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Consultancy on Sustainable Business Model for Cairngorm Mountain
Funicular Railway

7 September 2009

Final Report

Strictly Private and Confidential

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Transmittal Letter

Strictly Private & Confidential
Highlands and Islands Enterprise
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7 September 2009

For the attention of James Gibbs

Dear Sirs

Highlands and Islands Enterprise (“HIE”) – Cairngorm Funicular Railway

In accordance with our terms of engagement with HIE, we have undertaken a limited scope review of the affairs of the Cairngorm Funicular Railway (“the Funicular”) under the terms of reference set out in Appendix I.

Purpose of our report and restrictions on its use

This report was prepared on your specific instructions in connection with a proposed transfer of the operational running of the Funicular Railway outwith the direct control of HIE and should not be used for any other purpose. No information in this document should be published or passed to third parties, including professional advisers, without the express prior written permission of Johnston Carmichael (“JC”). JC assumes no responsibility in respect of the contents of this report to parties other than the addressee listed above. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

Scope of our work

The financial and corporate information used in this document is sourced from information made available by the management of the Funicular Railway and certain members of HIE in the period from 28 November 2008 to 26 June 2009. The information primarily comprises accounting information together with meetings with the management of the Funicular Railway and at HIE. We have not had unfettered access to the business and management records of the Funicular Railway.

Our review has covered the matters set out in our engagement letter.

Basis of our work

JC has not independently verified any of the information contained in this report and does not make any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information contained in this report. The review includes certain statements and estimates with respect to the anticipated future performance of the Funicular Railway. Such statements and estimates reflect various assumptions made concerning anticipated events which may not prove to be achievable. Accordingly, no representation is made by JC as to the accuracy of such statements and estimates.

We have indicated within the report the sources of the information presented and have satisfied ourselves, so far as possible, that the information presented is consistent with other information obtained by us in the course of the work undertaken to prepare this report. Except where specifically stated, we have not sought to establish the reliability of those sources by reference to other evidence. We have provided the management of CML with a copy of this report in order to obtain their confirmation of its factual accuracy.

Structure of report

Section 2 of this report reflects the key findings and recommendations from our review. The remaining sections of the report contain more detailed information on the Funicular Railway’s historic trading results and other matters. Notwithstanding that our key findings are included in section 2, there may be points in the remainder of the report which are important to your consideration of the proposed transfer and therefore all sections should be read.

Yours faithfully

Johnston Carmichael

Glossary of Terms

| | | | |
|----------------------|---|-----------------------|---|
| JC | Johnston Carmichael | ROK | ROK Plc |
| SVP | The Stevens View Partnership | Board | The Board of Directors of CML |
| CML or “the Company” | Cairngorm Mountain Limited a subsidiary of HIE | OJEU | the Official Journal of the European Union |
| CMTL | Cairngorm Mountain Trust Limited | Cairngorm | Cairngorm Mountain |
| Destination | Badenoch and Strathspey and the rest of Inverness and Eastern Highlands Enterprise Area plus Moray. | The Cairngorms | The range of mountain which includes Cairngorm |
| FY05 | 12 months ended 30 April 2005 | The Funicular Railway | The Funicular Railway system for transportation up and down at Cairngorm |
| FY06 | 12 months ended 30 April 2006 | THC | The Highland Council |
| FY07 | 12 months ended 29 April 2007 | VAT | Value Added Tax – All revenues and costs in the report are assumed to be net of VAT |
| FY08 | 12 months ended 27 April 2008 | | |
| FY09 | 11 months ended 31 March 2009 | | |
| HIE PMB | The HIE Project Management Board | | |
| HIE PMT | The HIE Project Management Team | | |
| TTM | Trailing twelve months | | |
| DMO | Destination Management Organisation | | |
| CNPA | Cairngorm National Park Authority | | |
| SNH | Scottish National Heritage | | |
| FCS | Forestry Commission Service | | |
| NFPC | Not-for-profit company | | |

Introduction, Terms of Reference and Background

Introduction and Terms of Reference

JC has been engaged by HIE to undertake a review of the Funicular Railway at the Cairngorm Mountain with the following objectives:

- *To develop a new business model for the operation of HIE's Funicular Railway in the Cairngorms, which is both financially sustainable for both HIE and the operator, and which is also compliant with EU rules on State Aid.*
- *To review, recommend and manage the process of transition of the operation of the railway from its current operator, Cairngorm Mountain Limited (a wholly owned subsidiary of HIE) to a new operator who will manage the operation on the basis of the new business model, having first been selected through a process of competitive tender, which is also compliant with EU regulation and if necessary pre-approved.*

This report addresses these objectives following an in-depth review of the existing business operation and consideration of the options for setting up a new business model which is sustainable for both HIE and the operator.

Review Methodology

The methodology adopted in the review was as follows:

- To review the existing business operation through operational, market and financial analysis; (Section 3)
- To analyse the existing and potential market and customer base of the business (Section 4);
- To compare the operations with comparable operators (Section 5)

- To establish the market and design led improvements to the operation which would lead to increased visitor flow, increased visitor retention and increased visitor spend (Section 5);
- To establish the cost and revenue impacts of implementing the market led changes identified (Section 6);
- To undertake a financial and outline economic appraisal of the options being considered (Section 7);
- To review the options for operating the Funicular Railway which do not result in HIE retaining ownership of the operating company but which provide both HIE with a workable operational model and the operator with a business model which reflects a reasonable and commercial risk and reward (Section 8);
- To recommend an implementation plan and timetable for HIE to succeed in managing the process of transition of the operation of the Funicular Railway from its current operator (CML) to a new operator (Section 9); and
- To make recommendations based our analysis and findings (Section 10).

To reach our conclusions we determine the criteria for a definition of "Financially Sustainable" in relation to the business. These criteria included that the business:

1. Has to be commercially attractive and provide a value for money experience for the customer to attract new and increase repeat customers
2. Has to have a clear medium term business strategy and management skills to deliver that strategy

3. Has to have a mechanism which incentivises the management and staff to deliver the business strategy
4. Has to make profits to enable on-going and cyclical maintenance and replacement of equipment and upgrade of facilities, possibly through “sinking funds”
5. Has to make profits sufficient to pay a return on the assets to both HIE and an operator (including, ideally, the leased assets of the mountain and the Funicular Railway)
6. Has to be adequately capitalised and not over-gearred

These criteria were discussed with HIE who accepted the principles of our definition although it was recognised that it may not be necessary to meet all of the criteria to satisfy HIE’s interpretation of the business being “financially sustainable”.

Sources of Information

In the process of carrying out this review we have had access to a significant number of previous reports carried out on the Funicular Railway and CML, information from the management of the company, information from HIE and information that is publicly available in relation to the operations. Details of the sources of information we have used or have access to are set out in Appendix 2.¹

In carrying out our analysis of the financial impact of the operation and the impact of the proposed changes that we recommend, we have had regards to

the Treasury guidelines on project appraisal known as “The Green Book”. However, since this report does not address a new project as envisaged in the Green Book, we have not sought to do a complete analysis and options appraisal using the terms set out therein.

¹ It is clearly the case that CML and the Funicular Railway have been subject to many financial, strategic, marketing and other types of reports, reviews and analysis, over the past few years, both published and private, a number of which lead to similar overall conclusions. We have not sought to replicate all the work done on the business in the past but have tried to pull together those past reports, extract from them elements which we consider to be pertinent to our terms of reference, supplement them with our own analysis and draw together conclusions based on our analysis and opinions.

Our terms of reference were to develop a new business model for the operation of HIE's funicular railway which is both financially sustainable for HIE and the operator.

Our overall conclusion is that there is an overriding need for the business to develop a clear bold strategic vision of Cairngorm as a high quality, year round, exciting recreational-based experience. Without this it will prove difficult to develop a sustainable business model. We have defined a possible vision for the new business model as follows:

To position Cairngorm as Scotland's pre-eminent mountain adventure and innovative mountain experience by the creation of a dynamic year round visitor attraction, respectful of the natural environment and offering unique visitor experiences based on activities, education, entertainment and shared experiences.

The assets of the business are situated on Cairngorm which is an immense natural setting offering unparalleled features in the centre of an internationally recognised destination. It is estimated that there are 1.2 – 1.3 million visitors per annum visiting the Destination. A large percentage (approximately 400,000) visit Cairngorm but less than half actually engage with the business. There is also anecdotal evidence to indicate that the visitor numbers to CML are declining while the numbers in the Destination are increasing. There is consequently considerable potential to convert this captive market into users of the facilities.

The new business model requires a market-led solution and approach to the difficulties being experienced with the current business model. The target customers to focus on for growing the business are:

- Attracting more of the 1.2 million visitors to the wider Destination to visit Cairngorm
- Providing a service offering and facilities to attract people to spend on catering and retail at Cairngorm but who not wish to use the Funicular Railway
- Converting existing visitors to Cairngorm car park who might wish to use the Funicular Railway but do not currently do so as it is not perceived to be an attractive proposition.

To develop a sustainable business model, a strategic vision and direction has to be agreed for the business. An operator then has to focus on improving the experience at the mountain to attract, retain and get repeat custom from the far larger (and more consistent) numbers of non-skier visitors to Cairngorm. The operator will also have to provide activities of a nature, variety and interest to a range of age groups which will increase their average spend at the facilities.

To achieve the increase in uplift numbers necessary to make the business operationally and financially sustainable, the business needs to be repositioned with changes made to the whole operation. This repositioning involves a wholesale review of the branding of the business, changes to the physical infrastructure, changes to the culture of the management and staff and improving the whole “value for money” proposition by upgrading the quality of catering, retail and exhibition offerings.

None of the suggested changes carried out in isolation or on a piecemeal basis will create a business which is sustainable on a long-term basis. A number of the changes revolve around making a substantive change to the main infrastructure at either end of the Funicular Railway i.e. the Base Station and the Ptarmigan. We therefore prepared a market-led design brief from which a design team produced concept drawings and costings for the re-development of both the Base Station and the Ptarmigan. These concept drawings are included as part of this report.

The primary objective of the new business model is to increase both the numbers of people visiting Cairngorm and the average spend per person. No limitations were placed initially on the investment that might be required; the main aim was to identify if the business could become operationally and financially sustainable. In the latter stages of the review, it became evident that due to the UK economic difficulties, there was a consequent increase of urgent calls for HIE’s resources. HIE were therefore faced with reductions in the available funds for capital investment at Cairngorm in the short-term. This resulted in us having to make a substantial re-assessment of the affordability of the solutions being proposed.

However, while having to re-assess the timing and extent to which HIE might be able to commit investment to the business, this change in circumstances did not fundamentally alter our conclusions on the strategy for delivering a sustainable business model. We did however have to consider an option in which there would only be a shorter-term “quick-fix” low cost solution which would be focussed on halting the decline in the number of people using the facilities.

We therefore considered four options for the business model:

- A “Do Nothing” option in which the business was run along existing lines with no new investment;
- A “Partial” option which provides a quick-fix solution to the decline in visitor numbers;
- A “Full” option which delivers the market development focussed design brief;
- A new build option which demolished and re-built the Base Station and the Ptarmigan.

The last option was discounted in discussion with HIE on the basis of the cost at almost £10m.

The capital investment required to meet the Partial and Full options is £1.475m and £5.975m respectively. (Section 6 – page 28)

We made assessments of the impact of the various options on the visitor numbers and spending patterns at Cairngorm. We sought the opinion of SVP who are specialists in the tourism and facility management sector and also in marketing and brand management. They provided a basis for calculating the increases in uplift numbers and spending which we used to translate into financial plans for the new business. The table below summarises the impact of the options on the visitor numbers in 2015.

| CML | | Year 5 Comparison | | Partial | | Change vs | | Full | | Change vs | |
|----------------------|----|-------------------|--|---------|--|------------|--|---------|--|------------|--|
| Visitors | | Do Nothing | | Option | | Do Nothing | | Option | | Do Nothing | |
| Total Car Park users | No | 400,000 | | 410,000 | | 10,000 | | 440,000 | | 40,000 | |
| Ski | No | 46,522 | | 50,212 | | 3,690 | | 50,902 | | 4,380 | |
| Non-ski | No | 120,246 | | 165,166 | | 44,920 | | 179,207 | | 58,961 | |
| Base Station only | No | - | | 20,000 | | 20,000 | | 40,000 | | 40,000 | |

Source: JC models

Both the Partial and Full options show increased numbers of both skier and non-skier visitors to Cairngorm after 5 years when compared to the Do Nothing option. We would emphasise that the numbers shown above are scaled back from those provided by the specialists in order that they represent a conservative business case. The specialists have expressed confidence that the increase in visitors could be higher.

The financial analysis of the options is summarised in the table below again using year 5 for comparative purposes. This shows that in both the Partial and Full cases, there is an improvement in the financial outlook for the business.

| CML | | | |
|-----------------------|------------------|------------------|------------------|
| Year 5 Comparison | | | |
| Financial | Do Nothing | Partial | Full |
| | £ | Option | Option |
| | £ | £ | £ |
| Income from Visitors | 3,196,735 | 4,321,418 | 5,079,008 |
| HIE Deficit funding | 314,200 | - | - |
| Total Income | 3,510,935 | 4,321,418 | 5,079,008 |
| Gross profit | 930,188 | 1,403,893 | 1,836,514 |
| Profit/ (loss) | - | 186,870 | 318,970 |

Source: JC models

This financial analysis shows the results of the business using the uplift assumptions. It also assumes that there is stability in the number of visitors to the operation. This is not always the case as the number of skiing visitors can change substantially from one year to another. This is a difficult financial risk for an operator to take on. We have therefore designed a financial mechanism within the business models which would provide for HIE to share in any “super-profits” made by the operator but which would provide a support mechanism for the operator in the event that the business suffers from a very poor snow-sports season. This is set out in more detail within the report.

We have confirmed that this mechanism is unlikely to breach the State Aid rules on the basis that it should fall within the *de-minimis* levels of State Aid. However, the State Aid rules will need to be tested by HIE based on the options chosen.

We are proposing that the operational structure should comprise a lease of the land and an operating agreement. All the operating assets (not the land, buildings, funicular railway and infrastructure) would be transferred into a new corporate vehicle run by the operator under the terms of an operating agreement. The length of this agreement will be determined by whether or not a private sector operator is willing to provide capital investment into the business or not. If an operator is prepared to invest capital then the operating

agreement will require to be longer in order to allow the operator the opportunity to recoup the investment. If an operator is not willing to input capital investment then the operator agreement would be around 5-6 years.

The choice of operator has to be determined using a tender mechanism under EU procurement regulations. As there are a number of technical, legal and financial complexities relating to the tender, we believe that the most appropriate tendering mechanism to use would be the competitive dialogue procedure. This allows HIE to enter into dialogue with participants in the tender on all aspects of the proposed contracts before determining which solution (or solutions) best meets HIE’s needs and thereafter seeking tender bids based on the resulting solution.

A timetable to achieve this is set out in Section 9. This timetable is short and assumes the appointment of a new operator in April 2010. The achievability of that objective will depend entirely on HIE promptly making the following vital decisions:

1. Whether to acknowledge that there is a need to redefine the strategic vision and to reposition the business model on the basis set out within this report;
2. Whether it is possible to commit to funding the Full or Partial options (or somewhere in between) over the next 3-4 years;
3. If HIE are **NOT** able to commit to the full option, whether they are willing to grant a concession of sufficient length (possibly greater than 10 years) to provide private sector operators with the incentive to invest in the business and aim to achieve a commercial rate of return on their investment;
4. The extent to which they are prepared to accept the cyclical maintenance risks and liabilities of the Funicular Railway and providing a support mechanism to the operator in the event of a disastrous ski season;

5. Whether to accept the competitive dialogue procedure as the most appropriate basis for seeking to put the operating contract out to tender and seek innovative solutions from across the range of potential operators in the private sector.

Should HIE determine either that there is not a need to reposition the business or that it should be repositioned differently from the way set out in the report then the fundamental tenet and conclusions of the report maybe diluted and long-term financial sustainability may not be achieved.

Background

The background to the development of the Funicular Railway was set out in the approved Grant application dated 3 January 1996. Since the Funicular Railway became operational, it has been operated by CML, initially as an independent operator and latterly as a subsidiary of HIE.

The business operation comprises the year-round operation of all the assets on the Cairngorm Mountain between the Car Park and the top of Cairngorm.

CML is the operator of all of the activities on the mountainside. It sub-contracts out the operation of a ski-school to a third party as the ski-school operation is highly dependent on seasonal staff and CML's management consider that the operational control of this is better undertaken by a third party rather than under CML's control.

Assets

The principle assets on Cairngorm are owned directly by HIE. These include:

- The 598 hectare site comprising the mountainside and surrounding environment
- The Funicular Railway
- The Day Lodge
- The Base Station
- The Ptarmigan Building
- The car parks

A small number of the assets are owned directly by CML. These include:

- The ski tows and lifts
- The ski pisteing machinery
- The ski hire equipment
- Office furniture and equipment
- Catering and retail fixtures and fittings

- Ski run fencing
- Loose equipment

The site also contains several redundant assets which are either no longer used (e.g. old ski tows and lifts) or have fallen into disrepair (e.g. the Sheiling Lodge).

We have reviewed the existing assets on several visits to Cairngorm and make the following observations:

The Mountainside

This is the “signature” asset of CML. It is a 1,245 metres high mountain which sits on the northern edge of the central Cairngorms massif. It is easily accessed by the ski road which makes it one of the easiest and most climbed Munros. It has a variable climate and severe storms and high winds can arrive very quickly. On the plateau there are fascinating views over a vast and ancient landscape.^{2 2}

The Funicular Railway

The Funicular Railway comprises a railway of approximately 2 kilometres rising from a level of 635 metres to 1,097 metres near the summit. There is a passing place in the middle and the operation is by means of two carriages operating on a counter balanced wire pulley system supported by electromechanical propulsion at the Ptarmigan building. This is a highly sophisticated asset which opened in December 2001 and has an expected useful life of over 30 years based on the proper levels of regular and cyclical maintenance.

It is the principle mechanical means by which visitors to the mountainside can be transported quickly, comfortably and effortlessly up to a point close to the

² The Munros – Volume 1 – by Donald Bennet. For further references to the Cairngorm statistics, see Appendix 3

top of Cairngorm to be able to enjoy the spectacular views and experience. It can carry up to 120 passengers in the winter months (when the seating is removed) or 60 passengers in the summer months (mainly seated with some standing).

There is a high annual and cyclic cost of maintaining the Funicular Railway. Over a 15 year period the average annual spend would be in the region of £129,000. (Appendix 13 – Maintenance costs – Average per annum)

Other Tows

There are currently 15 tows and chair lifts which also transport skiers to various points on the mountainside. These have evolved through the 1960's, 70's and 80's in the Cairngorm area to support the skiing operations. The oldest operational tow is currently over 45 years old and the most recent one is 19 years old. These tows are ski-season only assets. They are not used to transport non-skiing visitors to points up the mountain.

Five of the tows are now considered redundant and are not worth repairing. However, the infrastructure remains on the mountainside and has (or is) falling into a state of disrepair.

We understand that there is an increasing ongoing maintenance cost associated with the ski tows amounting to approximately £80,000 – £95,000 on average per annum. (CML Budget 2009/10 and comparative 2008/09)

Car Parks

There are two car parks at the base station; the main one and an overflow car park ("Ciste car park"). Both are in relatively poor condition and as the first point of "visual" experience on arrival do not make the facilities look attractive. The surface of the main car park is a mixture of tarmac and rolled crushed aggregate. The car parking configuration appears poorly laid out but management consider that this is required to enable cars to face into the

prevailing wind and enable snow to be cleared quickly with the minimum of obstacles to block the snow blowers or plough blades.

The Ciste car park is suitable for the purpose as an overflow car park.

Buildings

There are a total of 6 buildings on the leased site. Of these the three most significant are:

- The Base Station
- The Day Lodge which is adjacent to the Base Station
- The Ptarmigan building at the top of the Funicular Railway.

The Base Station

The Base Station contains the ticket office, entry to the Funicular Railway, toilets, office space, storage areas and a workshop.

The Day Lodge

The day lodge has four levels with the Cas Bar and shop located in the ground floor, a former eating venue (the 'T Bar' which is currently unused) and a viewing platform on the second floor, ski equipment hire on the third floor and the top floor being used as the administration office.

The Ptarmigan Building

The Ptarmigan building includes an exhibition, retail area, restaurant and viewing platform. It also houses the machinery and the control room for operating the Funicular Railway and has garaging facilities for some of the ski vehicles and maintenance equipment.

Our overall conclusion on the assets is that the mountainside is the principal iconic attraction for visitors, whether skiing or non-skiing and the Funicular

Railway is a very effective way of transporting people up and down the mountain. However, the Funicular Railway is underutilised as a means of transportation and all the other principal assets are “tired” looking (and in some cases redundant - both tows and buildings), have poor layouts and generally do not complement the natural environment of the Cairngorm and the ease of access offered by the Funicular Railway.

Strategic and operational

Strategic direction

The Board and Management at CML have shaped the strategic direction of the business to date over a number of years.

The Cutting Edge report³ concluded that the mountain attracts high numbers of non-skiing visitors but that there are concerns over:

- The extent of perceived value being provided;
- Cairngorm’s ability to attract repeat visitors, which appears limited; and
- The appeal of Cairngorm to families, who are an important Spey Valley market segment.

The report also concluded that Cairngorm needs:

“significant product investment that will:

- Create a “battery” of family-orientated facilities at the base station;
- Augment this through creating a mountain luge, zip-slide or some such equivalent, perhaps between the middle and base stations; and
- Develop a “wow” experience at the Ptarmigan allied to simple but novel mountain features (especially for photo opportunities) and improved

³ Cairngorm Mountain – the Cutting Edge final summary report – April 2008 – the full summary is set out in Appendix 10.

catering – if necessary at the expense of more ambitious plans to attract secondary markets”

The previous CEO set out the framework for a new business model in November 2008.⁴ Within that document the strategic intention was stated as:

“to develop and adapt the product to a wider and more secure base of customer driven activities, maximising the inherent assets of the organisation (the Funicular Railway, the buildings, the mountain itself, people, culture and the environment).”

The strategy envisages that catering and retail will remain as major features of the visitor experience in Cairngorm. It recognises the inherent limitations on both given the site positioning, the positioning within the site and the inefficiency caused by the adverse and unpredictable weather conditions on the mountain. It also states that there will be a continuing commitment to providing a high quality ski experience. However, there is a clear recognition that with climate changes this part of the strategy may have to be based on a reduced reliance on snow.

We concur with the majority (but not all) of the overall conclusions of the Cutting Edge Report and the vision set out in the November 2008 strategy.

