For a mini refit year it is assumed the reduction in traffic volumes during the refit period will be one third that in a major refit year.

1.1.6 A reduction to toll income of £100,000 is included for the year ending 31 March 2020. This reflects the expected net effect of enhanced discounts given to customers purchasing books of tickets following the major ferry breakdown in Summer 2019 and the extra income that promotion generated as well as the business interruption insurance excess on the breakdown itself.

1.2 Expenditure

1.2.1 In general, expenditure has been forecast using the base year figures, and increased by 3.0% per annum. The Summary Profit and Loss accounts (Appendices 2.1 and 2.2) show the rate of increase for each expense in the column "Annual Increase".

1.2.2 The base cost for ferry repairs and maintenance (excluding the cost of refits) has been arrived at by taking an average of the annual costs incurred in each of the last five financial years and increasing this figure by 3.0% per annum compounded to arrive at future projected costs.

1.2.3 The cost of a refit includes the costs of removing the ferry from the chains, towage to and from the ship repair yard, classification survey fees, docking and mooring charges and professional fees. It is assumed that the base cost of a major refit is £945k (being the cost of the 2019 major refit) and a mini refit being one-third the cost of a major refit i.e. £315k. These amounts have been increased by 3.0% per annum compounded to arrive at future refit costs for the financial year ending 31 March 2021 and biennially thereafter. A supplementary charge of £150,000 is included for the year ending 31 March 2020 reflecting the additional costs incurred following the major ferry breakdown in the year.

1.2.4 Major repairs to the slipways were carried out in the financial year ended 31 March 2015. Due to the major repairs, it has been assumed that only future annual slipways repairs and maintenance will arise, with no exceptional costs. The base cost for slipway annual repairs has been arrived at by taking an average of the annual costs incurred in each of the last five financial years (excluding the exceptional costs for the year ended 31 March 2015) and increasing this figure by 3.0% per annum compounded to arrive at future projected costs.

1.2.5 Depreciation has been calculated in accordance with the Company's accounting policy for depreciation, as recorded in its audited financial statements. No additions have been included and hence only the buildings and their revaluations will be subject to depreciation after financial year ending 31 March 2019.

1.3 Other Income

1.3.1 Other Income has been calculated using a base figure of £60,872, from financial year ended 31 March 2019, increased by 3.0% per annum.

1.4 Dividends

1.4.1 £3,675 of the dividend declared relates to non-equity preference shares. These have not been separately identified in the forecasts as being immaterial.

1.4.2 No dividend will be declared for the year ending 31 March 2020.

1.4.3 In the no toll increase scenario, dividends on equity shares have been calculated using a base figure of 46.90p per share for the financial year ending 31 March 2021. Dividends have been increased at a maximum rate of 2.99% which is below the RPI rate in 1.2.1. No annual increase in dividends is forecast after 2025.

1.4.4 In a toll increase scenario, no dividend is payable until such time as the balance on the ferry replacement reserve plus £5m (being the maximum amount the company can raise in third party finance) exceeds the forecast cost of a new ferry. In addition, no dividend ever exceeds the profit after tax earned in the year.

Calculation of Transfers to the Ferry Replacement Reserve

1.4.5 Allowing for cost rises over the next 13 years, it is projected that the replacement cost of the ferry in 2032 will be £12.795m.

1.4.6 Therefore, with the value of the Ferry Replacement Reserve at 31 March 2019 standing at £2.545m, the Company would have to transfer at least £6.450m (assuming £5m will be raised externally). This equates to an average of £0.496m per annum over the next 13 years to be on target to replace the ferry.

1.4.7 The calculations at the foot of Appendices 2.1 and 2.2 show the transfers made to this Reserve and the resulting cumulative shortfall or surplus.

CASH FLOW

1.5 Corporation tax is paid quarterly. The payments are based on the estimated profits for the financial year. The first payment in respect of a given financial year is seven months after the start of that year.

2 BALANCE SHEET FORECASTS

2.1 Fixed Assets

2.1.1 It is the Company's policy to revalue its fixed assets periodically. The last revaluation was on 31 March 2015. The forecasts are based on that last revaluation, as the directors are of the opinion that the current valuation is not dissimilar to the last valuation.

2.2 Deferred Tax

2.2.1 Deferred tax has not been calculated for future years as any change does not affect cash and is assumed to be immaterial in the context of total net assets.

2.3 Reserves

2.3.1 A proportion of the depreciation charge for the ferry relates to the revaluation noted above. In order that distributable reserves are not affected by this revaluation, this proportion of the depreciation charge is written back from the Revaluation Reserve (thereby reducing its value) to the Profit and Loss Reserve. For the thirteen years shown in these forecasts, this amount is approximately £67.8k per annum until the ferry is fully depreciated.