Operational management

The management at CML have in recent years tried to focus on different ways to attract visitors to the facility and move it to becoming a more balanced year-round operation with emphasis on the non-snow sports visitors.

The principal initiatives undertaken to address the non-snow sports market include:

- The introduction of an Alpine garden

⁴ CML business model review – Nov 08

- Camera Obscura
- Introduction of wedding facilities
- Introduction of “Fine Dining” at the Ptarmigan
- The Cairngorm Arts Initiative
- Refreshing the exhibition at the Ptarmigan
- Drawing attention to the environment and the unique Flora and Fauna that exist on the mountainside.

A listing of other minor initiatives and steps taken to improve the facility are set out in Appendix 4. However, these initiatives have had differing degrees of success and it is apparent that the organisation remains heavily focussed on the snow sports market.

There has been a gradual move by management to focus the operation around the Mountain Environment and to draw visitors to the facility based around the natural beauty and attraction of the mountain as a destination experience. However, the transformation of both the operation and the operational management towards this end has not succeeded due to a number of factors including lack of investment, management and cultural inertia, a residual desire to emphasise the “adrenalin-rush” of winter sport compared to the more mundane environmental and ambulatory activities of the majority of the visitors to the mountainside.

It is evident from the historical financial results and the uncertain effects of climate change on future snow sports activities that the evolution of a “sustainable” business model has to be based around the year-round attractiveness of the facility with less financial dependence on the winter activities and more sustainable dependence on the non-winter activities. To achieve this will require some substantial changes to be made to the operations of the business.

A number of revenue generating options will need to be assessed against the existing s.50 consent which the business operates within. This review and any changes requiring further consultation would take time to be achieved.

Financial analysis

A more detailed financial analysis of the business is included in Appendix 5. In addition, the budget for 2009/2010 is also set out in Appendix 6. In summary, the business is operating at or around a break-even position, depending on the impact of the length of the snow sports season. However, it is also evident that the level of maintenance of the assets is being kept to a minimum and certain costs are being deferred. If the business was operating on a full cyclical maintenance and cost basis, then it would be running at an increasing annual deficit.

The “Experience”

We engaged consultants with extensive experience in the strategy, operation and marketing of leisure attractions and facilities to review the existing visitor “experience” at Cairngorm on a number of different occasions and under varying weather and operational conditions. This evaluation, which is both objective and subjective, has been summarised into strengths, weaknesses, opportunities and threats as shown in Appendix 7.

Our conclusions on the Existing Business

Based on our analysis, we have reached the following conclusions on the existing business:

- There is a lack of bold clear vision (exacerbated by the frustrations of financial weakness, under-investment and lack of strong management) to develop the business to achieve its real potential;
- The assets have a huge natural year-round attraction for different visitors and age groups;
- the assets offer a range of significant opportunities to transform the business into a world class, unique year-round visitor destination;

- Although there are some material weaknesses in the existing product offering (see SWOT analysis), most of these can be addressed and remedied over time;
- The catering could be improved to provide better quality and range of food and eating environment whilst generating a profit;
- The retail offering is small and the product lines have limited relevance to the positioning of the business;

We consider that a repositioning of the business, focussing on several of the real opportunities identified, in particular improving the design and feel of the Base Station and the Ptarmigan, will significantly reverse the decline in the visitor numbers to the facility. More details of this are set out in the subsequent sections of this report.

The repositioning of the business should focus on communicating the rich biodiversity that exists at Cairngorm and makes it a special natural environment that needs to be protected thereby setting a tone for telling the story of the CNP in the exhibit at the Ptarmigan. This should be complemented by communicating the strength of the Cairngorm Mountain Experience – a rich, diverse and creative combination of things to do and see throughout the year, of which skiing, relaxation, eating, outdoor activities, education, the environment and Funicular Railway ride are the key elements.

Although the s.50 consent is a material restriction on the ability to open up the full potential of the Funicular Railway, we do not consider it necessary to make any changes to the existing s.50 consent (in particular the closed system at the Ptarmigan) in order to achieve the above;

The Market

Although a number of reports exist that examine the characteristics of the market and visitors to the Mountain there has been no consistent surveying of visitors, their perceptions, their levels of satisfaction and the way they use the facilities and services provided by CML. As a result, the data available is not totally reliable. It is derived from different sources and, inevitably, has been compiled using differing methodologies. In addition, much of the contextual information about the nature of visitors to the wider Destination is more than 5 years old.

The most recent analysis of the market place is set out in the Cutting Edge Report.⁵ The report analysed that there was a total catchment comprising local residents, schools, coach tours and individual holidaymakers of approximately 1.2 - 1.3 million people. The vast majority (1.13m) were holidaymakers who are likely to visit the mountain once during their holidays. As such, the business operates in a very captive market in which the majority of visitors are there with time to spend on value for money activities.

Customer Base and Patterns of Use

Existing Customer Base and Patterns of use

The following table summarises the number of visitors to the facilities at Cairngorm for each of the past five full years.⁶

| CML | | | | | | | | | | |
|----------------------|---------|------|---------|------|---------|------|---------|------|---------|------|
| Visitor numbers | FY05 | | FY06 | | FY07 | | FY08 | | FY09 | |
| | | % | | % | | % | | % | | % |
| Number of non skiers | 164,046 | 75% | 171,406 | 76% | 154,713 | 80% | 148,467 | 71% | 141,882 | 69% |
| Number of skiers | 55,586 | 25% | 55,110 | 24% | 38,553 | 20% | 61,060 | 29% | 65,100 | 31% |
| Total | 219,632 | 100% | 226,516 | 100% | 193,266 | 100% | 209,527 | 100% | 206,982 | 100% |

Source CML management accounts data

The analysis shows the majority of visitors to Cairngorm by number are going for non-skiing purposes.

The analysis also shows that since FY06 there is an underlying trend of a decline in the number of non-skiers partly offset in FY08 and FY09 by an increase in the number of skiers. The increase in skiers is, on the face of it, very good for the business because each skier also incurs on average 2.5 times the average expenditure of a non-skier.

Our understanding is that there is an increase in the numbers of people visiting the Destination and therefore the downward trend in non-skier visitors is potentially worrying. The difficulty with relying on the skier visitors from a commercial perspective is that the number of skier's can fluctuate considerably from year to year being directly dependent upon the prevailing weather conditions at certain times of the year.

Despite the lack of accurate customer analysis, on the basis of the available information it is possible to draw the following observations about the levels of use and the nature of demand that currently exists at Cairngorm:

- Demand for use of the car park is consistent year round with relatively little adjustment due to seasonality normally expected in a visitor business in the Highlands. According to the Annual Environmental Survey and the traffic flow monitoring survey undertaken by THC the main car park receives in excess of 153,000 vehicles of all types per annum (monthly average 12,800 vehicles). The busiest month tends to be March (17,400 vehicles) and the

⁵ Ibid

⁶ This analysis is based on CML's own management accounts and primarily on the number of tickets purchased by skiers and non-skiers for use on the Funicular Railway. It does not therefore provide sufficient analysis of the total customer base (e.g. the number of visitors to the car park who do not then visit the Funicular and who simply visit the base station only and either do not purchase anything or who purchase food or retail items only but do not use the Funicular Railway)

quietest month June (9,500 vehicles). The quarterly distribution is as follows:

- Q1 (Winter) - 29.5%;
 - Q2 (Spring) - 22.5%;
 - Q3 (Summer) - 27.5% and
 - Q4 (Autumn) - 20.5%.
- This gives an Autumn/Winter total of 50% of all vehicle arrivals and a similar amount for the Spring/Summer period;
 - The non winter-sports market is strong all year round and maintains its dominance even under conditions of good skiing snow with no access problems. For example, in the 25 weeks when there was skiing recorded between November 2006 and December 2007, the majority (59%) of all passengers using the Funicular Railway were for uplift of non-skiers. Winter sports passengers only dominated the use of the Funicular Railway in 8 of the 25 weeks when snow conditions prevailed;
 - A number of surveys undertaken by CML and the Cairngorm Ranger Service highlight the numbers of people using the car parks, especially the Main Car Park, who do not use the Funicular Railway or any of the other revenue generating activities provided by CML, (mainly catering and retail). As a result, there is a significant lost opportunity to convert this existing user base into ‘real’ customers and to generate new revenues from an audience that is already committed to being on-site. The 2005 CML Visitor Survey indicates the scale and potential of these markets. The key findings are:

- a) two thirds of all car park users do not use the Funicular Railway;
 - b) three quarters of all car park users do not use the Day Lodge facilities;
 - c) the level of repeat business is relatively low except for those who use the car park as a base for walking.
- Converting this information into potential demand these figures suggest that there may be as many as 280,000 visitors to the site who currently make no use of the Day Lodge facilities and approximately 100,000 visitors to the site who don’t use the Funicular Railway but who are amenable to a “value for money” offer and who could relatively easily convert to become funicular users.
 - The same survey also highlights the potential untapped latent demand that exists amongst visitors and, especially overnight tourists, staying within the Destination. The survey showed that only 26% of tourists in the Destination had actually visited Cairngorm. However 33% stated it was an important factor in deciding to visit the area and a further 20% of all visitors would be interested in making a visit.
 - The current non-winter sports visitors are principally from Scotland (46.5%) with a further 41.5% from the rest of the UK and 12% from overseas markets. The vast majority are on a holiday visit (78%) with 12% on a day trip from home. These figures reflect a relatively low level of penetration (12% and 27% respectively) in the market place and offers scope to develop and grow both markets, especially the tourist markets in the area.
 - The current demographic profile of visitors is well spread across all ages.

Potential Customer Base and Patterns of Use

Based on the analysis carried out, the key target markets for growing the business have to be:

- the conversion of the existing users of the car parks who are open to an offer to ride the Funicular Railway having made the journey to Cairngorm;
- the conversion of the existing users of the car park who don't wish to use the Funicular Railway but who have the potential to use the other services and facilities at the Day Lodge or Base Station;
- the conversion of existing visitors to the wider Destination who are staying on holiday in commercial accommodation who have an interest to visit but who at present are not being addressed with "value for money" offers and promotions or who simply have insufficient information to make a decision and;
- the visitor market staying with friends and relatives in the local area.

There is also scope to develop and encourage repeat business through a changing programme of activities year round and the introduction of special promotions and value added ticketing.

In addition there is considerable scope to develop new audiences through:

- appropriate product development notably in terms of developing the outdoor activity base and enhanced environmental interpretation and
- developing a range of quality visitor experiences ranging from quality dining to special interest events/activities.

We recommend going forward that there needs to be a concerted investment in undertaking regular and consistent recording of information about visitors, their characteristics, their behaviour and spending patterns and levels of satisfaction. The business operator (existing management) should also work with the DMO to secure regular information about visitors to the Destination. Allied to this improved knowledge of the customer base has to be the on-going monitoring of tourism trends that are influencing visitor motivations and demands. Only in this way can CML remain market and customer focused.

Critically, there needs to be the potential to monitor daily visitor activity, especially visitor flows, usage and spending patterns as well as incidents and complaints in order that management can be proactive in addressing these issues and maximising the potential to ensure high levels of visitor satisfaction, fine tune the daily allocation and utilisation of resources and stimulate visitor spend. The on-going market research has to directly link to and impact upon daily operational activities.

Best practice

We also decided to look at some examples of international best practice in the operation of mountains and uplift facilities. This analysis was conducted by SVP and they examined three resorts:

- Hexenwasser, Austria
- Jungfrauoch, Switzerland;
- Schmitthenhohe, Austria.

Each of these three operations have a common approach to their operations involving:

- Innovative product development;
- Creative and targeted marketing;
- Integration with the destination;
- Imaginative packaging of experiences;
- Partnering with others.

SVP also spoke to the Director of Marketing at Courchevel Tourism about the uplift facilities in operation there but concluded that while there were again numerous examples of good practice evident at the destination, there was nothing specifically different from the three operations which they had looked at in depth.

The details of SVP's analysis is set out in Appendix 8. The analysis identified that CML appeared to lack the cohesive and inclusive approach to developing the business that these other three businesses have adopted.

We also reviewed the financial affairs and operations of another UK outdoor and skiing operation and drew some comparisons from that to the operations at CML. This highlighted the particular difficulties that CML has in managing its relationships with the multiple "interest" groups at Cairngorm. It also identified that CML may be over-staffed for the size of operation.

Having examined the existing business, the potential customer base, international best practice and a similar UK outdoor and skiing operation, we concluded as follows:

- There is an overriding need for both HIE and the management at CML to identify with a strong strategic vision of Cairngorm as a high quality, exciting recreational experience;
- There is a real opportunity to create a high quality visitor experience at Cairngorm which encapsulates the immense natural environment and setting of the mountain;
- This significantly enhanced experience would require a change in positioning and perception of the business to balance and optimise the differing expectations of the skiing and non-skiing markets;
- There is a need for CML to make itself the focal point within the National Park and to become more integrated with the wider tourism market and the DMO; and
- There is a need to engage with the wider visitor market in the Destination and surrounding area to attract new visitors and repeat visitors to Cairngorm.

We consider that many of the common features of the overseas operations (innovation, creative marketing, integration and partnering, and packaging of experiences) as well as flexibility of staffing should all be capable of being adopted with suitable operating management.

We have therefore started from the position of defining a vision for the business which lends itself to the environment and the nature of the opportunity and have then reviewed a number of the operational aspects of the business and the assets to enable us to recommend improvements or changes should be made to make the business more sustainable.

The Vision

To position Cairngorm as Scotland's pre-eminent mountain adventure and innovative mountain experience by the creation of a dynamic year round visitor attraction, respectful of the natural environment and offering unique visitor experiences based on activities, education, entertainment and shared experiences.

To achieve that vision will require the business to make changes across all aspects of the existing operations with particular emphasis on:

- Re-branding marketing and PR
- The physical assets
- Management culture
- Providing value for money experiences
- Improving catering and retail.

More details on these are set out below. The comments below are set out to illustrate the range of options which might be considered to enhance the sustainability of the business.

Marketing and Promotion

A fundamentally important part of the exercise is the re-branding and re-positioning of the attraction in line with the positioning of the Destination as a whole and to bring to the customer an appropriate 'look and feel'. In addition, there has to be greater focus of the marketing and PR with greater targeted marketing and consistent PR. As a result there needs to be:

- A comprehensive review of the brand and the development of a new brand identity and the re-positioning of the attraction
- The preparation of a clear and unambiguous marketing and PR strategy and action plan

- The implementation of a robust programme of market research and, importantly, research to identify visitor behaviour and patterns of activity and spend when on the Mountain
- An increased effort and focus on local promotional activities involving partners (such as transport and accommodation providers) in the Destination and the wider tourism catchment
- Stronger cross promotion and selling of the visitor experience and activities during the visitors' time on the Mountain
- Expansion of the range of opportunities for business partnerships through the local community
- Close liaison and collaboration with the DDO, especially on PR and positioning of CML within the Destination.

Visual/Physical

There is a need to make significant improvements to the visual and physical appearance of the site and its facilities. This includes all aspects from signage throughout the visitor experience to the way in which structures and facilities are presented and interiors designed. The oft-used statement about the importance of the first impression is applicable to CML. Consequently, a comprehensive programme of improvements has to take place that addresses all of these aspects including:

- Install new signage along the route from Glenmore Gate to the main car park designed to reflect the new branding. This should include welcome signage and signs giving full information about facilities and services available in advance of the Ciste Car Park. There should be a 'Welcome to...' sign closer to the Glenmore Gate and an "impact" arrival sign.
- Install new signs reflecting the new brand at the entrance to the main car park giving more detailed information about prices as well as things to do
- Improve the look and the feel of the car parking areas, including detailed consideration of a redesign to make them more efficient from a customer perspective
- Introduce a new car parking charge with on-site staff to welcome, provide information and administer the charge

- Install new signage in and around the Base Station and the Day Lodge welcoming and directing and orientating visitors with all new signage to reflect the new brand
- Remove all redundant tows, reinstate the ground conditions and remove other irrelevant equipment and installations and wooden fencing thus making the whole site look more appealing and fit for purpose
- Extend the viewing platforms at both the Day Lodge and Ptarmigan to ensure that the potential for visitors to enjoy the view is maximised
- Re-design the interior of the Day Lodge to enhance the catering and retail operation in the short-term
- Focus on increasing the capacity of the Base Station by re-designing the visitor flows and the main facilities at the Ptarmigan and the Base Station focusing on creating quality services and facilities that will be capable of increasing dwell time, stimulating visitor spend and encouraging repeat business
- Develop a range of outdoor and environmental interpretive activities as part of the visitor experience including the potential to develop a focal point for outdoor adventure activities at the Ciste building

People/Culture/Management

There is a need to engender and foster a much stronger customer focused culture of service and delivery throughout the staff working for CML. This is particularly important for those involved in directly servicing visitors and in the process of meeting and greeting. However, all employees are effectively 'on stage' when on-site and must ensure that they are fully involved in contributing to a first class visitor welcome and service provision.

Achieving this customer focus is critical to the re-branding and re-positioning exercise but most importantly it is essential if the commercial targets are to be achieved. This requires:

- a concerted approach to customer focused service
- the on-going training and development of all staff in customer relations
- establishing clearly defined standards of service

- the on-going monitoring of these standards
- a thorough review of the potential of all employees to meet these standards

Value for Money

To improve the perception of value for money needs:

- Special offers for multiple service purchases
- Trained knowledgeable presenter speaking on the Funicular Railway, able to engage with customer questions
- Improved and regularly updated exhibition at the top covering e.g.
 - John Muir
 - Cairngorm National Park
 - The rich biodiversity found in the area
- Engagement of the Ranger service to provide guided walks (e.g. sunset/sunrise)
- Wildlife experiences

Logistics

To ensure that people come to the site and spend "dwell" time there needs to be:

- Simplified ticketing and pricing
- Development of streamlined, robust controls & checking of customers' tickets when boarding the Funicular Railway at base station and top
- Installation of count-down clock and announcements informing customers of time until next funicular
- Alteration of the layout at the top so customers exit the Funicular Railway and are directed immediately to the viewing platform
- Tickets to be sold on-line with bar code which can be scanned as they board the Funicular Railway.

Catering

Changes should be made to improve the catering based on:

- Upgrading (all) catering presentation
- Focussing on local produce and healthy foods
- Changing the menus regularly (including daily and seasonal specials)
- Refurbishing all venues
- Redefine the catering venues' purpose, e.g.
 - Café Bar
 - Bistro Style

Retail

The retail offering should be enhanced by:

- Expanding the retail outlet in the Base Station to make it larger and more open
- Replacing fixtures and fittings within existing retail outlets
- Developing a clear retail strategy for the destination
- Reassessing the number and nature of stock lines based on customer profile

Repositioning the business

Our analysis has focussed on developing the business in a manner which capitalises on the huge market potential which exists in the Destination area. To do that effectively, we engaged consultants to develop a market led approach to the business. Much of the consultant's work has been in redefining the vision and product offering. However, it was recognised by the consultants and ourselves that there was a fundamental need to change the primary infrastructure at Cairngorm, primarily at the Base Station and at the Ptarmigan.

In order to assess the feasibility of this HIE PMB agreed to commission ROK to engage Keppie as design architects to consider how the buildings at the Base Station and Ptarmigan might be re-designed to complement the re-branded and re-positioned business. ROK were also engaged by HIE PMB to cost these changes.

A design brief was prepared for Keppie and is included at Appendix 9. The design brief is an important statement which links the vision into the concept drawings which lend more substance to why the new business model should work.

Based on the design brief, the design team determined the following:

- 1) The Day Lodge was not suited to meet any of the longer-term requirements of the design brief
- 2) The Base Station could be extended to incorporate the majority of the requirements of the design brief
- 3) The Ptarmigan Building could be enhanced to create the necessary capacity to deal with any foreseeable increase in visitor numbers and to enhance the overall experience of visitors to Cairngorm in a manner which would increase the utilization of the Funicular Railway.

Keppie prepared conceptual plans based on the design brief which are included in Appendix 10. ROK have also provided us with outline capital costs phasings for the proposed work based on their specific knowledge of the site - Appendix 11.

Having regard to all the matters set out above, we consider that the following changes should result in a reversal of the downward trend in visitor numbers to Cairngorm over the next 5 years. The extent of the reversal and therefore the extent to which the business becomes sustainable both operationally and financially will depend on:

- a) The buy-in from all interested parties to a new vision for the business; and
- b) The availability of funding from both the public and private sectors to support the business.

Timetable for repositioning

2009

- Commence re-branding of the attraction
- Commence installation of new signage
- Upgrade the exhibition at the Ptarmigan
- Commence the planning application process to introduce new signage, develop the Base Station and upgrade the Ptarmigan building and to remove the White Lady and Fiacail redundant tow towers

2010

- Commence introduction of new signage and re-branding of the business
- Introduce a manned kiosk and barrier at the entrance to the main car park and upgrade the car park surface (May – August)
- Commence car park charging
- Re-configure the internal lay-out of the Day Lodge to put the catering in the T-Bar (April – July)
- Extend the retail facilities into the Cas Bar (August – October)
-
- Conduct feasibility study on introduction of outdoor and adventure activities
- Assess and consider the removal of redundant tow infrastructure

2011 - 2012

- Commence the extension of the Base Station⁷
- Carry out upgrade to the Ptarmigan

⁷ It may be necessary to close the Funicular Railway for up to 2 - 3 months during the redevelopment of the Base Station and Ptarmigan, but this will be linked into the annual maintenance period as far as possible

2013 - 2014

- Demolish the Day Lodge
- Relocate transformer station to a new building
- Extend the Base Station

It is also very important that work is carried out in parallel with this programme on the potential to develop a range of outdoor activities as part of the visitor experience. These activities should also be wholly aligned with and in harmony with enjoying the natural environment. It is significant that international best practice consistently highlights the importance of creating themes and packages using creative ideas to develop new products without involving heavy capital expenditure.

Capital expenditure

It will be evident from the comments above that the improvements will require significant capital costs. The details of these are set out in section 6 below.

We recognise that both HIE and CML are currently constrained in terms of investment resource and HIE in particular will need to prioritise its capital investment decisions.

It is beyond the scope of this report to predict the likely capital expenditure budget and allocation of HIE over the next 3-5 years. We have set out the main elements of capital expenditure we think are necessary to achieve the maximum uplift at Cairngorm without regard to any budgetary constraints.

It is clearly for HIE to decide if they wish to adopt our recommendations in relation to this and if not which elements they need to cut back. However, the programme for repositioning assumes that a lower level of capital investment may go some way to improving the sustainability of the business and we set this out as an option in the next sections.

Overview of options considered

In order to assess and evaluate the financial effects of repositioning the business, we compare it to the business model on the assumption that no changes are made to the existing business. This is referred to as the “Do Nothing” option.

Recognising the potential budget constraints that HIE may face, we have also set out an option with less capital investment which is referred to as the “Partial” option.

The option to fully reposition the business as set out in section 5 above would require an estimated capital spend of £10.72m (£9.225m per Appendix 11 plus £1m for the removal of redundant tows and ski fencing, and reinstating the mountain to its former condition and £500,000 for re-branding). As shown in Appendix 11, this cost includes £3.5 - £3.75 million for the work to be undertaken in 2013 – 2014 to demolish the Day Lodge and the Phase 2 extension of the Base Station. . We discussed the options available with the HIE PMB and concluded that this option was not a realistic one due to the high estimated cost. We are therefore accepting that the Day Lodge demolition and ski tow removal are not to be carried out in the foreseeable future.

It was also agreed with HIE PMB that the potential to develop the facilities at the Ciste car park and attract a number of outdoor activities was considered to be not directly related to the sustainability of the Funicular Railway business. Such a development has potential merit for attracting new visitors to the Cairngorm area and providing some potential additionality to the Funicular Railway but the HIE PMB considered that this would be a longer-term development and would need to be the subject of a separate and detailed assessment.

We consider however that the first phase of the changes to the Base Station, together with the changes to the Ptarmigan Building will substantially

improve the offering at the site. The expected cost of the works to this stage is £5.97m and this is the option which is referred to as the “Full Option” in our analysis.

We are therefore analysing these three options – Do Nothing, Partial and Full.

The assumptions in each option have been prepared on the basis that all the original s.50 restrictions will stay in place. For example, the proposal to extend the viewing platform at the Ptarmigan is designed to enhance the visitor’s all round visual experience without seeking to lift the access restrictions relating to access and egress at the Ptarmigan.

All options are assumed to have a start date of 1 April 2010 (“Commencement Date”). This is to allow the restructuring of the business to commence throughout the latter half of 2009 and the new operator to be in place between 1 April 2010 and 30 June 2010.

Operational and Market assumptions

Long-term skiing trends

We have assumed that there is to be a long-term gradual decline in the number of skiers to the site over time. This decline is based on the assumption that over the next 50 years there is expected to be a decline in the amount of snow in the Scottish Highlands. This view is supported by a number of informed commentators including the UK Met Office.⁸

It is difficult to predict the impact of this with any degree of certainty and the historical pattern of skiers using the Cairngorm ski facilities does not lend

⁸ http://www.metro.co.uk/news/article.html?in_article_id=45678&in_page_id=34
<http://www.telegraph.co.uk/news/newsttopics/politics/scotland/4579829/Scottish-ski-industry-could-disappear-due-to-global-warming-warns-Met-Office.html>

itself to any pattern other than a 5 year (or longer) average. As the objective of this report is to develop a sustainable model, we consider it prudent to assume that there will be a decline in the number of skiers so that the business model is far less dependent on this exogenous factor than at present. We have therefore assumed a long-term decline in skier numbers based on climate change of 0.5% per annum. This change is applied consistently throughout each option.

“Do Nothing” Option

This option simply maintains the status quo of the existing business and continues to operate it on the basis of no upgrade expenditure, no re-branding or no re-positioning. There would only be capital expenditure of the minimum required to maintain the assets in their existing condition. There would be no upgrading, change or enhancements of the facilities available at the Day Lodge, the Base Station or the Ptarmigan.

We have assessed the impact of this on visitor numbers and spending patterns and we have assumed the following:

- There would be a more rapid decline in the non-ski visitors falling by 18% over the next 5 years as the asset offers nothing new and would be overtaken by other attractions evolving or improving in the surrounding area. However, due to the number and nature of visitors to the Destination, we do not consider that non-ski visitor numbers are likely to fall below a long-term level of 120,000.
- Skiing visitors would fall by 2.5% (2.0% above the long-term decline of 0.5%) again primarily due to the lack of investment to upgrade the business relative to other ski operators within Scotland.⁹
- Spending patterns would remain unchanged.

⁹ It is acknowledged that the year on year skiing numbers are likely to show significant fluctuations but with a long-term downward trend.

Partial Option

With the Partial Option, the principal changes to the business model would include:

- Develop a creative concept for the Cairngorm Mountain brand and the branding of the activities available
- Re-brand the site and all promotional materials and marketing activities
- Implement a targeted PR and marketing campaign as a matter of priority directed at the potential customer base set out in Section 4
- Integrate with the Cairngorms National Park / Aviemore and “Scotland’s Natural Adventure” branding
- Upgrade the visitor car park with an attractive entrance kiosk to welcome visitors and visitor information, and implement car park charging
- Provide welcoming impact signage and significantly enhance the visitor information (before the Ciste Car Park and in the main car park), giving a sense of arrival, way marking, and enticing visitors to visit
- Enhance visitor information and interpretation information at the Base Station and on the Funicular Railway
- Relocate catering in the Day Lodge to the T-Bar, opening up the existing external deck to allow “open” views, and upgrade the food offering
- Modify the existing café and retail space in the Cas Bar in the Day Lodge, providing a brighter and more welcoming retail space
- Upgrade the Ptarmigan catering offering
- Provide a range of visitor experiences utilising the Funicular Railway such as “Sunrise and Sunset Guided Tours”, wildlife viewing experiences etc.
- Develop a programme of events to attract new audiences based around the Cairngorm Mountain brand.

We have assessed that these changes would impact both visitor numbers and uplift. The enhanced offering would attract a further 10,000 visitors to the site who would not have visited before, being made up of:

- 0.5% of existing visitors to the Destination (1.2m) who currently do not choose to visit the site (6,000); and
- An additional 4,000 tourists from the wider Destination, transit traffic, groups visiting friends and relatives in the area, repeat business and more local business.

We also expect that 20,000 of the visitors who are currently using the Car Park but who do not engage with the facilities, (or who would be new to the site), could be enticed to visit the upgraded Day Lodge and spend money in it, even if they choose not to use the Funicular Railway. These visitors will spend on average £5 per head between retail and catering.

Skier numbers would decline at a rate of 0.5% per annum in respect of climate changes. Skier numbers would decline at a further rate of 0.5% per annum (i.e. 1%) for the first five years after the upgrading of the site, but this decline will accelerate thereafter to of 2.0% per annum envisaged in the Do Nothing Option (i.e. 2.5%), as the state of the facilities and product offering will deteriorate without further additional capital expenditure.

Non-ski visitors who use the Funicular Railway would improve initially as a result of the enhanced welcome, branding and product offering, increasing to approximately 167,000, and then remaining static thereafter.

All the uplift assumptions are based on an analysis provided to us by SVP. We have taken a more conservative view of the non-skier uplift and Base Station visitor numbers and applied a slower rate of decline to the skier numbers. The consultants are confident that higher numbers of non-skier visitors and uplift could be achieved and to put this into perspective, we set

out below the differences at year 5 in key assumptions provided to us and applied by us.

| CML £1.5m "Quick Fix" Expenditure | Current | Year 5 Projected | |
|--------------------------------------|---------|------------------|-----------------------|
| | | SVP Estimates | Financial Analysis |
| Total visitors to site | 400,000 | 410,000 | 410,000 |
| Skiers | 52,800 | 45,000 | 50,212 |
| Non-skiers | 146,000 | 180,000 | 165,166 |
| Base Station only | - | 30,000 | 20,000 |
| | £ | £ | £ |
| Average spend per head ** | | | |
| Skiers | 26.36 | 35.00 | 30.53 |
| Non-skiers | 12.51 | 16.00 | 14.48 |
| Base Station only (incl Car park) | - | 5.00 | 5.86 |
| Car Parking | | 2.00 | 2.20 |
| Events Income | 70,000 | 70,000 | 79,199 |

*** = The financial analysis figures include inflationary increases at 2.5% per annum*

Full Option

With the Full Option, the principal changes to the business model include:

- All the improvements envisaged in the Partial Option
- Extending the footprint of the Base Station slightly and inserting a mezzanine floor to provide space which will enable the relocation of the catering and retail offerings out of the Day Lodge, and provide substantially larger areas (see Appendix 10)
- The ski hire and office facilities remain in the Day Lodge until such time as the full redevelopment of the Base Station goes ahead and the Day Lodge is demolished

- Modifying and upgrading the entrance to the Base Station to provide a welcoming arrival for visitors
- Upgrading and modifying the look and feel of the building and in particular opening the front of the building up to allow users of the Base Station views out over the valley and extending the external decks
- Imaginative use of glass walls in the Base Station to enhance the experience of visitors and to allow visitors in the Base Station to have unobstructed views of the Funicular Railway entering and exiting the building
- The creation of a viewing platform on the roof of the Ptarmigan Building which will allow visitors a 360-degree view of the mountain environment, enhancing their experience at the top of the mountain
- A glass enclosed viewing area built on the viewing platform on the roof of the Ptarmigan Building which will allow visitors to have 360-degree viewing access to the mountain but protect them from adverse weather conditions
- Access to the roof of the Ptarmigan Building either via a lift within the building, or by means of a spiral walkway which winds round the outside of the building, giving visitors the outdoor mountain experience and exposure to the elements, but controlling access to the mountain.

We have assessed that the significantly enhanced offering would attract a further 40,000 visitors to the site (potentially increasing to 50,000) who would not have visited before, made up of:

- 2% of the existing visitors to the Destination (1.2m) who currently do not choose to visit the site (24,000)
- An increase of 5,000 in the local / regional residents market who don't currently visit and for whom a local discount package might stimulate visits and retail / catering sales
- An additional 6,000 tourists from the wider Destination, transit traffic, groups visiting friends and relatives in the area

- A further 5,000 repeat visitors and new markets who would be interested in changing art exhibitions and an increasing emphasis on art / craft / cultural product offerings

In addition we would expect the improvements to encourage some of the people who currently use the car park only to want to use the Funicular Railway.

We would also expect that 40,000 (potentially 75,000) of the visitors who are currently using the Car Park but who do not engage with the facilities, or who would be new to the site, could be enticed to spend money in the upgraded Base Station, even if they choose not to use the Funicular Railway. These visitors will be capable of generating an additional £5 spend per head, rising to £7 by year five.

With the Full Option, we would estimate that the skier numbers would decline gradually to a level of 50,000 over the ten year period from the current budget of 52,800, taking account of an estimated 0.5% impact of climate changes after the upgrading expenditure is complete.

To enable the upgrade works to be carried out, the Base Station will require to be closed for a 2 to 3 month period in the fourth quarter of year 2, and the Funicular Railway taken out of use. Similarly when the Ptarmigan improvements are completed the building will require to be closed for 2 to 3 months in the third to fourth quarters of year 3, and the Funicular Railway taken out of use.

We have made allowance for the closures by reducing skier numbers by 15% in year 2, almost fully recovering (+14%) in year 3. For non-skier users of the Funicular Railway we have reduce the numbers by 25% in year 2, with numbers recovering partially (+15%) in year 3 and then increasing thereafter to around 188,000.

The uplift in non-skiers who ride the Funicular Railway is estimated to be around 20,000 above those anticipated in the Partial Option. This would be achieved by converting a percentage of visitors to the car parks who don't ride the Funicular Railway but who said they would if it were better value. The perception of value will be improved by the significantly enhanced experience for visitors once the Base Station and Ptarmigan Building have been upgraded and the Ptarmigan exhibition also upgraded.

With the improved customer flow and dwell time the 188,000 non-skier visitors per annum using the facilities would be expected to generate higher secondary spend at both the Ptarmigan and the Base Station. Based on the better quality provision throughout this will be expected to result in the overall spend per head increasing by between 3% and 5% above inflation in the two years after the redevelopment.

Again these uplift assumptions are based on the analysis provided to us by SVP. However, we have had to interpret the analysis on the basis of the effect of the potential disruption caused by the upgrading works and also by building in an element of conservatism to the numbers. The consultants are confident that higher numbers of visitors and uplift could be achieved and to put this into perspective, we set out below the differences at Year 5 in key assumptions provided to us and applied by us.

| CML £5 - 6m Capital Expenditure | Current | Year 5 Projected | |
|------------------------------------|---------|------------------|-----------------------|
| | | SVP Estimates | Financial Analysis |
| Total visitors to site | 400,000 | 460,000 | 440,000 |
| Skiers | 52,800 | 50,000 | 50,902 |
| Non-skiers | 146,000 | 220,000 | 179,207 |
| Base Station only | - | 75,000 | 40,000 |
| | £ | £ | £ |
| Average spend per head ** | | | |
| Skiers | 26.36 | 40.00 | 32.46 |
| Non-skiers | 12.51 | 20.00 | 15.63 |
| Base Station only | - | 10.00 | 7.85 |
| Car parking | | 2.00 | 2.20 |
| Events Income | 70,000 | 145,000 | 97,684 |

** = The financial analysis figures include inflationary increases at 2.5% per annum

Financial Assumptions

The projections use as their base a combination of the historical results for the existing business for the period ended 31 March 2009 and the business's own budgets for the financial year ending 31 March 2010, adjusted for any changes which are considered necessary.

The details of all the assumptions used in each option are set out in Appendix 12.

Revenue assumptions

The tables below show the key assumptions of income per head for each activity and also for income from events, sledging and other activities including the proposed car parking charges. These are shown for years 5 and 10 respectively for all the options.

| CML | | | | | | |
|-------------------|---|------------|----------------|----------------------|-------------|----------------------|
| Year 5 Comparison | | Do Nothing | Partial Option | Change vs Do Nothing | Full Option | Change vs Do Nothing |
| Visitor spend | | | | | | |
| Funicular | £ | 8.03 | 8.03 | - | 8.43 | 0.40 |
| Uplift | £ | 20.46 | 20.46 | - | 21.47 | 1.01 |
| Equipment hire | % | 18.00% | 20.00% | 2.00% | 20.00% | 2.00% |
| | £ | 18.07 | 18.07 | - | 18.96 | 0.89 |
| Catering | % | 76.00% | 80.00% | 4.00% | 80.00% | 4.00% |
| | £ | 4.92 | 4.92 | - | 5.49 | 0.57 |
| Retail | % | 35.00% | 37.00% | 2.00% | 37.00% | 2.00% |
| | £ | 6.80 | 6.80 | - | 7.59 | 0.79 |
| Base Station only | £ | - | 5.86 | 5.86 | 7.85 | 7.85 |
| Events | £ | 79,199 | 79,199 | - | 97,684 | 18,485 |
| Sledging | £ | 6,480 | 6,994 | 514 | 7,090 | 610 |
| Other | £ | 21,497 | 21,497 | - | 21,497 | - |
| Car parking | £ | - | 171,267 | 171,267 | 184,704 | 184,704 |

Source: JC models

| CML | | | | | | |
|--------------------|---|------------|----------------|----------------------|-------------|----------------------|
| Year 10 Comparison | | Do Nothing | Partial Option | Change vs Do Nothing | Full Option | Change vs Do Nothing |
| Visitor spend | | | | | | |
| Funicular | £ | 9.09 | 9.09 | - | 9.54 | 0.45 |
| Uplift | £ | 23.14 | 23.14 | - | 24.29 | 1.15 |
| Equipment hire | % | 18.00% | 20.00% | 2.00% | 20.00% | 2.00% |
| | £ | 20.44 | 20.44 | - | 21.45 | 1.01 |
| Catering | % | 76.00% | 80.00% | 4.00% | 80.00% | 4.00% |
| | £ | 5.57 | 5.57 | - | 6.22 | 0.65 |
| Retail | % | 35.00% | 37.00% | 2.00% | 37.00% | 2.00% |
| | £ | 7.69 | 7.69 | - | 8.59 | 0.90 |
| Base Station only | £ | - | 6.63 | 6.63 | 8.88 | 8.88 |
| Events | £ | 89,606 | 89,606 | - | 113,217 | 23,611 |
| Sledging | £ | 6,459 | 7,080 | 621 | 7,823 | 1,364 |
| Other | £ | 24,322 | 24,322 | - | 24,322 | - |
| Car parking | £ | - | 198,258 | 198,258 | 212,083 | 212,083 |

Source: JC models

Operating Costs

We have reviewed the key costs in the business. This included a high level review of the staff complement and costs of the business

A review of staffing was carried out based largely on discussions with [REDACTED] and [REDACTED]. Additional information was provided in the form of a staffing summary and payroll report, though the three sources proved inconsistent in assessing true staffing levels and work patterns.

Notwithstanding this, the majority of functions would appear not to be overstaffed in terms of pure numbers. However, staff in customer facing functions are poorly utilised when the resort is not busy, and this is exacerbated if work patterns are not carefully thought out resulting in an overlap between staff members' working hours. Adoption of a true shift operation might allow for a reduction in the working week, thereby saving payroll costs whilst ensuring continuity of cover. The introduction of 'utility workers' (i.e. highly multi-skilled workers) on each shift would provide cover for sickness and any floating holidays.

There would then be a need to man the resort up on those days when visitor numbers are expected to increase significantly. Reliance on non-contractual overtime is likely to be too risky commercially so we recommend the business should explore the introduction of an annualised hours arrangement. This guarantees staff a number of additional days work per year, and obliges them to work these days.

Whilst there is evidence that the majority of staff members are fairly flexible regarding the work that they do, this appears not to be universal. Given the nature of this business, full flexibility should be a fundamental requirement of all staff members though there will, of course, be constraints related to health and safety and specialist capabilities.

Naturally, such changes cannot simply be imposed on staff. Ideally staff members would be involved in the change process, with consultation required. Changes to contracts and working practices may have to be negotiated and employment law advice should be sought before commencing such a process.

We have also noted that certain other costs are potentially understated in the budget. In particular, the repairs and maintenance costs for the Funicular Railway and the tows appear to be incurred on an “essential” maintenance only basis with no provision made for regular or unexpected maintenance expenditure on the Funicular Railway in particular. We understand that HIE has a contingency for unexpected costs but CML does not have any such specific contingency itself.

We understand that HIE is spending in the region of £1m in the current year on maintenance expenditure which represents elements of cyclical and contingent expenditure plus some backlog expenditure. We have excluded from the operating company the costs associated with cyclical and contingency expenditure. Instead, these are assumed to be costs borne by HIE in maintaining the asset in full working order to be compliant with regulations governing the running of the Funicular Railway (see “HIE Outflows” on page 33). In FY 2011, the total maintenance costs are therefore £154k borne by the Operating company and £96k borne by HIE, totalling £250k.

A number of tows and lifts have fallen into disrepair, and are no longer being used, with the equipment left in situ until such time as the cost of removal and subsequent reinstatement of the mountain can be justified

We have not been able to identify any material specific costs which could be reduced (except pisteing costs which included within the 2010 budget some elements of capital expenditure). However, we have concluded that payroll costs would not need to increase proportionately with income if the business expanded as there appears to be scope to utilise the staff more effectively with a greater footfall of visitors. The details on increases in staff numbers are contained in Appendix 12.

Capital expenditure

The likely costs of each of the options are shown on the next page with further details contained within the Keppie Design at Appendix 10 and the ROK analysis in Appendix 11. We have accepted that these figures are estimates based on a design brief and do not represent quotes or detailed Quantity Surveyor estimates of the capital costs. We have included our own comments on the costs in the right hand column.

All the costs provided are shown at 2009 prices. It is necessary to increase these prices by price inflation to the date when the expenditure is expected to commence. This is not shown in the table below but is factored into the financial models.

| CML Cairngorm Capex | | | | | |
|---|-----------------|------------------------|---------------------|------------------|--|
| Element | Do Nothing £ | Partial Option £ | Full Option £ | Total £ | Comment |
| Re-branding and marketing | | | | | |
| Re-branding exercise | | 60,000 | | 60,000 | Creative concept for Cairngorm Mountain brand, brand identity, positioning statement Brand guidelines and marketing messages, and tone for all communications to target audiences |
| Implementation of re-branding | | 120,000 | | 120,000 | Re-branding site and all promotional materials and activities |
| On-site signage | | 200,000 | | 200,000 | Signage on approach and arrival to give a sense of place and welcome signs on buildings and etc to entice visitors to enter, and way marking |
| Marketing and PR campaign | | 100,000 | | 100,000 | Targetted marketing and PR campaign to reinforce messages developed above |
| Integration with wider market | | 20,000 | | 20,000 | Integration of Cairngorms National Park / Aviemore and Scotland's Natural Adventure branding and creative execution of a visitor payback initiative |
| Car Park | | 250,000 | | 250,000 | Resurface the car park, new tarmac and entrance kiosk |
| Day Lodge | | | | | |
| Upgrade Catering at Day Lodge | | 375,000 | | 375,000 | Relocate Catering from the Cas Bar to the T Bar and upgrade facilities |
| Upgrade Retail at the Day Lodge | | 350,000 | | 350,000 | Convert the former catering space and upgrade the catering / retail facilities in Cas Bar |
| Base Station | | | | | |
| Major replanning and extension | | | 2,500,000 | 2,500,000 | Relocate Catering and Retail from Day Lodge Phased programme to enable the Funicular Railway to remain in operation with closure during the final phase to coincide with annual maintenance period |
| Ptarmigan | | | | | |
| Upgrade and external viewing facilities | | | 2,000,000 | 2,000,000 | Upgrade existing catering, retail and exhibition spaces Provide viewing platform (open and closed) on roof of building with internal access by lift; external walkway |
| Total Redevelopment costs | <u>0</u> | <u>1,475,000</u> | <u>4,500,000</u> | <u>5,975,000</u> | |
| Partial Option | | <u>1,475,000</u> | | | |
| Partial Option plus Full Option | | | <u>5,975,000</u> | | |

Source: Concept drawings and outline costings from Keppie and ROK, and estimates from SVP

It will be essential to secure detailed costings and estimates should HIE make a strategic decision to proceed with any elements of these capital works.

No capital expenditure has been assumed for the upgrade of any of the ski tows nor for the removal of any redundant ski tows nor the Phase 2 development work.

The Partial option capital expenditure is assumed to be incurred in Year 1. The Full option capital expenditure is phased over years 1 to 3. The key items of expenditure, details of which are included in the table below, are:

It is important to recognise that the capital expenditure shown above does not include any specific investment in upgrading the exhibition at the Ptarmigan. The decision on this investment would be an operator decision depending on the operator's view of the nature and scale of the exhibition to be offered. An operator may be able to secure external funding for an exhibition. However, we have factored in that the operator would have to invest, as a condition of the operating agreement in providing exhibitions which are regularly renewed and refreshed. Accordingly we have built in operator exhibition capital expenditure of the following:

Partial Option:

| | | |
|--------|---|----------|
| Year 1 | - | £50,000 |
| Year 2 | - | £100,000 |
| Year 4 | - | £50,000 |
| Year 6 | - | £100,000 |
| Year 8 | - | £100,000 |

Full Option:

| | | |
|--------|---|----------|
| Year 3 | - | £250,000 |
| Year 4 | - | £500,000 |
| Year 7 | - | £250,000 |
| Year 8 | - | £400,000 |

Financial projections

Financial projections have been prepared based on the market, operational and financial assumptions for the Do Nothing, Partial and Full business cases. The table below summarise the results for Year 5 (year to 31 March 2015) along with a summary of the changes from the Do Nothing option.

| CML | | | | | |
|-----------------------------|------------------|------------------|----------------|------------------|------------------|
| Year 5 Comparison | Partial | Change vs | Full | Change vs | |
| Financial | Do Nothing | Option | Do Nothing | Option | Do Nothing |
| | £ | £ | £ | £ | £ |
| Funicular | 965,933 | 1,326,778 | 360,845 | 1,510,649 | 544,716 |
| Uplift | 951,645 | 1,027,135 | 75,490 | 1,092,662 | 141,017 |
| Equipment hire | 151,305 | 181,453 | 30,148 | 193,029 | 41,724 |
| Catering | 623,783 | 897,225 | 273,442 | 1,143,246 | 519,463 |
| Retail | 396,893 | 609,870 | 212,977 | 828,447 | 431,554 |
| Events | 79,199 | 79,199 | - | 97,684 | 18,485 |
| Sledging | 6,480 | 6,994 | 514 | 7,090 | 610 |
| Other | 21,497 | 21,497 | - | 21,497 | - |
| Car parking | - | 171,267 | 171,267 | 184,704 | 184,704 |
| Deficit funding | 314,200 | - | (314,200) | - | (314,200) |
| Total Income | 3,510,935 | 4,321,418 | 810,483 | 5,079,008 | 1,568,073 |
| Payroll | (1,736,801) | (1,836,747) | (99,946) | (1,930,967) | (194,166) |
| Operating expenses | (229,377) | (266,750) | (37,373) | (288,111) | (58,734) |
| Commercial expenses | (614,569) | (814,028) | (199,459) | (1,023,416) | (408,847) |
| Gross profit | 930,188 | 1,403,893 | 473,705 | 1,836,514 | 906,326 |
| Overheads | (780,914) | (876,485) | (95,571) | (953,606) | (172,692) |
| Rental payable | (100,000) | (100,000) | - | (100,000) | - |
| Profit based rental payable | - | (51,495) | (51,495) | (60,082) | (60,082) |
| Depreciation | (50,376) | (91,376) | (41,000) | (208,776) | (158,400) |
| Interest | 1,102 | 4,218 | 3,116 | 75 | (1,027) |
| Tax | - | (101,885) | (101,885) | (195,155) | (195,155) |
| Profit/ (loss) | - | 186,870 | 186,870 | 318,970 | 318,970 |

Source: JC models

The table below summarises the results for year 10 under each scenario (year to 31 March 2020) also with the changes from the Do Nothing option.

The full financial models are shown in Appendices 13 – 15.

| CML | | | | | |
|-----------------------------|------------------|------------------|----------------|------------------|------------------|
| Year 10 Comparison | Partial | Change vs | Full | Change vs | |
| Financial | Do Nothing | Option | Do Nothing | Option | Do Nothing |
| | £ | £ | £ | £ | £ |
| Funicular | 1,092,864 | 1,516,139 | 423,275 | 1,795,644 | 702,780 |
| Uplift | 948,674 | 1,039,736 | 91,062 | 1,205,648 | 256,974 |
| Equipment hire | 150,833 | 183,679 | 32,846 | 212,989 | 62,156 |
| Catering | 682,343 | 998,931 | 316,588 | 1,332,306 | 649,963 |
| Retail | 434,153 | 679,663 | 245,510 | 962,123 | 527,970 |
| Events | 89,606 | 89,606 | - | 113,217 | 23,611 |
| Sledging | 6,459 | 7,080 | 621 | 7,823 | 1,364 |
| Other | 24,322 | 24,322 | - | 24,322 | - |
| Car parking | - | 198,258 | 198,258 | 212,083 | 212,083 |
| Deficit funding | 471,853 | - | (471,853) | - | (471,853) |
| Total Income | 3,901,107 | 4,737,414 | 836,307 | 5,866,155 | 1,965,048 |
| Payroll | (1,965,031) | (2,078,113) | (113,082) | (2,184,712) | (219,681) |
| Operating expenses | (246,942) | (290,995) | (44,053) | (329,146) | (82,204) |
| Commercial expenses | (679,921) | (910,316) | (230,395) | (1,185,907) | (505,986) |
| Gross profit | 1,009,213 | 1,457,990 | 448,777 | 2,166,390 | 1,157,177 |
| Overheads | (856,185) | (988,483) | (132,298) | (1,079,093) | (222,908) |
| Rental payable | (100,000) | (200,000) | (100,000) | (200,000) | (100,000) |
| Profit based rental payable | - | (36,691) | (36,691) | (178,448) | (178,448) |
| Depreciation | (53,811) | (95,811) | (42,000) | (205,611) | (151,800) |
| Interest | 783 | 7,393 | 6,610 | 8,204 | 7,421 |
| Tax | - | (34,596) | (34,596) | (175,676) | (175,676) |
| Profit/ (loss) | - | 109,802 | 109,802 | 335,766 | 335,766 |

Source: JC models

The models have been developed as operator models. They reflect the operator bearing all the risks and rewards of running the operation except in relation to three primary risks which would be borne by HIE:

- Construction cost risk of upgrade and re-development
- Cyclical and contingent maintenance costs of the Funicular Railway
- Skier volume risk in the event of a disastrous winter season.

We have assumed that HIE will undertake the investment expenditure and consequently run the tender process for the commissioning of that work.

We have assumed that the operator will bear all the annual maintenance costs associated with the Funicular Railway and the tows. However, the essential cyclical maintenance (which includes all statutory maintenance) and any unexpected maintenance or repairs costs caused by unforeseeable and uninsured events would be borne by HIE. In return for this (and the other risks), HIE would share in some of the profits made by the operator.

In relation to skier volumes, it was noted that there could be substantial fluctuations in skier volumes based on weather patterns which are totally outwith the control of the operator. This is a particular risk at Cairngorm where the weather conditions can be severe and can vary from year to year. We consider this may be a risk which an operator is not prepared to accept in full. We are proposing that the operator bears the risks of not operating the Funicular Railway on days when skiing is possible but does not bear the full risk linked to an inability to ski due to severe weather conditions or unusually low levels of snow. We would envisage that a mechanism would be developed which provides the operator with financial support in these circumstances.

The Do Nothing model assumes that HIE will continue to provide deficit funding to operate the business at a break-even position. Over the 10 year period this aggregates to £2.97m. The year 5 and year 10 deficits are shown

in the tables above in the income section as “Deficit funding”. No taxation is payable in this model as the company does not make a profit.

In the Partial option there is no deficit funding required on the basis of there being no severe adverse winters. The Partial option shows the operator making profits each year. However, if a scenario arose where the skier numbers declined then there may be a need for HIE to provide some deficit funding for that year. To compensate for that and to provide HIE with a financial return based on its initial investment and assumption of the maintenance risks, we have allowed for HIE to secure 30% of the profits after tax for the year. This would be treated as an additional rental payment so that the operator obtained tax relief for that cost. This is shown in the table above as “Profit based rental payable”.

In the Full option, there is a need for HIE to provide some deficit funding in years 2 and 3 based on the period for which the Funicular Railway is closed. The basis assumption in the Full option model remains that there are no severe adverse winters. To compensate HIE for the additional risks and to provide a higher financial return based on the higher initial investment we have allowed for HIE to secure 50% of the profits after tax for each year.

These profit sharing and risk based mechanisms would be subject to negotiation but they are established mechanisms which allow for the allocation of risks and rewards between the private and public sectors.

In the Partial and Full scenarios, a fixed annual rent is payable to HIE of £100,000 per annum rising to £200,000 per annum after year 5.

Set out on the next page is a summary of the cash flow profiles relating to HIE based on each of the options analysed.

Financial Evaluation

Section 7

| HIE Cash flow - Do Nothing | | | | | | | | | | | |
|---|-------------|----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|-------------|-------------|
| Inflows | | | | | | | | | | | |
| Rent receivable by HIE | 1,000,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Profit based rent | - | - | - | - | - | - | - | - | - | - | - |
| Outflows | | | | | | | | | | | |
| Funicular Maintenance funding paid by HIE | (715,676) | (96,122) | (116,827) | (46,531) | (66,427) | (66,031) | (86,632) | (68,317) | (48,827) | (49,031) | (70,927) |
| Capex by HIE | - | - | - | - | - | - | - | - | - | - | - |
| Annual deficit funding paid by HIE | (2,963,711) | (22,968) | (128,310) | (205,990) | (259,539) | (314,200) | (341,496) | (375,069) | (404,214) | (440,073) | (471,853) |
| Net funding from HIE | (2,679,387) | (19,091) | (145,137) | (152,521) | (225,966) | (280,232) | (328,128) | (343,387) | (353,041) | (389,104) | (442,780) |
| Cumulative (net) funding from HIE | | (19,091) | (164,228) | (316,749) | (542,715) | (822,947) | (1,151,075) | (1,494,462) | (1,847,503) | (2,236,607) | (2,679,387) |

| HIE Cash flow - Partial Option | | | | | | | | | | | |
|---|--------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Inflows | | | | | | | | | | | |
| | TOTAL | Year to 31 Mar 2011 | Year to 31 Mar 2012 | Year to 31 Mar 2013 | Year to 31 Mar 2014 | Year to 31 Mar 2015 | Year to 31 Mar 2016 | Year to 31 Mar 2017 | Year to 31 Mar 2018 | Year to 31 Mar 2019 | Year to 31 Mar 2020 |
| Rent receivable by HIE | 1,500,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Profit based rent | 418,579 | 29,787 | 39,523 | 50,451 | 51,495 | 56,061 | 39,265 | 44,355 | 38,009 | 36,691 | 32,941 |
| Outflows | | | | | | | | | | | |
| Funicular Maintenance funding paid by HIE | (715,676) | (96,122) | (116,827) | (46,531) | (66,427) | (66,031) | (86,632) | (68,317) | (48,827) | (49,031) | (70,927) |
| Capex by HIE | (1,511,875) | (1,511,875) | - | - | - | - | - | - | - | - | - |
| Annual deficit funding paid by HIE | - | - | - | - | - | - | - | - | - | - | - |
| Net funding from HIE | (308,972) | (1,478,211) | 22,696 | 103,920 | 85,068 | 90,030 | 152,633 | 176,038 | 189,182 | 187,660 | 162,013 |
| Cumulative (net) funding from HIE | | (1,478,211) | (1,455,515) | (1,351,595) | (1,266,527) | (1,176,498) | (1,023,865) | (847,827) | (658,645) | (470,986) | (308,972) |

Note 1 The profit based rent shown above under HIE cash-flows is shown for the year it accrues not the year it is calculated and paid.

| HIE Cash flow - Full Option | | | | | | | | | | | |
|---|--------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Inflows | | | | | | | | | | | |
| | TOTAL | Year to 31 Mar 2011 | Year to 31 Mar 2012 | Year to 31 Mar 2013 | Year to 31 Mar 2014 | Year to 31 Mar 2015 | Year to 31 Mar 2016 | Year to 31 Mar 2017 | Year to 31 Mar 2018 | Year to 31 Mar 2019 | Year to 31 Mar 2020 |
| Rent receivable by HIE | 1,500,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Profit based rent | 976,526 | 54,644 | - | - | 60,082 | 159,485 | 112,170 | 122,784 | 121,030 | 178,448 | 167,883 |
| Outflows | | | | | | | | | | | |
| Funicular Maintenance funding paid by HIE | (951,810) | (96,122) | (116,827) | (55,977) | (85,318) | (84,922) | (124,414) | (106,099) | (86,609) | (86,813) | (108,709) |
| Capex by HIE | (6,292,219) | (1,511,875) | (2,626,563) | (2,153,781) | - | - | - | - | - | - | - |
| Annual deficit funding paid by HIE | (570,554) | - | (426,524) | (144,030) | - | - | - | - | - | - | - |
| Net funding from HIE | (5,338,056) | (1,453,353) | (3,069,914) | (2,253,788) | 74,764 | 174,563 | 187,756 | 216,686 | 234,421 | 291,635 | 259,174 |
| Cumulative (net) funding from HIE | | (1,453,353) | (4,523,267) | (6,777,055) | (6,702,290) | (6,527,728) | (6,339,972) | (6,123,286) | (5,888,865) | (5,597,230) | (5,338,056) |

Note 1 The profit based rent shown above under HIE cash-flows is shown for the year it accrues not the year it is calculated and paid.

These cash flows illustrate that while more up-front investment is required for the Full option, the profitability of the operator is improved and there is a greater share of the profits available to HIE as the profit based rent. We again emphasise that the assumptions on uplift and spend, particularly in the Full option are conservative.

While, *prima facie*, the Partial option may look most attractive from a cash outflow perspective, we would highlight the following:

- with the Full option the Base Station will have a benefit well beyond the 10 years shown and HIE could reasonably expect that the net cash proceeds from this option would continue to remain robust;
- In the Partial option, there may be a need to continually upgrade the facilities (say) every 10 years which is not reflected above.
- We again emphasise that the assumptions on uplift and spend, particularly in the Full option are conservative.

Conclusion

The overall evaluation indicates that in both the Partial and Full options, based on the key assumptions we have made, the business becomes more sustainable from an operational and financial perspective. The Full option provides a better long-term sustainability as it seeks to address more fundamentally the key issues identified as weaknesses of the existing business. The Partial option, while less costly, only really partly addresses these issues and may not transform the business into the facility required to meet the vision for the new business model.

In terms of affordability, we have assumed that HIE will carry out the capital investment in both the Partial and Full options. However, it may be possible to attract private sector funding to either of these options depending, *inter alia*, on the length of the concession given to the operator (see next section)

Subsidy and State Aid

Detailed commentary on State Aid issues has been included at Appendix 16.

We have included a provision for claw back of profit above a set ceiling. The only potential caveat to the provisions as detailed is the commitment to provide an open ended operating subsidy should the operations incur losses which HIE makes good. This would be deemed to be offering what amounts to an ‘Operating Aid’ (an aid which relieves an enterprise of the expenses it would normally have to bear in its day to day management or its usual activities) contingent upon the occurrence of specific conditions.

Operating Aid is regarded by the European Commission as excessively distortive and under current rules it may be authorised only in Article 87(3)a Regions and provided that is justified in terms of its contribution to regional development and that its level is proportionate to the handicaps it seeks to alleviate (e.g. relief of extra transport costs in outermost regions).

We understand that HIE does qualify as an Art 87(3)a Region until 2011 (but this status might change thereafter) but:

- a) the circumstances do not justify payment of Operating Aid as contemplated above and
- b) HIE and Scottish Government policy is strongly against the provision of operating aid.

We consider however that the comfort we are seeking to offer to a potential operator (by offering financial support in exceptional circumstances) might be achieved under the *de minimis* provisions.

We understand that *de minimis* funding may be used to provide Operating Aid - up to €200k over a 3 year fiscal period (and taking into account any *de minimis* funding received in the previous 3 years). The relevant section in the

agreement with the operator would have to be worded carefully because the Euro (not Sterling) ceiling would have to be quoted.

Provision would have to be qualified by a phrase such as “...or such other amount as should from time to time be stipulated by the European Commission De Minimis Regulation¹⁰ and in accordance with the provisions of that regulation”. This is because the ceiling is exclusively set in Euros and also has to cover the possibility of the recipient – in this case the Operator – receiving other *de minimis* payments within the rolling three year period covered which would have to be deducted from the “Operating Aid” payable within any given period.

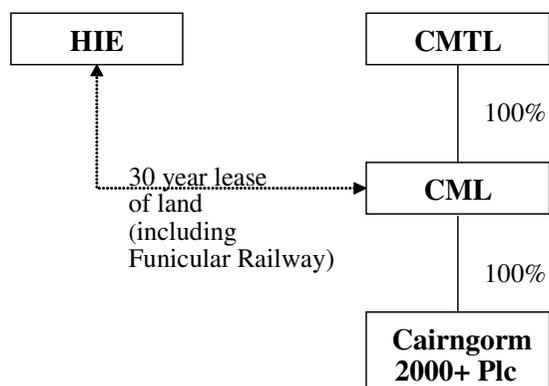
We consider that it is worth maintaining the “local market” argument and so some requirement to preclude international promotion of the facility might therefore be usefully included.

¹⁰ (Commission Regulation EC/ 1998/2006)

Existing Corporate Structure

CML evolved out of the current Cairngorm Chairlift Company which was itself an operating subsidiary of the Cairngorm Recreational Trust Limited (now Cairngorm Mountain Trust Limited (“CMTL”)), a company limited by guarantee.

At the time the Funicular Railway was built the key operational structure was as shown below:



CML is the operating company which owns some of the operating assets such as the lifts and tows, vehicles and the ski hire equipment. All the operational activities are carried out through this single entity (with the exception of the Ski School which is operated privately as a concession).

Following the restructuring on 16 May 2008, CML became a wholly owned subsidiary of HIE and is now operating within that public body. However, CML continues to be a limited company with a board of directors responsible for operating the company.

This corporate arrangement is **NOT** one which HIE wishes to retain as they do not wish to remain as operator of the business. We have therefore considered alternative structures for the operation to continue in the future.

Alternative Corporate Structures

We have considered a number of alternative structures for the operations. Our deliberations have taken account, inter alia, of the following factors:

- The importance of the Cairngorm Mountain as an iconic destination resort within the National Park
- The desire for HIE to remove itself from direct responsibility for the day to day operations
- The needs of the local community and the largely positive support the community has in relation to the Cairngorm Mountain and its ability to attract some overseas tourists who are visiting the Destination.
- The need for an operator to be able to operate the facility as freely as possible from external interference but working to a strategic vision for the business agreed with HIE (as landlord) which is clear and sensitive to the environment
- The need for HIE to retain ownership of the principal property assets
- The need for an operator to be able to make a reasonable commercial return based on risk and reward
- HIE’s ability to market test the operator’s performance on a periodic basis.

The following structural options are considered as alternatives to the status quo:

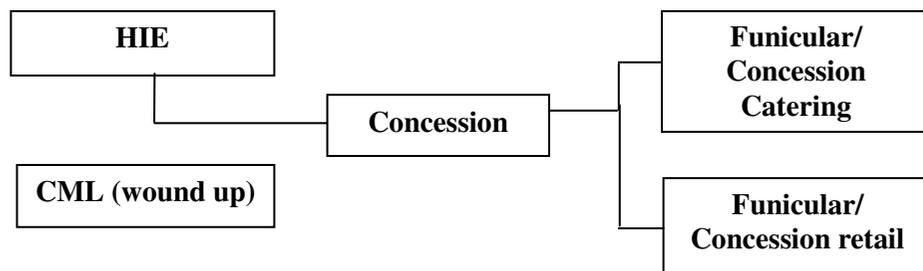
- A. Tender for a management only contract (i.e. HIE retains ownership of the assets and operating company but pays a management fee to a third party to manage the business).
- B. Transfer ownership to a not for profit community ownership company (i.e. the structure prior to CML being acquired by HIE);

- C. Sell off the existing operating company (CML) to a third party corporate entity (i.e. CML’s staff and operating assets are sold outright to a third party, along with a short or long term lease of the land. The third party operator would use the assets to operate the business as they saw fit);
- D. Provide an operating concession to a third party over a fixed term contract (i.e. the staff and assets are transferred (at nominal cost) into a new company and the new company enters into a lease and an operating agreement with HIE to operate the business. This would include obligations to replace the operating assets and at the end of the concession, if the operator did not win the new operating agreement, to transfer them to a new operator or back to HIE, again at nominal or agreed cost).

Each of these operational structures is shown graphically and considered in more detail in Appendix 17, along with an analysis of the advantages and disadvantages relating to each structure.

Each structure assumes that there is a property owning company (HIE) and an operating company which operates under varying degrees of independence.

Having considered the merits of each structural option we consider that option D (below) would appear to offer the most workable solution against the criteria set out above.



Our principle reasons for this conclusion are:

- It allows HIE to remain in control of the assets it owns
- It allows an operator freedom to operate the business
- An operator would be able to offer parts of the business to other concessionaires.

Length and nature of the Concession

Length

We have considered length of concession should be offered. We understand that there is no minimum or maximum prescriptive length to a concession of this nature. However, the concession must not be longer than the period required for a contractor to recoup its investment.

The length of the concession is therefore driven by two aspects:

- The length of time necessary to motivate the concessionaire to invest in the facilities and to secure a return on that investment
- The length of time which HIE would want to offer a concession for in order to retain the flexibility to “market test” the operator if necessary.

The largest single capital expenditure on the business will be in relation to the redevelopment of the Base Station and Ptarmigan costing c.£4.5m. It is evident from our discussions with HIE PMB that there is a low likelihood of HIE being able to afford to commit to this level of investment in 2012 - 2013. Indeed HIE may not even be in a position to sanction the Partial Option expenditure. As such, operators may have to bid under any of the options (Partial or Full) and may have to consider making some investment themselves.

We have worked on the assumption that:

- a) HIE will not want to follow the “Do Nothing” option as this would result in no improvements to the business model and HIE would have to fund the substantial annual deficits (see financial evaluation section); and
- b) HIE are unlikely to be able to commit to the Full option due to constraints in relation to their capital investment programme.

Therefore we have concluded that it is most likely that HIE will seek to tender the operations on the basis of having undertaken (or committed to undertake) most of the capital investment in the Partial option (although they may also seek private sector funding such as sponsorship funding, to supplement HIE’s investment).

If it is considered financially viable for an operator to invest capital in the site infrastructure in particular on assets which had a long-life (e.g. the Base Station and Ptarmigan buildings) then it may be necessary to grant an operator a long lease of the land both from the perspective of lending security and for security of tenure. If this is considered unlikely then a short lease or licence to occupy would be more suitable.

Our assessment of the appropriate length of concession is included in our conclusions and recommendations in Section 10.

Nature of concession

The concession should be in the form of a lease of the land and fixed assets with a separate operating agreement. The operating agreement will grant the operator the contractual right to use the facility over the period of the concession and will be inextricably linked to the lease in the event of termination of either agreement.

The operating agreement sets out the key services, terms and conditions required from the operator by the landlord. It will govern the standards and

levels of services that HIE would require an operator to meet as a minimum and will link the operator into the vision for the business. The terms of the operating agreement will also be linked into the lease or licence to occupy to enable the Landlord to have a right to “step-in” as interim tenant and remove the operator in the event that the operator does not perform in accordance with the terms stipulated in the operating agreement.

HIE have prepared a draft operating agreement between HIE and CML. We have reviewed this document and while it forms a basic framework for an operating agreement it will need to be substantially upgraded by HIE’s lawyers before it can be used as part of the tender process. The document will need to cover, *inter alia*, the following matters:

- Payment terms between HIE and the operator
- Terms of the operating agreement
- Ownership of assets (other than the existing land, buildings, tows and the Funicular Railway which will all be governed by the lease)
- Responsibility for replacement of assets (in particular tows and lifts)
- Responsibility for maintenance both statutory and non-statutory
- Risk sharing – who bears the risks of certain changes (e.g. legislation changes such as Health & Safety)
- Employees – transfer of undertaking liabilities, in particular any accrued pension liabilities
- Operating the brand within the proposed vision of the business
- Pricing of activities – whether an operator will have a free hand in setting all prices
- Standards of quality of food
- Minimum staffing levels on skiing days and non-skiing days
- Control over sub-contractors and the ability to offer sub-concessions and enter into profit sharing arrangements
- Opening and closing times of business
- Maintenance of ski grounds including hill track
- Requirement to undertake environmental monitoring.

There may be other matters to cover in the agreement depending on the nature of the operator. Such additional matters will be a normal part of the tender process.

EU Procurement and Tendering

The main options for taking CML out of direct public ownership are:

- 1) Cut down the business to the bare minimum and seek offers for the business
- 2) Do some “enhancement” work to improve the business and then seek offer for the business
- 3) Spend a significant amount of money to transform the business then seek offers for the business

Each of these options will involve marketing the business in a way which is designed to attract potential operators. Operators could include other operators of ski resorts (UK or overseas), managers of hotel/leisure facilities, managers of outdoor facilities or some others who may not be immediately apparent without marketing the business.

All procurement in the public sector is subject to EC Treaty principles of non-discrimination, equal treatment and transparency. The EC Public Procurement Directives require contracting authorities to provide details of procurements in a prescribed format, which are then published in the Official Journal of the European Union (OJEU).

All companies replying to an OJEU advertisement have an equal opportunity to express interest in being considered for tendering. The authorities must ensure those companies selected to tender receive the same information on which to make their bid.

The EU procurement regulations provide for four forms of procurement procedures as follows:

1. Open Procedure;
2. Restricted Procedure; and,
3. Negotiated Procedure (either with or without prior publication of Contract Notice) and
4. Competitive Dialogue Procedure

More details of each of these procedures are set out in Appendix 18. Having regard to the nature of the asset, the different aspects of the business, the participants in the industry and the potential interest in running the business, it would appear to us that the Competitive Dialogue Process would achieve the objective of determining what would be an acceptable tender process with the optimum likelihood of success. However, this is a matter to be determined by HIE and its legal advisers.

In order to bring about the change to the operations envisaged in this report, there are a number of defined steps which need to be taken. Each of these is key to the process and has a timescale applicable to it based on its complexity.

We have set out below the steps which we consider need to be taken, in this process, and the timescales applicable to them:

Report – September 2009

The final report is to be issued to HIE in September 2009.

Clarification and Decisions – December 2009

The report and its recommendations, together with the project team's own recommendations, will be presented to the HIE Management Board in December 2009. This will be considered by the Board who will then decide which course of action they wish to take.

Initiate preparatory work -December 2009/January 2010

Following on the course of action decided on above, there will be certain items of expenditure which will be required to be made by HIE.

We consider that in order to attract a new operator, it will be important for HIE to demonstrate that it has a clear vision and strategy for the business and that work has started on the steps towards the Partial option before going out to tender. Many of the changes to the buildings for the Full option will require planning consents and this process could take a number of months to conclude.

Commence Work on Tender for Contract – December 2009 – March 2010

The HIE project team would draw up the tender documents and draft legal documents which will be issued to those who register an interest. Details will be based on the model which HIE approves.

These will require to be drafted in such a way as to ensure that there is no doubt with regards to the structure under which the successful candidate will be required to operate.

Clear details of the branding and positioning envisaged for the operations will be set out in the tender document. All matters governing the operator's ongoing obligations with regards to maintenance, potential future capital spend, and other operational aspects will require to be clearly defined within the tender documents.

Tender Process - March 2010 – May 2010

The invitation to tender will be published in accordance with the OJEU process. All companies replying to an OJEU advertisement have an equal opportunity to express interest in being considered for tendering.

Parties will be invited to submit their tenders in accordance with specific guidelines and these will be gathered by a specified date.

HIE will be required to ensure that those companies selected to tender receive the same information on which to make their bid. This will include issuing clarification material following any queries by the parties wishing to tender.

The HIE project team will then be required to compare each of the compliant bids and score them based on pre-determined criteria, analysing the content of each of the bids. Any variant bids will also need to be assessed against similar criteria.

A short-list of bidders will then be considered and meetings held between key members of HIE and the bidders.

Contract Negotiation - May/June 2010

Negotiation on the terms of the contract will need to be undertaken by HIE. HIE may choose to negotiate with only one bidder, or to undertake negotiations with a small number of preferred bidders.

These negotiations will result in the final terms of the contract to be signed by both parties, which will then be binding on HIE and the successful bidder for the duration of that contract.

Prepare Assets for Transfer – June/July 2010

There are a number of assets on the site as detailed above. Some of these will remain under the control of HIE, but there are a number of assets which might be transferred to the new operator. For example, items such as the moveable plant and machinery, vehicles and computer equipment, might be transferred to the new operator, together with the obligations to replace these items as necessary.

Items such as stocks and ski equipment for hire, trade and certain other debtors, and trade and certain other creditors will be transferred to the new operator on the day that they assume responsibility for the control of the site.

Contract Award - July 2010

The successful bidder might be awarded the contract for the operation of the site in July 2010 or within that quarter. Seasonal factors would make it easier for a new operator to take control of the site before the Summer season concludes.

The timing of the commencement of this contract will be the subject of the negotiations to take place as detailed above.

We are recommending that HIE and CML develop a bold clear vision for the business and start to reposition the business model based on that vision. This will require HIE to acknowledge the view of the experts in the tourism and facility management industry who consider that Cairngorm has the greatest underutilised potential of all of Scotland's main tourist destinations.

Assuming that this vision is accepted a decision should then be made on whether HIE can fund any of the capital expenditure necessary to reposition the business. We consider that the Full option expenditure of £5-6m (plus further operating deficit expenditure of £5-600,000 during periods of closure during construction work) will enable optimum repositioning for the long-term both in operational terms and in terms of financial stability. There will also be potential economic benefits to the wider Badenoch and Strathspey communities.

If HIE accept the design brief concept drawings then these should be taken to the next stage where Keppie are asked to prepare more detailed drawings in order to progress the planning application procedure.

Work should commence almost immediately on the Partial option which seeks to rebrand the business in the short-term to arrest the trend of decline in non-skier visitor numbers. This work will also be required to improve the catering and retail facilities (this will also be required to maintain these offerings for visitors if the Full option is to proceed).

Work should commence with HIE's lawyers on preparing the draft documentation and processes necessary to seek tenders for the operating contract. A decision will have to be made on the tendering procedure although we are recommending that HIE should use a Competitive Dialogue Procedure given the potentially complex contract negotiations and the variety of options which may emerge from the private sector.

In terms of the tender, we recommend that you consider seeking tenders for a 5-6 year concession in the first place. This is due to the following:

1. If HIE can only provide the Partial option funding at this stage then there may be an opportunity, if HIE's future budgets increase, to secure the Full option funding in 4-5 years time which would enable the contract to be re-tendered again on a different basis.
2. If HIE cannot even commit to the Partial option capital then it may be possible to seek some private sector funding to meet the Partial option expenditure and enable the operator to recoup that investment over 5 – 6 years.
3. If HIE can provide the Full option funding then the operation will clearly go through a period of disruption and the nature of the operation and its management will change. As such HIE may at that time want to re-tender the operating contract and perhaps offer a longer concession period based at that time.

We consider it unlikely that a private sector operator will be willing to commit to the Full option expenditure at present. However, if there was a possibility of that emerging from the Competitive Dialogue Procedure, then we would recommend that HIE consider seeking tenders on the basis of offering a longer term concession.

We recommend that management at CML should review the basis of employee working hours with the aim of creating more flexibility within the workforce based around annualised hours. This will help the business in all options as it might enable the staff numbers (and costs) to be reduced.

We also recommend that management secure regular information about the nature of visitors to the Destination and the tourism trends that are influencing visitor motivations and demands. They should also initiate the accurate monitoring of daily visitor activity, especially visitor flows, usage and spending to enable them to fine tune the daily allocation and utilisation of resources and stimulate visitor spend.

Purchase Order

Order Number: [REDACTED] **Dated:** 12th December 2008 (To be quoted on all correspondence relating to this Order.)
T: +44(0)131 2202203
F: +44(0)131 2201080

From Purchaser: Highlands and Islands Enterprise established under the Enterprise and New Towns (Scotland) Act 1990 and having its principal office at Cowan House, Inverness Retail and Business Park, Inverness.

Email: [REDACTED]

Contact Name: Susan Smith

Tel: 01349 868939

Fax: 01349 868901

Email: susan.smith@hient.co.uk

Invoice address:

Earl Thorfinn House, 6 Druimchat View, Dingwall Business Park, Dingwall

To Supplier :

Johnston Carmichael in partnership with Stevens/View Marketing [REDACTED]

Contact name: [REDACTED]

[REDACTED]

Johnston Carmichael

7 -11 Melville Street

Edinburgh EH3 7PE

This Document forms the Order for this contract and is issued in accordance with the terms of the Scottish Executive's Non-Business Critical Financial Advisory Services Framework Agreement (CASE/2385) as amended by the Purchaser's Invitation to Tender dated 27th October 2008 and the terms and conditions of the Contract between Scottish Ministers and the Supplier dated 1st August 2006 ("the Contract") of which this Purchase Order forms part shall be incorporated into this Purchase Order subject to the following:-

Services

1. The Services shall be as specified in section 2 of the Purchaser's Invitation to tender dated 27th October 2008 and as detailed in part 1 of the attached Schedule, and the Supplier shall begin performing the Services for the Purchaser in accordance with this Purchase Order on 11th December 2008 and shall complete them no later than 28th February 2009.

Price

2. The Price shall be as specified in section 4 of the Supplier's tender proposal dated 10th November 2008 as amended and as detailed in part 2 of the attached schedule. The Purchaser shall pay the Price to the Supplier in respect of the provision of the Services ordered under this Purchase Order Form subject to the satisfactory provision of the Services.

Premises

3. The Services shall be performed at Premises to be determined by the Supplier.

Conflict of Interest

4. The Supplier shall take appropriate steps to ensure that neither the Supplier nor any employee, servant, agent, supplier or sub-contractor is placed in a position where in the reasonable opinion of the Purchaser, there is or may be an actual conflict, or a potential conflict, between the pecuniary or personal interests of the supplier or sub-contractor or such persons and the duties owed to the Purchaser under the provisions of the Contract. The Supplier will disclose to the Purchaser full particulars of any such conflict of interest which may arise.

Key Personnel

6. The Key Personnel who will deliver the Services are those individuals specified in section 1 of the Supplier's Proposal dated 10th November 2008 and detailed in part 3 of the Schedule attached.

Default and termination

7. The Purchaser is not entitled to terminate the Contract except in accordance with this Clause. The Purchaser may:-

issue the Supplier with a notice of Default in relation to this Purchase Order where the Purchaser considers that Default has occurred. The notice of Default shall include the date and a description of the Default as well as the Purchaser's required remedy and the time period within which the remedy should be completed. Where the required remedy has not been completed within the time period specified by the Purchaser, the Purchaser may terminate this Purchase Order by written notice to the Supplier with immediate effect.

Dispute resolution

8. Where there are any differences or questions between the Purchaser and Supplier with respect to any matter or thing arising out of or relating to the Purchase Order, other than a matter or thing as to which the decision of the Purchaser is to be final and conclusive, the parties shall in good faith attempt to reach agreement through discussion within a period of no more than the Dispute Resolution Period. The parties may choose to alter the time required.
9. The Supplier shall ensure that it continues to meet all of its contractual obligations during any ongoing dispute.

Please send me a statement that this Order has been accepted and a Call-off Contract has been formed between the Purchaser and the Supplier under the Contract between you and the Scottish Ministers dated 1st August 2006.

Signed: _____
On behalf of the Purchaser

Signed: _____
On behalf of the Supplier

THIRD PARTY DOCUMENTS

| Report Title | Author | Date Published | Report Title | Author | Date Published |
|---|---|-------------------------------|--|------------------------------------|----------------|
| Aids N 560/01 and NN 17/02 – United Kingdom Brighton West Pier | European Commission | April 2002 | Minute of Agreement between Cairngorm Mountain Ltd and Highlands and Islands Enterprise regarding Rent Arrears | Highlands and Islands Enterprise | March 2004 |
| Annual Maintenance Cost - Funicular Railway | Synergie Scotland Ltd | September 2007 | National Centre for the Mountain Environment - Interpretation Brief | Footprint Consulting Ltd | June 2007 |
| Assessment of Marketing Department and Marketing Plan | Stevens View Partnership | June 2003 | National Centre for the Mountain Environment - Sponsorship Strategy | Garron Communications | 2007 |
| Budget Proposal for Helicopter Hire Services | P M Dollar Group Ltd | June 2006 | Research Report - Factors influencing snow sports tourists' choice of destinations | Stevens View Partnership | January 2009 |
| Cairngorm - Ski Tow Removal Feasibility Report (Project Ref 7007) | Tulloch Prime Contracting Ltd | July 2007 | Review of Energy Efficiency Opportunities | Synergie Scotland Ltd | March 2009 |
| Cairngorm Client Transfer Works - Indicative Budget Estimate | Turner & Townsend Cost Management | August 2006 | Safety Audit Report | Abbott Risk Consulting Ltd | September 2008 |
| Cairngorm Day Lodge - Proposed Remodelling Feasibility Study (Project Ref 6022) | Tulloch Prime Contracting Ltd | December 2006 | Ski Industry Overview | Utah Ski and Snowboard Association | 2007 |
| Cairngorm Mountain - A Vision for the Future | Cairngorm Mountain Ltd Brian Burns and Associates and Steve Westbrook, Economist | October 2006 November 2006 | Skier and Snowboarder Survey | Utah Ski and Snowboard Association | 2003 |
| Cairngorm Mountain - Economic Impact Evaluation | Westbrook, Economist | November 2006 | Snow Business - A Study of the International Ski Industry | Simon Hudson | 2000 |
| Cairngorm Mountain - The Cutting Edge summary report | The Market Specialists | April 2008 | Snowsports Survey | VisitScotland | 2002 |
| Cairngorm Procurement - consideration of issues | Ledingham Chalmers LLP | March 2009 | Synergie - CML Meeting Outcomes | Synergie Scotland Ltd | August 2006 |
| Cairngorm Remodelling - High Level Budget (Project Ref 9003) | Rok Prime Contracting Ltd | April 2009 | The Closed System - An Assessment of Possible Future Developments | Mountain Environment Services | May 2004 |
| Cairngorm Ski Area Aviemore - General Information | Unknown Sharon Phillip and Douglas C MacMillan | Unknown September 2006 | The Snow Tourist | Charlie English | 2008 |
| Car Park Charging in the Cairngorms National Park Case Study - Snowdon Mountain Railway | Stevens & Associates | March 2009 | | | |
| CML Interpretative Design and Fit Out | Synergie Scotland Ltd | Unknown | | | |
| CML: International Best Practice - Mountains and Uplift Facilities (Overview) | Stevens View Partnership | June 2009 | | | |
| Completion Documentation regarding Sale of Shares in Cairngorm Mountain Ltd by Cairngorm Mountain Trust Ltd to Highlands and Islands Enterprise | Balfour + Manson LLP | May 2008 | | | |
| Consumer Research Report Phase One Summary | Footprint Consulting Ltd | 2006 | | | |
| Decommissioning Works at Cairngorm | Bidwells | Unknown | | | |
| Factors Influencing Skiers' Choice of Ski Destinations | Won D et al | 2009 | | | |
| Measuring Consumer Preference in the Winter Sports Markets | Siomkos G et al | 2006 | | | |

(a) In the 2005 book published by Scottish Natural Heritage, 'Mountains of Northern Europe' Magnus Magnusson (Chapter 1) welcomes that more and more attention is being placed upon the great mountains in the Cairngorms of which Cairn Gorm at 1245m is the highest of the summits. Importantly Chapter 26 by Murray Ferguson and John Forster states, "The Cairngorms are Britain's premier mountain range in terms of the extensive area of high ground, the distinctiveness of the landscape and the concentration of biodiversity. This is a biodiversity hotspot supporting a range of species and habitats that are either rare or unusual in Scotland."

They go on to state that, "the diversity of the earth heritage features makes the Cairngorms an exceptional resource for the study of long-term landscape evolution, These features form the basis of the Government's nomination of the area as a candidate UNESCO World Heritage Site and inclusion on the UK's Tentative List in 1999.(Department of Culture, Media and Sport)."

(b) "The Cairngorms is one of the most renowned mountain landscapes in Britain" Scottish Natural Heritage and The British Geological Survey 2004 in 'Cairngorms: A Landscape Fashioned by Geology'.

(c) The Annual Environment Report undertaken by CML as part of its on-going planning obligations is referenced as "Cairngorm Mountain".

(d) In the Scottish Natural Heritage publication 'The Cairngorms Massif: Natural Heritage Futures' (2002) the mountains are variously described as being...."...the nature and extent of these landscapes is exceptional...they are nationally renowned for recreational activities... this is a considerable national and international asset... spectacular landscapes and exceptional natural heritage... a concentration of biodiversity..."

(e) in the 2002 book edited by C. Gimingham called 'The Ecology, Land Use and Conservation of the Cairngorms' the introduction states that, "for many reasons, The Cairngorms merit description as the jewel in the crown of Scotland's natural heritage... the finest eco-system in Britain and a magnet for visitors... this is without question a magnificent area made up of many aspects each pre-eminent in their own right".

(f) In his book of 2001 'The Contested Mountain', Robert Lambert consistently refers to Cairn Gorm as a 'mountain'

Operational Initiatives:

| Implemented |
|--|
| <ul style="list-style-type: none"> • Star gazing night walk • Online shop • Creative creations exhibition at base station (done) • Story telling workshops (introduced) • Ceilidh evenings (successful) • Odyssey Exhibition in T-Bar (with related products on sale in the shop) • Christmas market (Annual) • Summer dining • Revise top shop layout • New menus introduced at Cas bar and Ptarmigan and introducing home baking at both venues • Cycling events (summer 2008) • Hill run (summer 2008) • Extention of footpath to lower Cas loop |

Marketing Initiatives:

| Implemented |
|--|
| <ul style="list-style-type: none"> • Re-introduce customer feedback (summer 2007) • Webcams (introduced) • Write to all season ticket holders at renewal date (Done) • Update/redesign of website (Done) • “Friends of Cairngorm” tickets (Done) • “Funicular Friday” – discount prices to £5 (not a success) • Brochures advertising evening dining and walking programme • Winter festival (annual programme of events) • e-news letter (now has 1,000 subscribers) • Spring watch – live TV broadcasts • Part of The Cairngorms Attraction Group (CAGG) • Business model development (initial pricing and marketing considerations) • Marketing workshop held with CML and HIE |

This section summarises the proposed improvement plan and sets out a comparison of the this plan against the “Do Nothing” option. It is evident to us that the budget constraints faced by HIE may dictate that they only carry out certain elements of the proposed improvement plan and it will be for HIE to decide which of the elements they wish to prioritise. We do not recommend that approach.

The tables below summarise the historical profit and loss account for CML for the period FY05 to FY08. The results for the four years ended April 2008 (FY05, FY06, FY07 and FY08) are audited.

| CML Profit & loss | FY05 £ | FY06 £ | FY07 £ | FY08 £ |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Sales | 2,976,470 | 3,295,431 | 2,818,138 | 3,595,933 |
| Profit/ (loss) | 27,659 | 32,314 | (262,533) | 173,667 |
| <i>Source: CML audited accounts</i> | | | | |

A high level analysis indicates that the break-even turnover of the business (before site maintenance) would appear to be around £3.2 - £3.3 million. However, a more detailed financial analysis shows that there are more complicated factors affecting the business that require a more fundamental analysis of the operation in order to address the issue of making the business financially sustainable.

Sources of Income

The commercial operations for which charges are made for services comprise the following:

- Operation of the Funicular Railway between the Base Station and the Ptarmigan
- Catering operations in both the Day Lodge and the Ptarmigan

- Retail operations in both the Day Lodge and the Ptarmigan
- Ski hire facilities in the Day Lodge
- Events and other income

In addition, the following services are operated but there are no specific charges made for them:

- An exhibition facility at the Ptarmigan
- The ranger service at the Base Station (which is paid for by HIE but administered by CML)
- Car parks (Coire Cas and Coire na Ciste)
- Toilets (at Coire Cas, base station and Ptarmigan).

The Camera Obscura facility is currently being developed which will provide panoramic viewing images of the mountainside. It is not intended that the Camera Obscura will be a separate revenue generating activity.

Income from the various activities for which charges are made during the period FY07 to FY08 is shown in the table below:

| CML Operational income | FY07 | | FY08 | |
|---------------------------|-----------|------|-----------|------|
| | £ | % | £ | % |
| Funicular only | 1,017,044 | 36% | 1,013,627 | 28% |
| Catering | 591,752 | 21% | 735,924 | 20% |
| Retail | 421,246 | 15% | 468,920 | 13% |
| Events | 79,419 | 3% | 119,695 | 3% |
| Other | 29,521 | 1% | 20,512 | 1% |
| Non ski income | 2,138,982 | 76% | 2,358,678 | 66% |
| Funicular uplift | 568,186 | 20% | 1,040,442 | 29% |
| Equipment hire | 101,371 | 4% | 193,934 | 5% |
| Sledge park | 9,599 | 0% | 10,725 | 0% |
| Ski income | 679,156 | 24% | 1,245,101 | 35% |
| Audit adjustment | | | (7,846) | |
| Total | 2,818,138 | 100% | 3,595,933 | 100% |

CML management accounts data

It is evident from this table that there is a material dependence in the Operating Company on income from snow-sports activities.

Historically the business operations have largely focussed around snow sports and winter based activities. However, in certain years, the reduced snow levels have materially impacted on the number of visitors using the facility in the winter months with the consequent knock-on effect on turnover and profit. This trend has been reversed in FY08, and FY09 has proven to be another successful winter season with approximately 65,000 skiers. However it is considered highly probable that in future years poor winters will cause the skier numbers to fluctuate downwards again. This has a significant impact on the sustainability of the operational model.

Average Customer Spend

Based on the management accounts, the following table sets out the average spend per visitor split on the same basis:

| CML Average spend | 2006/07 | 2007/08 |
|----------------------|--------------|--------------|
| | £ | £ |
| Overall | 14.58 | 17.16 |
| Funicular only | 6.57 | 6.83 |
| Snowsports | 14.74 | 17.04 |
| Catering | 3.06 | 3.51 |
| Retail | 2.18 | 2.24 |

Source: CML Limited management accounts data

Contribution analysis

We have attempted to perform an analysis of the financial contribution to the business during the winter and summer seasons at the facility. This analysis is based on the management information. In carrying out the analysis, we have assumed that in each year, the “winter” season runs from the start of December to the end of April (5 months) and the “summer” season from the beginning of May to the end of November (7 months). Inevitably there is some overlap at either end of the seasons but the reason for the analysis is to identify which activities are contributing most to the overheads of the business and what trends (if any) emerge from the analysis.

The table on the next page summarises the analysis:

| CML Financial analysis Seasonal breakdown | Financial year* 12 months 1 May 06 - 29 Apr 07 £ | Summer 7 Months 30 Apr 07 - 30 Nov 07 £ | Winter 5 months 1 Dec 07 - 27 Apr 08 £ | Financial year 12 months 30 Apr 07 - 27 Apr 08 £ | Summer 7 months 28 Apr 08 - 30 Nov 08 £ | Trailing 12 months (TTM) 1 Dec 07 - 30 Nov 08 £ |
|---|---|--|---|---|--|--|
| CONTRIBUTION | | | | | | |
| Snowsports | 239,156 | (162,625) | 825,196 | 662,571 | (38,394) | 786,802 |
| Funicular only | 556,676 | 372,745 | 262,835 | 635,580 | 194,460 | 457,296 |
| Catering | 7,320 | 13,298 | 49,066 | 62,364 | (36,861) | 12,205 |
| Retail | 88,309 | 63,184 | 36,145 | 99,328 | 63,963 | 100,108 |
| TOTAL | 891,461 | 286,602 | 1,173,242 | 1,459,844 | 183,169 | 1,356,411 |
| Unallocated overheads | (1,154,014) | (690,308) | (531,987) | (1,222,295) | (656,483) | (1,188,469) |
| NET PROFIT | (262,553) | (403,707) | 641,256 | 237,549 | (473,314) | 167,942 |
| *cost allocation to be confirmed | | | | | | |
| Source: CML management and financial accounts - with cost allocations | | | | | | |

We have highlighted in yellow the trend in relation to the contribution from the summer season. In relation to snow-sports, the contribution deficit in the summer months has declined – this is partly due to the ski season extending to May 08 and starting in November 08 and delayed expenditure on lifts and tows.

The summer months' contribution from the Funicular Railway has clearly declined between the summer of 2007 and that of 2008. It is this trend that is of greatest concern.

We have also highlighted the contribution in each financial year of the Funicular Railway. This showed an increase in the financial year FY08 compared to FY07. However, if we extend this to the 12 months from December 2007 to November 2008 (which we have shown as a “trailing 12 months”) then the trend is again downwards.

In summary, there appears to be less contribution from users of the Funicular Railway which is being offset by the strength of the snow-sports contribution. However, the concern must be if the skier numbers fall to the levels seen in 2003/04 or 2006/07 and the declining level of use of the Funicular Railway in the summer months continues then a sustainable operating model will not be possible.

CML – Monthly contribution analysis December 2007 to November 2008

| SUMMARY | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | YTD 2009 | 2008 | 2007 |
|------------------------------------|-----------|----------|-----------|----------|-----------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|-------------|-------------|
| SNOWSPORTS CONTRIBUTION | (4,363) | 154,534 | 220,923 | 204,459 | 249,643 | (7,639) | (1,942) | (68) | (1,291) | (137) | (1,085) | (26,231) | (24,460) | 662,571 | 277,655 |
| FUNICULAR ONLY CONTRIBUTION | 15,572 | 41,552 | 59,269 | 66,841 | 79,601 | 31,356 | 38,903 | 37,746 | 82,768 | 28,564 | 13,093 | (37,968) | 180,526 | 635,580 | 593,606 |
| CATERING | (15,031) | 7,939 | 16,014 | 13,605 | 26,539 | (12,747) | (4,418) | (1,271) | 2,788 | (1,766) | (7,665) | (11,781) | (36,861) | 62,364 | 7,320 |
| RETAIL | (14,162) | 23,581 | 986 | 12,195 | 13,546 | 3,643 | 5,992 | 5,388 | 10,585 | 9,031 | 5,745 | 23,579 | 63,963 | 99,328 | 88,309 |
| TOTAL CONTRIBUTION | (17,984) | 227,606 | 297,192 | 297,100 | 369,328 | 14,614 | 38,534 | 41,794 | 94,849 | 35,691 | 10,088 | (52,401) | 183,169 | 1,459,844 | 966,889 |
| UNALLOCATED COST CENTRES | | | | | | | | | | | | | | | |
| TOTAL UNALLOCATED COSTS | (97,659) | (87,914) | (109,511) | (91,457) | (145,445) | (103,059) | (115,228) | (100,970) | (68,363) | (91,453) | (104,121) | (73,288) | (656,483) | (1,222,295) | (1,117,368) |
| NET PROFIT | (115,643) | 139,692 | 187,681 | 205,643 | 223,883 | (88,445) | (76,694) | (59,177) | 26,486 | (55,762) | (94,033) | (125,689) | (473,314) | 237,549 | (150,479) |

APPENDIX 6

Cairngorm Mountain 2009 2010

Summary Trading Accounts

| Weeks | 4 | 5 | 4 | 4 | 5 | 4 | 5 | 4 | 4 | 5 | 4 | 4 | Total |
|------------------------------------|---------------|---------------|--------------|--------------|---------------|--------------|---------------|----------------|----------------|----------------|---------------|---------------|---------------|
| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | |
| Catering | | | | | | | | | | | | | |
| Sales | 67,698 | 37,266 | 52,559 | 56,437 | 84,797 | 43,553 | 43,993 | 11,931 | 25,176 | 42,525 | 89,740 | 86,760 | 642,436 |
| Cost of Sales | 23,017 | 12,670 | 17,870 | 19,188 | 28,831 | 14,808 | 14,958 | 4,057 | 8,560 | 14,459 | 30,512 | 29,498 | 218,428 |
| Running Costs | 2,620 | 3,660 | 5,780 | 4,530 | 4,630 | 2,930 | 2,180 | 3,270 | 4,850 | 2,450 | 3,050 | 3,300 | 43,250 |
| Wages | 24,223 | 29,974 | 25,088 | 26,688 | 38,132 | 26,197 | 32,747 | 22,871 | 26,197 | 35,359 | 34,813 | 31,486 | 353,777 |
| Contribution | 17,838 | -9,039 | 3,821 | 6,030 | 13,204 | -383 | -5,891 | -18,266 | -14,431 | -9,743 | 21,365 | 22,475 | 26,981 |
| Events | | | | | | | | | | | | | |
| Sales | 0 | 12,963 | 10,370 | 10,370 | 12,963 | 10,370 | 12,963 | 0 | 0 | 0 | 0 | 0 | 70,000 |
| Cost of Sales | 60 | 6,193 | 5,027 | 5,427 | 6,693 | 5,027 | 5,993 | 60 | 60 | 60 | 60 | 60 | 34,720 |
| Wages | 776 | 4,210 | 3,368 | 3,368 | 4,210 | 3,368 | 4,210 | 776 | 776 | 969 | 776 | 776 | 27,583 |
| Other costs | 0 | 600 | 150 | 100 | 100 | 100 | 100 | 0 | 0 | 0 | 0 | 0 | 1,150 |
| Contribution | -836 | 1,959 | 1,826 | 1,476 | 1,959 | 1,876 | 2,659 | -836 | -836 | -1,029 | -836 | -836 | 6,548 |
| Total Catering & Events | 17,002 | -7,079 | 5,646 | 7,506 | 15,164 | 1,493 | -3,232 | -19,101 | -15,267 | -10,772 | 20,529 | 21,640 | 33,528 |
| Retail | | | | | | | | | | | | | |
| Sales | 42,532 | 23,421 | 33,033 | 35,469 | 53,294 | 27,372 | 27,649 | 7,499 | 15,820 | 26,714 | 56,361 | 54,489 | 403,653 |
| Cost of Sales | 21,266 | 11,711 | 16,516 | 17,735 | 26,647 | 13,686 | 13,824 | 3,749 | 7,910 | 13,357 | 28,181 | 27,245 | 201,826 |
| Running Costs | 300 | 240 | 50 | 90 | 450 | 90 | 250 | 1,040 | 100 | 90 | 250 | 1,040 | 3,990 |
| Wages | 7,733 | 8,686 | 8,418 | 9,203 | 11,504 | 8,222 | 9,667 | 6,644 | 7,625 | 8,796 | 8,918 | 8,722 | 104,139 |
| Contribution | 13,233 | 2,785 | 8,048 | 8,442 | 14,693 | 5,374 | 3,908 | -3,935 | 184 | 4,471 | 19,012 | 17,482 | 93,697 |
| Tickets | | | | | | | | | | | | | |
| Funicular | 95,205 | 80,762 | 113,905 | 122,308 | 183,771 | 94,386 | 95,341 | 25,858 | 42,768 | 50,163 | 61,546 | 56,293 | 1,022,306 |
| Ski-ing | 132,322 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,298 | 107,884 | 341,496 | 338,400 | 950,400 |
| Payroll | 44,869 | 53,676 | 43,428 | 44,646 | 55,807 | 43,428 | 53,067 | 40,560 | 46,200 | 73,647 | 67,232 | 67,232 | 633,792 |
| Running costs | 31,565 | 9,289 | 33,594 | 18,589 | 21,914 | 10,989 | 37,979 | 11,934 | 19,751 | 8,383 | 12,383 | 9,309 | 225,679 |
| Contribution | 151,093 | 17,797 | 36,883 | 59,073 | 106,049 | 39,969 | 4,295 | -26,636 | 7,114 | 76,016 | 323,427 | 318,152 | 1,113,234 |
| Ski Hire | | | | | | | | | | | | | |
| Income | 22,789 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,218 | 18,580 | 58,813 | 58,280 | 163,680 |
| Wages | 4,866 | 0 | 0 | 0 | 0 | 0 | 0 | 574 | 3,885 | 6,327 | 6,239 | 5,847 | 27,737 |
| Running costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 700 | 70 | 360 | 120 | 330 | 1,580 |
| Equipment replacement costs | 6,705 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,705 | 6,705 | 6,705 | 26,821 |
| | 11,218 | 0 | 0 | 0 | 0 | 0 | 0 | -1,274 | 1,263 | 5,188 | 45,749 | 45,398 | 107,543 |

APPENDIX 6

PROFIT AND LOSS ACCOUNT

APRIL 2009 TO MARCH 2010

| YEAR 2009-10 | April - budget £ | May - budget £ | June - budget £ | July - budget £ | August - budget £ | September - budget £ | October - budget £ | November - budget £ | December - budget £ | January - budget £ | February - budget £ | March - budget £ | Total £ | 2007/8 Budget | Difference |
|---|------------------------|----------------------|-----------------------|-----------------------|-------------------------|----------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|------------------------|------------------|------------------|------------------|
| Turnover - Non skiing market | | | | | | | | | | | | | | | |
| Funicular only | 95,205 | 80,762 | 113,905 | 122,308 | 183,771 | 94,386 | 95,341 | 25,858 | 42,768 | 50,163 | 61,546 | 56,293 | 1,022,306 | 1,098,647 | -76,342 |
| Catering | 43,930 | 37,266 | 52,559 | 56,437 | 84,797 | 43,553 | 43,993 | 11,931 | 19,734 | 23,147 | 28,399 | 25,975 | 471,721 | 553,485 | -81,764 |
| Events | 0 | 0 | 12,963 | 10,370 | 10,370 | 12,963 | 10,370 | 12,963 | 0 | 0 | 0 | 0 | 70,000 | | 70,000 |
| Retail 68.5% top 31.5% Btm | 27,609 | 23,421 | 33,033 | 35,469 | 53,294 | 27,372 | 27,649 | 7,499 | 12,403 | 14,547 | 17,848 | 16,325 | 296,469 | 339,582 | -43,113 |
| Other | 1,500 | 1,500 | 1,600 | 1,600 | 1,600 | 1,600 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 18,400 | | 18,400 |
| Total Non-skiing Turnover | 168,244 | 142,949 | 214,060 | 226,185 | 333,832 | 179,874 | 178,853 | 59,751 | 76,404 | 89,357 | 109,293 | 100,094 | 1,878,895 | 2,010,115 | (131,219) |
| Turnover - Winter market | | | | | | | | | | | | | | | |
| Uplift | 132,322 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,298 | 107,884 | 341,496 | 338,400 | 950,400 | 765,000 | 185,400 |
| Catering | 23,768 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,442 | 19,379 | 61,341 | 60,785 | 170,715 | 191,378 | -20,663 |
| Retail | 14,923 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,417 | 12,167 | 38,513 | 38,164 | 107,184 | 104,040 | 3,144 |
| Equipment hire Ski 78.5% Board 21.5% | 22,789 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,218 | 18,580 | 58,813 | 58,280 | 163,680 | 159,375 | 4,305 |
| Sledge Park | 908 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 208 | 740 | 2,343 | 2,322 | 6,522 | 8,511 | -1,989 |
| Total Winter Turnover | 194,710 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 44,584 | 158,749 | 502,507 | 497,951 | 1,398,500 | 1,228,303 | 170,197 |
| Total Annual Turnover | 362,954 | 142,949 | 214,060 | 226,185 | 333,832 | 179,874 | 178,853 | 59,751 | 120,988 | 248,106 | 611,799 | 598,044 | 3,277,396 | 3,238,418 | 38,978 |
| Dept Payroll Costs | 111,281 | 130,045 | 107,216 | 110,818 | 143,152 | 107,453 | 132,344 | 98,458 | 111,718 | 158,750 | 145,504 | 141,343 | 1,498,083 | 1,650,848 | -152,765 |
| Pension contribution | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 3,083 | 36,996 | 25,000 | 11,996 |
| Total Payroll Costs | 114,364 | 133,128 | 110,299 | 113,901 | 146,235 | 110,536 | 135,427 | 101,541 | 114,801 | 161,833 | 148,587 | 144,426 | 1,535,079 | 1,675,848 | (140,769) |
| Commercial Expenses | | | | | | | | | | | | | | | |
| Hill Operation | | | | | | | | | | | | | | | |
| Lifts & Tows | 5,056 | 2,150 | 28,655 | 12,150 | 16,255 | 7,150 | 2,650 | 2,150 | 1,150 | 1,350 | 1,150 | 1,350 | 81,216 | 100,400 | -19,184 |
| Funicular | 0 | 0 | 2,000 | 2,000 | 820 | 500 | 500 | 1,800 | 11,500 | 0 | 0 | 0 | 19,120 | 72,024 | -52,904 |
| Radio hire | 4,900 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 800 | 800 | 800 | 800 | 12,300 | 5,890 | 6,410 |
| Pisteing | 10,000 | 200 | 500 | 600 | 600 | 0 | 22,000 | 4,500 | 0 | 2,500 | 1,000 | 0 | 41,900 | 19,400 | 22,500 |
| Ski Patrol | 260 | 460 | 60 | 60 | 560 | 1,210 | 4,500 | 420 | 60 | 560 | 60 | 60 | 8,270 | 8,545 | -275 |
| Road Clearing | 0 | 0 | 0 | 0 | 0 | 0 | 3,200 | 0 | 0 | 924 | 924 | 0 | 5,048 | 4,240 | 808 |
| Visitor services | 549 | 629 | 529 | 529 | 529 | 529 | 529 | 1,264 | 4,741 | 549 | 549 | 549 | 11,475 | 21,840 | -10,365 |
| Maintenance (site services) | 5,750 | 5,050 | 1,050 | 2,450 | 1,250 | 800 | 3,800 | 1,000 | 1,300 | 1,500 | 4,850 | 1,500 | 30,300 | 26,400 | 3,900 |
| Total Hill Operation | 26,515 | 9,089 | 33,394 | 18,389 | 20,614 | 10,789 | 37,779 | 11,734 | 19,551 | 8,183 | 9,333 | 4,259 | 209,629 | 258,739 | (49,110) |
| Equipment hire | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 700 | 70 | 360 | 120 | 330 | 1,580 | 4,485 | -2,905 |
| Catering - Cost of sales | 23,017 | 12,670 | 17,870 | 19,188 | 28,831 | 14,808 | 14,958 | 4,057 | 8,560 | 14,459 | 30,512 | 29,498 | 218,428 | 238,356 | -19,928 |
| Catering - Expenses | 2,620 | 3,660 | 5,780 | 4,530 | 4,630 | 2,930 | 2,180 | 3,270 | 4,850 | 2,450 | 3,050 | 3,300 | 43,250 | 77,875 | -34,625 |
| Events costs inc wages & CoS | 836 | 10,404 | 8,395 | 8,795 | 10,904 | 8,395 | 10,204 | 836 | 836 | 1,029 | 836 | 836 | 62,303 | 62,303 | 0 |
| Facilities - Expenses | 2,898 | 6,018 | 3,088 | 3,848 | 5,518 | 3,628 | 5,658 | 5,448 | 5,003 | 2,363 | 3,563 | 6,133 | 53,166 | 54,782 | -1,616 |
| Retail - Cost of sales | 21,266 | 11,711 | 16,516 | 17,735 | 26,647 | 13,686 | 13,824 | 3,749 | 7,910 | 13,357 | 28,181 | 27,245 | 201,826 | 230,683 | -28,857 |
| Retail - Expenses | 300 | 240 | 50 | 90 | 450 | 90 | 250 | 1,040 | 100 | 90 | 250 | 1,040 | 3,990 | 13,790 | -9,800 |
| Transport | 5,050 | 200 | 200 | 200 | 1,300 | 200 | 200 | 200 | 200 | 200 | 3,050 | 5,050 | 16,050 | 17,155 | -1,105 |
| | 55,987 | 44,902 | 51,899 | 54,386 | 78,279 | 43,737 | 47,274 | 19,300 | 27,528 | 34,308 | 69,561 | 73,431 | 600,593 | 637,126 | -36,534 |
| Profit before marketing & ohds | 166,088 | -44,170 | 18,468 | 39,508 | 88,704 | 14,812 | -41,626 | -72,824 | -40,893 | 43,782 | 384,319 | 375,928 | 932,095 | 666,704 | (73,067) |

APPENDIX 6

| | | | | | | | | | | | | | | | |
|---|----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|------------------|------------------|-----------------|
| Marketing & Interpretation | 11,300 | 24,635 | 16,550 | 20,430 | 14,805 | 9,135 | 5,050 | 3,155 | 9,355 | 4,125 | 3,150 | 5,210 | 126,900 | 119,573 | 7,327 0 |
| Overheads | | | | | | | | | | | | | | | |
| Professional Fees | 2,175 | 375 | 375 | 375 | 375 | 2,875 | 375 | 589 | 375 | 375 | 375 | 1,155 | 9,794 | 33,925 | -24,131 |
| Monitoring costs | 1,000 | 1,000 | 13,000 | 1,000 | 1,000 | 3,619 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 26,619 | | |
| Directors Fees | 2,980 | 2,980 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 4,724 | 53,200 | 14,541 | 38,659 |
| Audit/Accounting | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17,500 | 0 | 0 | 1,500 | 19,000 | 11,750 | 7,250 |
| Computer costs | 4,552 | 200 | 535 | 1,202 | 1,270 | 3,230 | 257 | 500 | 290 | 472 | 1,230 | 470 | 14,211 | 15,152 | -942 |
| Electricity | 15,333 | 15,333 | 15,333 | 15,333 | 15,333 | 15,333 | 15,333 | 18,533 | 18,533 | 18,533 | 18,533 | 18,533 | 200,000 | 9,600 | 190,400 |
| HR Expenses | 5,210 | 4,402 | 1,658 | 5,500 | 1,800 | 2,450 | 3,550 | 3,730 | 3,700 | 1,500 | 1,550 | 2,050 | 37,100 | 31,952 | 5,148 |
| Travel & Entertainment | 333 | 333 | 333 | 333 | 333 | 333 | 333 | 333 | 333 | 518 | 518 | 518 | 4,555 | 3,000 | 1,555 |
| Telephone/Fax/Post/Stationery | 3,093 | 3,170 | 1,170 | 3,093 | 1,170 | 1,170 | 3,093 | 1,170 | 1,170 | 3,093 | 1,170 | 1,170 | 23,735 | 21,440 | 2,295 |
| Staff Transport | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 |
| General/Subscriptions | 0 | 0 | 0 | 120 | 221 | 400 | 292 | 255 | 74 | 269 | 0 | 376 | 2,007 | 1,932 | 75 |
| Depreciation | 2,667 | 2,698 | 2,844 | 2,896 | 2,896 | 2,896 | 3,340 | 3,599 | 3,845 | 3,845 | 3,845 | 3,845 | 39,214 | 49,659 | -10,445 |
| Gain/Loss on sale of FA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 47,759 | -47,759 |
| Bank Charges | 5,622 | 3,412 | 1,344 | 2,012 | 2,126 | 3,138 | 1,691 | 1,681 | 562 | 1,137 | 2,332 | 5,751 | 30,808 | 25,260 | 5,548 |
| HIE interest | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 3,483 | 41,800 | 43,397 | -1,597 |
| Leasing interest | 813 | 927 | 1,464 | 927 | 927 | 927 | 927 | 2,341 | 416 | 986 | 329 | 329 | 11,309 | 8,181 | 3,128 |
| Grant release | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -443 | -5,316 | (5,316) | 0 |
| HIE rent | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 100,000 | 100,000 | 0 |
| HIE rent commission | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Bad debts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Rates | 0 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 4,389 | 0 | 43,890 | 43,035 | 855 |
| Insurance | 12,568 | 2,568 | 2,568 | 12,568 | 12,568 | 12,568 | 12,568 | 12,568 | 12,568 | 12,485 | 12,485 | 12,485 | 130,570 | 136,366 | -5,797 |
| | | | | | | | | | | | | | | | 0 |
| Total Overheads (excl marketing) | 67,720 | 53,161 | 61,111 | 65,847 | 60,507 | 69,426 | 63,246 | 66,787 | 80,854 | 64,701 | 63,854 | 65,280 | 782,494 | 591,633 | 164,243 0 |
| Total expenditure | 275,887 | 264,916 | 273,254 | 272,953 | 320,440 | 243,623 | 288,776 | 202,517 | 252,089 | 273,150 | 294,485 | 292,606 | 3,254,695 | 3,282,919 | (54,842) |
| Operating Profit | 87,068 | -121,967 | -59,193 | -46,768 | 13,392 | -63,749 | -109,923 | -142,766 | -131,102 | -25,044 | 317,315 | 305,438 | 22,700 | (44,501) | 67,202 |

APPENDIX 6

| CASH FLOW STATEMENT | April | May | June | July | August | September | October | November | December | January | February | March | Total | 2007/8 Budget | Difference |
|----------------------------------|----------------|-----------------|-----------------|----------------|----------------|-----------------|----------------|-----------------|----------------|----------------|----------------|----------------|------------------|---------------|------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | |
| Inflow | | | | | | | | | | | | | | | |
| Sales | 334,035 | 138,911 | 208,365 | 220,069 | 324,643 | 175,155 | 174,086 | 58,458 | 113,318 | 225,901 | 546,373 | 533,446 | 3,052,760 | 3,082,061 | -29,300 |
| Seasons (cash) | 5,460 | 0 | 0 | 0 | 0 | 5,460 | 21,840 | 43,680 | 6,552 | 4,368 | 10,920 | 10,920 | 109,200 | 91,000 | 18,200 |
| Vat received on sales | 31,121 | 9,328 | 15,023 | 15,581 | 22,509 | 13,224 | 14,132 | 8,294 | 10,053 | 22,314 | 58,972 | 57,917 | 278,470 | 315,487 | -37,017 |
| Trade Debtor receipts | 190,684 | 17,839 | 8,538 | 10,195 | 10,615 | 13,689 | 9,799 | 11,586 | 10,430 | 9,166 | 13,994 | 29,381 | 335,916 | 323,338 | 12,578 |
| Total Income | 561,301 | 166,078 | 231,926 | 245,846 | 357,768 | 207,527 | 219,857 | 122,018 | 140,353 | 261,749 | 630,259 | 631,664 | 3,776,347 | 3,811,885 | -35,539 |
| Outflow | | | | | | | | | | | | | | | |
| Payroll | 85,773 | 99,846 | 82,724 | 85,426 | 109,676 | 82,902 | 101,570 | 76,156 | 86,101 | 121,375 | 111,440 | 108,319 | 1,151,309 | 1,256,886 | -105,577 |
| Creditor Payments (net of CAPEX) | 225,483 | 147,237 | 142,843 | 183,563 | 157,568 | 174,860 | 124,642 | 174,127 | 91,225 | 129,954 | 110,894 | 135,234 | 1,797,629 | 2,002,433 | -204,804 |
| Cash Payments | 5,622 | 7,801 | 5,733 | 6,401 | 6,515 | 7,527 | 6,080 | 6,070 | 4,951 | 5,526 | 6,721 | 5,751 | 74,698 | 68,295 | 6,403 |
| Leasing Repayments - gross | 813 | 927 | 1,464 | 927 | 927 | 927 | 927 | 2,341 | 416 | 986 | 329 | 329 | 11,309 | 11,897 | -587 |
| HIE rental | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 12,518 | 150,221 | 100,000 | 50,221 |
| Payroll costs - PAYE / NIC | 41,167 | 28,591 | 33,282 | 27,575 | 28,475 | 36,559 | 27,634 | 33,857 | 25,385 | 28,700 | 40,458 | 37,147 | 388,830 | 419,142 | -30,312 |
| Operating outflow | 371,376 | 296,920 | 278,564 | 316,410 | 315,679 | 315,293 | 273,371 | 305,069 | 220,596 | 299,060 | 282,360 | 299,298 | 3,573,996 | 3,858,653 | -284,656 |
| Trading net movement | 189,924 | -130,841 | -46,638 | -70,564 | 42,089 | -107,765 | -53,514 | -183,051 | -80,243 | -37,311 | 347,898 | 332,366 | 202,350 | -46,768 | 249,118 |
| Vat (Payments) / Receipts | 0 | 0 | -84,203 | 0 | 0 | 17,259 | 0 | 0 | 6,219 | 0 | 0 | -1,911 | -62,636 | 130,215 | -192,851 |
| HIE Loan movement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Expenditure (incl. VAT) | 0 | -1,725 | -8,050 | -2,875 | 0 | 0 | -21,206 | -11,029 | -10,281 | 0 | 0 | 0 | -55,166 | 117,500 | -172,666 |
| Sale of FA - Unimog | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 | -25,000 |
| VAT on HPs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total net movement | 189,924 | -132,566 | -138,891 | -73,439 | 42,089 | -90,506 | -74,720 | -194,079 | -84,306 | -37,311 | 347,898 | 330,455 | 84,548 | -9053 | 93,601 |
| Opening Balance | 676,887 | 863,328 | 727,278 | 584,904 | 507,982 | 546,587 | 452,598 | 374,394 | 176,832 | 89,043 | 48,248 | 392,663 | 676,887 | -1326914 | 2,003,801 |
| Closing Balance (pre interest) | 866,811 | 730,762 | 588,388 | 511,465 | 550,070 | 456,081 | 377,878 | 180,315 | 92,526 | 51,732 | 396,147 | 723,118 | 761,435 | -1335967 | 2,097,402 |
| HIE interest | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -3,483 | -41,800 | -43397 | 1,597 |
| Closing Balance (post interest) | 863,328 | 727,278 | 584,904 | 507,982 | 546,587 | 452,598 | 374,394 | 176,832 | 89,043 | 48,248 | 392,663 | 719,635 | 719,635 | -1379364 | 2,098,999 |

APPENDIX 6

| BALANCE SHEETS | April | May | June | July | August | September | October | November | December | January | February | March |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Fixed assets | | | | | | | | | | | | |
| Historic Cost | 4,242,973 | 4,244,473 | 4,251,473 | 4,253,973 | 4,253,973 | 4,253,973 | 4,272,414 | 4,282,004 | 4,290,944 | 4,290,944 | 4,290,944 | 4,290,944 |
| Depreciation | -4,015,843 | -4,018,541 | -4,021,385 | -4,024,281 | -4,027,176 | -4,030,072 | -4,033,412 | -4,037,011 | -4,040,856 | -4,044,701 | -4,048,545 | -4,052,390 |
| Net Book Value | 227,130 | 225,932 | 230,089 | 229,693 | 226,797 | 223,901 | 239,002 | 244,993 | 250,088 | 246,243 | 242,398 | 238,554 |
| Investments | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 | 6,022 |
| Total Fixed Assets | 233,152 | 231,954 | 236,111 | 235,715 | 232,819 | 229,923 | 245,024 | 251,015 | 256,110 | 252,265 | 248,420 | 244,576 |
| Current assets | | | | | | | | | | | | |
| Stocks | 94,460 | 103,662 | 104,650 | 98,142 | 94,505 | 110,307 | 119,754 | 117,872 | 100,208 | 104,854 | 107,771 | 107,543 |
| Debtors | 17,839 | 8,538 | 10,195 | 10,615 | 13,689 | 9,799 | 11,586 | 10,430 | 9,166 | 13,994 | 29,381 | 28,931 |
| Prepayments | 121,455 | 131,968 | 142,482 | 142,996 | 143,509 | 144,023 | 144,537 | 145,050 | 145,564 | 146,161 | 146,758 | 134,273 |
| VAT | 0 | 0 | 13,733 | 17,259 | 15,739 | 0 | 6,219 | 8,799 | 9,316 | 0 | 0 | 0 |
| Cash | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 | 8,200 |
| Bank Account | 863,328 | 727,278 | 584,904 | 507,982 | 546,587 | 452,598 | 374,394 | 176,832 | 89,043 | 48,248 | 392,663 | 719,635 |
| Current Assets | 1,105,282 | 979,647 | 864,164 | 785,194 | 822,229 | 724,927 | 664,690 | 467,184 | 361,496 | 321,457 | 684,774 | 998,582 |
| Current Liabilities | | | | | | | | | | | | |
| Trade Creditors | 135,880 | 137,811 | 173,356 | 144,486 | 161,778 | 132,766 | 172,073 | 88,424 | 116,872 | 97,812 | 135,234 | 135,829 |
| Other Creditors Accruals | 158,156 | 153,971 | 149,786 | 145,601 | 141,416 | 137,231 | 133,045 | 128,860 | 124,675 | 120,490 | 116,305 | 112,120 |
| PAYE/NI | 28,591 | 33,282 | 27,575 | 28,475 | 36,559 | 27,634 | 33,857 | 25,385 | 28,700 | 40,458 | 37,147 | 36,106 |
| Bank overdraft | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| VAT | 84,203 | 77,343 | 0 | 0 | 0 | 115 | 0 | 0 | 0 | 1,911 | 45,705 | 86,031 |
| Current Liabilities | 406,830 | 402,407 | 350,717 | 318,562 | 339,753 | 297,746 | 338,976 | 242,670 | 270,248 | 260,672 | 334,390 | 370,086 |
| Net Working Assets | 698,453 | 577,241 | 513,449 | 466,633 | 482,478 | 427,182 | 325,715 | 224,515 | 91,249 | 60,786 | 350,384 | 628,497 |
| Loan | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 | 101,312 |
| Finance Creditors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HIE Loan | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 | 5,453,905 |
| Deferred income/grants | 174,835 | 174,392 | 173,949 | 173,506 | 173,063 | 178,620 | 202,177 | 249,734 | 252,666 | 243,401 | 211,840 | 180,669 |
| Net Assets | -4,798,447 | -4,920,414 | -4,979,607 | -5,026,375 | -5,012,984 | -5,076,732 | -5,186,655 | -5,329,421 | -5,460,523 | -5,485,567 | -5,168,252 | -4,862,814 |
| Represented By: | | | | | | | | | | | | |
| Share Capital | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 |
| Preference shares | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| Redemption Reserves | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Creditors Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit & Loss | 87,068 | -34,899 | -94,092 | -140,861 | -127,469 | -191,218 | -301,140 | -443,907 | -575,008 | -600,052 | -282,737 | 22,700 |
| Prior Year P & L | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 | -5,525,516 |
| Shareholders Funds | -4,798,448 | -4,920,415 | -4,979,608 | -5,026,377 | -5,012,985 | -5,076,734 | -5,186,656 | -5,329,423 | -5,460,524 | -5,485,568 | -5,168,253 | -4,862,816 |

Cairngorm Mountain Ltd

| | |
|------------------------------|----------------------|
| Customer Numbers - Funicular | 146,000 |
| Skier numbers | 52,800 |
| Sledge Park | 1,500 based on 08/09 |

Profit/-Loss £22,700

Budgets for year April 2009 to March 2010

| | |
|-------------------------------|---------------|
| Opening Cash balance | £676,887 |
| Working Capital loan from HIE | £760,000 |
| Cash surplus/-deficit 08/09 | -£83,113 |
| Cash movement 09/10 | £84,548 |
| Cash surplus/-deficit | <u>£1,435</u> |

| | | | |
|---------------------------|-----------------------|--------|--------|
| | Cost of increase of:- | | |
| Pay increase | 0.0% | 1.0% | 1.50% |
| Payroll cost | £1,535,079 | 15,351 | 23,026 |
| % of turnover, target 50% | 46.8% | | |

| | | |
|--------------------------|--------|--------------------------------------|
| Annual inflation | 0.10% | 0.1% at Jan 09, see assumptions page |
| Annual earnings increase | -0.50% | at Jan 09 |

these figures change the model

IIP assessment in, but may or may not do? 3500

ASSUMPTIONS

NUMBERS

| | |
|------------------------------|----------------------|
| Customer Numbers - Funicular | 146,000 |
| Skier numbers | 52,800 |
| Sledge Park | 1,500 based on 08/09 |

INFLATION multiplier 1.001 0.1% at Jan 09, see assumptions page

PROFIT AND LOSS

Turnover

(a) Funicular

| Customers purchasing: | % Purchasing - Budget | % of Funicular+Skiers - Act YTD Feb 09 |
|-----------------------|-----------------------|--|
| Catering | 76% | 77% |
| Retail | 35% | 36% |

Majority of winter non-skiers expected during holidays and at weekends

Average spend per customer to reflect changes in ticket prices for the funicular, catering & retail plus inflation

| | Up to 30.11.08 | From 1.12.08 | Actual Feb 09 |
|-----------|----------------|--------------|---------------|
| Funicular | 7.00 | 7.01 | 7.07 |
| Catering | 4.25 | 4.25 | 4.49 |
| Retail | 5.80 | 5.81 | 5.93 |

(b) Skiing

| Uplift customers purchasing: | % Purchasing - Budget | % Purchasing - Feb 09 | Explanation |
|------------------------------|-----------------------|-----------------------|--|
| Catering | 76% | 77% | unable to split customers between skiers |
| Retail | 35% | 36% | and Funicular, so have used % of Funicular |
| Sledge Park | 1,500 | 1264 | + skier numbers |
| Equipment hire | 20% | 17% | |

Majority of skiers expected during holiday periods of January, February and March

Average spends per skiing customer have been estimated as follows:

| Type | Est. average spend (£) | At Feb 09 | Explanation |
|--------------------------|------------------------|-----------|-----------------------------|
| Uplift - Jan | 18.00 | 17.22 | |
| Uplift - Feb - Mar | 18.00 | | |
| Catering | 4.25 | 4.49 | Skiers bring ave up |
| | per above | per above | |
| Retail | 5.80 | 5.93 | per above |
| Equipment hire | 15.50 | 15.12 | |
| Sledge Park £5 (inc vat) | 4.35 | | no discounts, all one price |

Cost of Sales

| Cost | Assumed relationship | Explanation |
|------------------------|----------------------|-------------------------------|
| Catering cost of sales | 0.34 | Per Feb 09 management ac 0.38 |
| Retail cost of sales | 0.50 | Per Feb 09 management ac .51 |

BALANCE SHEET

1. Fixed Assets

Fixed asset additions are based on the departments requested expenditure the balance up to £100k is the annual contingency.

Diaposals

Depreciation on fixed assets is to be calculated at the maximum rate of any range permissible under accounting policies. It is calculated on the basis of the previous month's depreciation plus depreciation on additions and therefore implicitly assumes that no assets depreciated on a straight line basis become fully depreciated during the budget period.

For simplicity any new vehicles purchased are depreciated at 25% straight line as opposed to reducing balance which is the company's accounting policy. Any difference is considered insignificant.

2. Investments

No changes in investments are expected

3. Trade Debtors

| | | |
|--|-----|-----------------------------|
| % of sales ledger turnover represented by recharged expenses | 7% | Based on Feb accounts YTD % |
| % of sales ledger turnover represented by income | 20% | Based on Feb accounts YTD % |
| | 27% | |

Average value of expenses recharged each month estimated as £4,500

4. VAT

Funicular and catering sales are zero rated.

Uplift sales are treated as 49% standard rated, 51% zero rated.

All other sales are standard rated Rate 15%

No VAT has been accounted for on rechargeable expenses as there is compensating input and output VAT.

All expenses are regarded as standard rated with the exception of wages, catering cost of sales, depreciation, bank charges, interest, grant release, HIE rent (not commission), rates, insurance

5. Trade Creditors

All purchases are assumed to be on credit and it is assumed that they are paid 1 month after they are incurred.

Net wages are paid in the month they are expensed in the profit and loss account. PAYE & NIC is paid in the following month. PAYE and NIC outstanding at the month end is expected to average at 25% of the total wages cost for the month.

No loan repayments are expected

CASH FLOW STATEMENT

1. Cash receipts

| | | | |
|---|----------|------------------------|----------------------|
| Estimated turnover from sale of season tickets: | £120,000 | Actual 2007/8 89000 | Act 08/09 118,732 |
|---|----------|------------------------|----------------------|

All season ticket sales are expected to be received between May and January.

| | | | |
|---|------|--|--|
| Estimated % of season ticket sales on credit | 9.0% | Based on historic data produced by company | |
| Estimated % of funicular ticket sales on credit | 5.0% | Reasonable estimate based on year to date | |

Credit sales are received on average 1 month after invoicing.
Events are received one month after invoicing on average

| Strengths | Weaknesses |
|--|--|
| <ul style="list-style-type: none"> ▪ Based within one of Scotland’s top visitor destinations ▪ An outstanding natural mountain environment within CNP ▪ A world renowned, accessible, mountain environment with iconic status in the international market place that is on the UNESCO World Heritage Tentative List ▪ One of the main visitor attractions in the Highlands with a significant year round tourist market within the area amounting to c.1.2m people holidaying in the area ▪ Ability to enjoy an extensive range of outdoor activities (approx 75) in the area ▪ A biodiversity hotspot supporting a range of species and habitats that are rare in Scotland, defined as “the jewel in the crown of Scotland’s natural heritage”¹¹ ▪ The appeal of the Funicular Railway in “getting people to the top” ▪ Easily accessible (from main population centres) for skiing and other winter sports ▪ An attraction generating year round economic benefit to the local community. ▪ Existing volume of visitors to the facility ▪ Community support for the Cairngorm mountain development | <ul style="list-style-type: none"> ▪ No professional signage to guide visitors and promote the appeal of Cairngorm ▪ Unwelcoming and poorly laid out Base Station ▪ The Day Lodge is also poorly laid out highly energy inefficient ▪ The current state of the Car Park ▪ A lack of co-ordinated marketing and PR message from the Destination underpinning “the natural adventure” positioning ▪ No explanation of what the visitor experience will be ▪ A 5-star natural environment with a 3-star visitor proposition ▪ Very limited cultural product offering within the local area ▪ A lack of vibrancy in the presentation of the mountain environment ▪ Weak “value for money” and fragmented product offering and none to attract walkers ▪ Closed system at the Ptarmigan leading to a high level of customer “disappointment” ▪ Inadequate market research and lack of understanding of the visitor population ▪ Age and condition of ski tows. |
| Opportunities | Threats |
| <ul style="list-style-type: none"> ▪ The number of visitors arriving at the car park and not using the facilities ▪ Attracting new visitors staying within the area but not visiting the Funicular Railway ▪ The position as a vibrant mountain environment within the CNP ▪ Working in partnership with the DMO and the CNPA to strengthen CML’s positioning and attract new tourists to the area. Also working in partnership with FCS, CNPA, SNH (public bodies with a fresh mandate for economic development) and RSPB to develop new visitor experiences that will help extend the appeal of the area, especially the Glenmore Corridor, and to stimulate more visitors ▪ Attractive 4-star eatery/bar/art gallery with the atmosphere expected in a world-class mountain environment ▪ Enhance the Base Station to improve customer flow and experience ▪ Expansion of outdoor facilities – e.g. mountain biking and wildlife experiences ▪ Enhancement of viewing facilities and the whole visitor experience at the Ptarmigan ▪ Guided “walk down” opportunities from the top of the mountain to the Base Station | <ul style="list-style-type: none"> ▪ A declining number of visitors to the facility at the same time as the number of visitors to the Destination is increasing ▪ Recession ▪ Climate change ▪ Word of mouth negative comments about the experience ▪ A planning system which restricts expansion and development ▪ The extent of influence of the conservation lobby |

¹¹ ‘The Ecology, Land Use and Conservation of the Cairngorms’ by C. Gimingham (2002)

CML: INTERNATIONAL BEST PRACTICE

MOUNTAINS AND UPLIFT FACILITIES: OVERVIEW

INTRODUCTION

1. The increasing competition and the need to generate year-round use of uplift facilities is stimulating creative solutions in terms of: (i) innovative product development on mountains; (ii) fresh approaches to marketing often involving new partners and sponsors; and (iii) integrated and inclusive packages / ticketing.
2. Examples of best practice have been identified by three marketing specialists directly involved in tourism in mountain destinations specifically for this report:
 - (a) ██████████, Director of Marketing, Kitzbühel Tourism, Austria;
 - (b) ██████████, Director of Tourism, Interlaken, Switzerland;
 - (c) ██████████, Director of PR, Park City, Utah, USA.
3. Three specific exemplars have been identified and a brief case study has been prepared on each:
 - (i) Hexenwasser, Austria;
 - (ii) Jungfrauoch, Switzerland;
 - (iii) Schmittenhohe, Austria.

GENERAL PRINCIPLES AND KEY TRENDS

4. In addition to the three specific case studies a number of general principles and key trends have been highlighted by these specialists. They are as follows:
 - (1) The growing importance of creating an overall **theme** for the mountain as the basis of product development. The dominant themes are (a) magic, myth or fantasy, (b) exploration of nature and (c) adventure activities. Some apply a combination of both. Examples of themed developments are:
 - Adventure Magic and Myth Mountain Experience at 'Ellmi's Magic World', Ellman, Austria developed by Ellmar-Going Cable Railways (www.ellmi.at);
 - Kaiser Welt Family Adventure Park at Scheffan, Austria developed by Bergbahnen Scheffau GmbH & Co KG (www.kaiserwelt.at);
 - The Olympic Park in Summit County near Park City, USA to celebrate the Salt Lake Winter Olympics.
 - (2) The recognition by the uplift companies that they must work closely with and become fully integrated with their destination. Examples are:
 - Bergbahn AG in Kitzbühel working with Kitzbühel Tourism on strategic planning, marketing and integrated ticketing (www.bergbahn-kitzbuehel.at);
 - The Kitzbühel Alpen Summer Card = 29 uplift facilities with one card including a range of added value / discounted offers for other attractions.
 - (3) The importance of innovation and becoming proactive in new product development, creating new festivals and events and developing creative promotions and packaging.
 - (4) The increasingly close integration between the uplift companies and (a) their destination and (b) the wider transportation system.

THE SPECIFIC CASE STUDIES

(i) Hexenwasser (www.hexenwasser.at)

- Identified by [REDACTED] as example of innovation;
- Located in Söll, 80 km SW of Salzburg and 80 km NW of Innsbruck in Austrian Tyrol Region;
- Family exploration theme park based upon nature developed by uplift company wanting summer use of their infrastructure based upon gondola lift from Söll to Hexentopf and then the Hohe Salve gondola to Hohe Salve summit (1,829m);
- Innovation includes development of Hohe Salve – a star gazing observatory of the ancient culture using sun, wind and weather;
- Developed as part of Tyrol a '*mountain theme park*' but targets family market by focussing on a myth and cultural experience that allows children to get close to traditional Alpine culture / way of life and enjoy traditional stories / folk tales, e.g. schnapps distillery, life of a woodcutter, apiary, fresh water spas and making bread and cheese (60 activity stations in total);
- Daily events and activities for families, together with imaginative and creative year-round programme of themed festivals:
 - Summer Solstice;
 - Hohe Salve;
 - Hochsöll Pasture Festival;
- All attractions and activities linked by themed, waymarked, trails;
- Uplift facilities operated by Berg & Skilift Hochsöll GmbH & Co KG;
- The area has five privately run country restaurants on the mountain: Tauern Salvenmoos, Gründlalm Pasture, Stöcklalm Pasture, Tauern Hochsöll and Hohe Salve 1829;
- Marketing partners and sponsors include Skiwelt of Brixental;
- Hexenwasser Experience ticket prices inclusive of uplift in 2009 =

Adult €14.50

Child €7.00.

(ii) Jungfraubahn, Interlaken, Switzerland (www.jungfraubahn.ch)

(Interview with [REDACTED], Director of Marketing, 18 May 2009)

- Uplift facilities in and around Interlaken are dominated by Jungfrau Holding AG who operate five main transport systems to mountain summits with a total number of passengers on these five systems being 2.14m in 2008, an increase of 126,300 (6.3%) on 2007;

- The main operations are:

| | 2008 | 2007 | |
|-----------------------------|-----------|-----------|---|
| Jungfrauoch – Top of Europe | 257,800 | 263,800 | + |
| Kleine Scheidegg | 1,307,300 | 1,261,200 | - |
| Grindalworld First | 282,100 | 243,400 | + |
| Lauterbrunnen – Mürren | 268,400 | 230,400 | + |
| Harder Kulm | 27,600 | 18,300 | + |
| | ----- | ----- | |
| Totals | 2,143,200 | 2,016,900 | + |

- Jungfrau Holding AG is a Switzerland-based holding company engaged in the operation of railways and winter sports facilities in the Eiger Moench and Jungfrau regions, as well as trips to Jungfrauoch and hiking excursions throughout the region. It is divided into six business segments: Jungfrauoch – Top of Europe, Experience Mountains, Winter Holidays, Winter Snow Sport Daily Visitors, Public Transport and Power Plant. The Company owns various restaurants and lodges along the railway trails and operates a hydroelectric power station in Luetschental, Switzerland, which supplies energy for its activities. Jungfraubahn Holding AG carries out its activities through a number of subsidiaries, including Jungfraubahn AG, Wengernalpbahn AG, Firstbahn AG, Bergbahn Lauterbrunnen-Muerren AG, Harderbahn AG, Parkhaus Lauterbrunnen AG and Jungfraubahnen Management AG;

- In 2007 the Company posted its best ever annual profit of CHF 21.5m (£12.4m), an increase of CHF 2.4m (£1.4m) or 11% on 2006. However, profits in 2008, at CHF 21m (£12.1m), are slightly down on 2007;
- Operating revenues in 2008 were CHF 134,717,000 (£77.7m), with an income from ticket sales of CHF 103,358,000 (£59.6m) or 76% of the total;
- The Company, primarily “a train and transport provider”, has three key business sectors:
 - Winter sports;
 - Mountain excursions;
 - Hospitality (restaurants, etc).
- The modernisation of the 100 year old Lütschental power station is a major project designed to increase electricity production by 50% and enhance the company’s self sufficiency;
- Other major capital investments include: snow-making facilities, new chair lifts and general upgrading;
- Future projections are positive as a result of:
 - (i) having right partners who specialise in hospitality to run restaurants and hotels;
 - (ii) ongoing product development to attract new markets, e.g. the developments at Harder Kulm;
 - (iii) marketing emphasis on packages, experiences and developing festivals; all done in close alignment with the destination;
 - (iv) enhancing communications with external and internal markets including the development of the Jungfrau Magazine, working with destinations; and
 - (v) increasingly emphasising and promoting environmental best practice;
- The key challenges going forward are identified as:
 - Developing creative packages;
 - Constantly innovating to stay ahead of the game;
 - Extending to year-round activity;
 - Constant re-investment;
- Over 700 are employed in the Company as a whole with just four in Sales and Marketing;
- The Company’s iconic product is the Jungfrauoch ‘*Top of Europe*’ (3,454m) which is located in UNESCO World Heritage Site of ‘*Swiss Alps and the Aletsch Glacier*’ – this operates 365 days a year and was opened in 1912 – at the summit is *The Sphinx Complex* comprising observatory, five restaurants, shop, post office, internet station, exhibitions, the Ice Palace and a conference centre – retailing is branded ‘*Top of Europe*’;
- Innovative ticketing promotions and packages have been introduced including: The VIP Pass and The Ambassador Express;
- Harder Kulm facility is highlighted to demonstrate how the Company is innovating with new products:
 - Development by the Company of **two** ‘new’ sports =
 - (i) ‘*First Flieger*’ known in USA as Zip Rider. This is a 800m long ride using former chair lift facilities where riders sit in a paragliding harness. It is similar to the facility at the Olympic Park in Park City. It can operate year round;
 - (ii) ‘*The Trottbike*’ – a new all ability mountain bike;
 - Selling integrated packages of uplift with ‘*First Flieger*’ and ‘*Trottbikes*’ with inclusive lunch and uplift (priced at CHF 120: £69);
 - Promoting themed trails;
 - Special promotions such as (i) The Breakfast Buffet at the summit; (ii) after work tickets for local people and (iii) creating a new Folklore event on the mountain.

- (iii) **Schmittenhöhebahnen AG, Austria (www.schmitten.at)**
- This public Company has its HQ in Zell-am-See in the Salzburgerland province of Austria and is part of the Zell-am-See / Kaprun destination;
 - The Company's mission is set out in its statutes (general provisions) available on its website. It is principally (i) the construction and operation of cable cars and lifts of all kinds, as well as other suitable transportation facilities, (ii) the operation of services of all types particularly catering and accommodation and the operation of shipping companies and (iii) to collaborate with others and in generating communities of interest;
 - As a result the Company has a diversified portfolio of related services and facilities in the destination allowing it to create fully integrated packages, experiences and ticketing;
 - The Company has share capital of €5,047,620 and approximately 400 shareholders comprising:
 - 47.8% Porsche GesmbH;
 - 18.1% Spanglerbank Salzburg;
 - 12.7% Invest;
 - 7.5% Hypothekbankland Salzburg;
 - 13.9% Free float;
 - Their product offer for winter is:
 - 27 cable cars and lifts:
 - ❖ Pendant 2 lanes
 - ❖ 5 monocable
 - ❖ 2 six chairlift with weather protection hood and heated seats
 - ❖ 3 four chairlifts
 - ❖ 2 triple chairlifts
 - ❖ 3 double chairlifts
 - ❖ 10 lifts;
 - 77 km of ski slopes:
 - ❖ 25 km black
 - ❖ 27 km red
 - ❖ 25 km blue;
 - Partners of Zell-am-See / Kaprun – from 2-day ski pass joint ticket with Kitzsteinhorn;
 - Partner in the Alpine Ski Card – together with Skicirkus Kitzsteinhorn Kaprun and Saalbach Hinterglemm Leogang: Season Ticket;
 - Adventure offers – and winter hiking trails in 2,000m, half-pipe for snowboarders, a permanent race track, carving route, guided winter hike, snowshoe hiking, guided Nordic walking tour, guided art walk, art on the mountain, 5 restaurants (= Schmitten establishments);
 - Family offers – as the playground and on the Sonnkogel Sonnenalm, children at country Hahnkopplift;
 - Events – Schmidolin as children's ski race, children's skiing, splash contest, snow Artists;
 - Service facilities – Intersport Schmittenhöhe – ski storage, and Skirental Skiservicenetwork within Zell-am-See / Kaprun, Skibusnetz (local and regional);
 - Their summer product offer is:
 - 5 cable cars and lifts:
 - ❖ Pendant 2 lanes
 - ❖ 2 monocable
 - ❖ 1 triple chairlift;
 - Numerous marked trails including the '*Galerie am Piste*' outdoor sculpture park;

- Path – Height Promenade, Sisi-Rundwanderweg, Jägersteig: for body, mind and soul;
 - Family offers – Schmidolin’s Sonnenalm on the playgrounds and on the Sonnkogel;
 - Adventure offers – guided walks, themed walks, gallery on the runway, 3 or 4 restaurants (= Schmitten operations), Elizabeth Chapel, paragliding and hang, etc;
 - Events – Sonnwendfeier, Bergfest with Rangger-Alpencup, Kinderfest, mountain bike racing, meeting witches herbs, Veltins Schmitten Cup (paragliding);
 - Boating:
 - ❖ Tours, passes, charter possible
 - ❖ Boat trips in Sonnwendfeier, Seefestspiele
 - ❖ Schmidolin boat tour.
- The Company works closely with the destination and is a core partner with Zell-am-See / Kaprun destination management organisation;
- The Company has established a business partners club with 15 local accommodation providers;
- There is a constant process of product development and innovation specifically to generate non-winter sports visits and especially summer traffic;
- Examples of this innovative approach are:
- (i) Moon walks in June;
 - (ii) Floating bbq on mountain lake;
 - (iii) Free guided walks programme;
 - (iv) Last minute discounted ticketing for afternoon use of the uplift;
 - (v) Differentiated dining experiences;
- (vi) Cruise lake: ride the mountain combined packages;
- (vii) Promoting and organising events and festivals.

**Stevens View Partnership
8th June 2009**

Cairngorm Mountain

Rok / Synergie Brief

March 09

The project

To provide a fully costed proposal for the development of Cairngorm Mountain as a market led visitor attraction, where skiing is part of the marketing mix, but not the key driver to making the Mountain a commercially viable tourism and leisure business.

In preparing costs, it is vital that the contractors understand the standard to which the facility must exude style and be fit for purpose in attracting 'lifestyle' markets.

Background

This brief has been prepared by the Stevens View Partnership working in collaboration with Johnston Carmichael.

What we are aiming to achieve?

- An opportunity to redefine and to re-launch the Cairngorm Mountain Brand and Product
- A market led approach to product development
- Increase visitor dwell time
- Professional implementation of the product development plan
- Maximum business benefit i.e. Income generating / profit margin
- A clearly defined communications strategy
- A targeted marketing campaign
- Maximising repeat visit and recommendation opportunities through provision of very high standards of visitor experiences
- Generating re-investment funds to continually refresh the visitor experience

Strengths

- One of the top 500 Natural Wonders of the World
- Within the Cairngorms National Park
- One of three iconic mountains in the UK
- Area of very rich biodiversity
- Access to an estimated 500k visitors per annum (current estimate of visitors to the car park)
- Additional 1m visitors currently visiting Aviemore and the Cairngorms not choosing to visit the mountain

Current Situation

- Absence of market focussed vision and strategy
- Weak brand / No clear positioning statement / brand values
- Considerable loss of brand equity in the past few years
- Lack of market research and understanding international best practise and the need for innovation
- Lack of a market led approach to product development
- Poor visitor experience / no value for money offer
- No communications strategy
- Weak marketing campaign
- A visitor attraction geared towards skiing
- A difficult business case to manage

Opportunity Identified

- Rich 'stories' to be told
- Wide market appeal
- Development potential for fast growing markets
- Product development opportunities for reasonable capital investment
- Re-branding and repositioning opportunity
- Growing appeal to growing markets

Branding / Repositioning

Aviemore and the Cairngorms – Scotland's Natural Adventure

Cairngorms National Park – Conserving the Natural Environment

Cairngorm Mountain – Scotland's (Iconic) Mountain Adventure / Experience

Key Messages / Values

- Special Natural Environment
- Rich biodiversity
- Educational
- Authentic
- Adventurous
- Fun
- Responsible

Personality

Innovative

Creative

Dynamic

Respectful

Existing Markets currently defined as;

- Snowsports
- Day visitors
- Corporate / Weddings
- Events
- Education
- Friends of Cairngorm

Future Markets – in priority order

- Day visitors (non skiing) with a focus on those arriving in the car park currently choosing not to use the facility, this includes climbers)
- Business and wider community (year round market and for recommendations)
- 1m visitors not currently visiting the destination
- Outdoor Activity Markets (short break / day visitor professional people) including:
 - o Walkers
 - o Mountain Bikers / Cyclists
 - o Mountain Bikers
 - o Wildlife Enthusiasts
 - o Adventure sports enthusiasts
 - o Skiers
 - o Climbers
- Study Tours
- Corporate groups (already visiting the destination) / Event Organisers
- Schools

Key Market Considerations / Trends to consider

- This is a lifestyle business
- Future visitors are inspired by design and creativity
- Local / Cultural expectations
- Need to create 'stand out' and uniqueness particularly using the iconic status of Cairngorm to differentiate from competing mountain experiences, many of whom have already advanced into provision of other outdoor activities
- Environmentally aware / Responsible people
- Value for money offering / Looking for uniqueness / surprise
- Ongoing creative development necessary to continue to develop audiences e.g. events

Vision

To re-brand and position Cairngorm Mountain as Scotland's Mountain Adventure, a dynamic visitor attraction respectful of its unique natural environment where continued development of authentic, but stylish and unique visitor experiences will ensure it is one of Scotland's top 5 visitor attractions.

Market Led Product Development Plan

- Developing an Interpretative Strategy / Branding and Positioning
- Clear the site of redundant equipment
- Create a new visitor car park with kiosk, visitor information service and appropriate charges
- Create new 'welcoming' feel / entrance to buildings and welcome / informative signage
- Professional / design led development of retail / catering flows maximising customer spend
- Design led approach to development of the Ptarmigan exhibition, catering and retail experience maximising ability to encourage visitors to ride the train
- Introduction of new adventure related activities and base to serve outdoor activity clients
- Adding value and encouraging dwell time through additional viewing terraces at the base station and the Ptarmigan
- Providing a unique range of visitor experiences including sunrise / sunset guided tours, unique wildlife viewing experiences
- Developing a programme of events to continually attract new audiences and grow and develop the Cairngorm Mountain Brand in line with values

The following is a full brief of each element of the attraction development to be costed;

1. Car Park

Objective

To create a professional and attractive 'welcome to Cairngorm Mountain' at the top car park with a very important first impression of why the visitor should pay to park and visit the attraction.

Key Issues to be addressed

- Visitors must have the ability to make a choice and leave the mountain without paying if they wish

- Visitors will be given a 'human welcome' and issued with a range of visitors information as they pay to park, therefore the requirement for a building at the entrance to the car park. This will only require enough space for 3 or 4 people at any one time, but two rooms (one hiding clutter) will be essential and the building must have style and create a good first impression
- Car parking machines are not considered appropriate to achieving the visitor experience proposed
- Reconfiguration of the car park should aim to achieve a perception that, on busy days, the distance from where you park to the entrance is not a barrier or a disincentive
- Style is key – whilst branding and signage will help to achieve this, the way in which the car park is presented is also important
- The re-design and layout of the car park should take traffic away from the westerly 'edge' to enable viewpoints to be created. At present the views are 'lost' because of car parking / coach parking / signage
- An area close to the base station (located to the left hand side preventing blockage of views)

Further detailed information

- Number of vehicles arriving at site averages 154,000 per annum. The busiest month is March with 17,400 vehicles; the quietest is June with 9,500 vehicles; the average is 12,800.
- All estimates of use of car parks suggest a total of 500,000 people using the car parks, of which 66% (330,000) do not use the Funicular. BUT 25% of non-users say they would use the funicular if it was good value and 'sold' to them = 80,000 – 90,000 people already visiting mountain could convert to using funicular.

More Specific Requirements

- (a) There is clearly adequate car parking space to cope with 95% of operational days. The issue is more about its design, layout and appearance.
- (b) The monthly average vehicle arrivals are 12,800 or 480 – 500 per day. Clearly arrivals are not evenly spread on a daily basis but nonetheless existing car parking is sufficient.

1) Clearing of Redundant Tows

Objective

To remove all obsolete uplift equipment in order to present visitors with a clean, welcoming site

Key Issues to be addressed

- Achieving planning permission
- Agreeing appropriate remediation
- Physical removal of equipment from the site without further environmental damage
- Removal of all equipment as identified by Synergie in their previous report supported by the quotation from PDG helicopters

2) Creating a 'single entrance foyer' to the Day Lodge and Base Station

Objective

To provide an attractive entrance to the visitor attraction maximising the opportunity to 'sell' various elements of the experience and to orientate the visitor

More specific requirements

- An enclosed, weather proof stylishly presented but utilitarian space with information, ticket sales space, low level interpretation
- Easy access to ride the train and to the retail and catering options
- Aware of the need to fit fire appliances through this space, it would be useful if possible, to consider the potential for this space to be used as a reception area for cultural / business tourism events, which could move on to the restaurant to eat therefore style and lighting will be critical.
- A thought would be the potential to move the rangers existing office to an area of this building / possible mezzanine floor. This would free up space for retail space in the current rangers office.

Further detailed information

- The Design Day (demand) for the Base Station has to be based upon servicing the needs of everyone who uses the funicular 225,000 plus 25,000 skiers plus an extra 20% of all car park users who don't use the funicular 50,000 – 60,000 people. This means that the Design Day demand for the base station is:
 - 225,000 funicular users + 50,000 others = 275,000 potential users
 - A design day will be between 0.6% and 0.8% of users
 - 0.6% of 275,000 = 1,650
 - 0.8% of 275,000 = 2,200 } 1,825

3) Day Lodge Development

Objective

To create a stylish and attractive shopping and catering venue which visitors can flow through easily converting to longer dwell time and more expenditure

Key Issues

- Advice is to use the bottom two levels to avoid necessary repair works and to ensure disabled compliancy within these levels.
- It is requested that consideration be given to existing ski hire remaining on the 3rd level and the implications of this should be included in the cost
- The bottom two floors should be a retail and catering experience. It should become a destination for visitors in its own right. It should be stylish and well interpreted with comfort, space and design
- The ease in which visitors can flow from one area to the other will be critical in order to maximise spend
- The existing T-bar space is what is envisaged will be the main catering function as the kitchen is well fitted out for this, although some upgrading should be allowed for. This facility should provide a minimum of 250 seats with a more 'transient' Cafe / Bar area to maximise sales opportunities
- The viewing terrace will become an important 'feature' and 'space' within the new look and feel and presentation of Cairngorm Mountain. Visitors will go to the Mountain primarily for the view and it is important that the benefits of this space are maximised. It will also be visible space from the car park and is likely to be an attractive feature in enticing visitors to use the facility. Due to the harsh climate, it will be extremely beneficial if this space can be enclosed.

More specific requirements

- Creating a catering space with space for 250-300. This should be a five star comfort venue presented in trendy style attracting locals, visiting friends and relatives, outdoor markets including skiers. It is proposed that themed interior design as well as stylishly presented servery and cocktail bar with barista service will be an important part of the marketing mix that will reposition Cairngorm Mountain
- Although this space will have servery, it must have the capacity to 'be hidden' when the restaurant is used for prestigious events

- The retail space will require higher than average space and storage in order to change the offering from summer to winter and to maximise potential sales on ski days, but to ensure the retail product is relevant to a year round audience the remainder of the time

4) Base Station

Objective

To maximise use of the space in the base station ensuring the area is presented with style and all visitors riding the train wait in comfort. The best possible option is to fit some retail space into this building to maximise the loading and unloading of 275, 000 visitors.

Key Issues

- The visitor services staff team should be located in this building, somewhere visible to the visitors waiting to ride the train
- If ski hire is not possible or too costly on the 3rd floor of the day lodge, there may be a requirement to locate it in the base station
- If there is the possibility to retail space being incorporated, visitors exiting the train should do so, via the retail area
- Design, style and presentation are all as important in this area as is warmth!

Further detailed information

The Base Station is the key logistical and operational facility for the loading and unloading of the Funicular passengers. It must, therefore satisfy a wide range of health and safety requirements as well as making this as pleasant a visitor experience as possible. Whilst our plans for a large foyer will take away some of the pressure on the Base Station (possibly ticketing etc) the Base Station will still have to handle 100% of all uplift passengers and at least 100% of all coming down (this maybe +/- depending on if we can encourage visitors to walk down from the Top Station and how many people already on the Mountain will want to buy a one-way ticket to travel down from the Ptarmigan.

On the basis that demand is less heavily skewed for the use of the Funicular (other than on peak ski/snow days) then we can assume that the design day

should be 0.6% of the annual total demand (exclduing peak ski days) so on the basis of 250,000 uplift passengers and a similar number travelling down the design day has to be:

Between 10.30am and 15.00pm demand for uplift at 0.6% of 250,000 = c1,500 (say 350-375 per hour)

Between 11.30am and 16.30pm demand for down rides at 0.6% of 250,000 = c1,500 (say 350-375 per hour)

This means that between 11.30 and 15.30 the Base Station may have to handle between 700 - 750 persons at any one time.

5) Ptarmigan

Objective

To create a visitor experience capable of attracting and exceeding expectations of more than 275k visitors who will see the merit of paying £8 plus. It is anticipated this attraction will be an iconic representation of the Cairngorms National Park.

Key Issues

- There is an existing restriction which states the building only has capacity for 300 visitors at any one time.
- This challenges the focus on turning the attraction into more of a year round attraction with the building having capacity to deal with more visitors for more time (than skiers who just ride the train and continue outside to ski, only using the facility for catering, retail and to view the interpretation for much shorter periods of time, if at all)
- Most visitors will ride the train for the view and the current viewing platform is underwhelming given the scenic view
- The proposal is therefore to extend the viewing facilities providing an innovative, attractive 'way of experiencing the view' whilst also extending the capacity of people that may be in the Ptarmigan at any one time
- Within the building, the existing cafe may become an attractive exhibition (proposed as an iconic Cairngorms National Park interpretation) space with a stylishly designed and presented cafe bar incorporating a 'wow' element
- 'Basic' catering will be provided only requiring a 'prep kitchen' but the same designed look and feel and very stylish presentation.
- The shop will be part of the experience, but it is anticipated that the larger retail area will be at the bottom of the mountain where there will be more dwell time

Further Detailed Information

- The Exhibition & Cafe / Bar area should hold 200 visitors
- The shop area should follow industry norms (see below) assuming an extended capacity at the Ptarmigan of 400-500 people
- The viewing platform should be visibly attractive providing pictures that will 'sell' the attraction
- Approximately £3.5k per square metre should be allocated to the redesign of the exhibition

6) Ciste Area

Objective

To create a stylishly designed and presented outdoor activity centre as an important element that will change the marketing mix at Cairngorm Mountain. It will be a key feature and presentation of Outdoor Activities within the destination branded Scotland's Natural Adventure.

Further Detailed Information

The Centre will require the following features; club house, hire facilities, toilets & showers, training / briefing room and car parking. Viewing facilities will also be a key feature of the facility, both from the building and in an area of the car park

Key Issues

- The Ciste is outside the protected and monitored area and therefore considered the most suitable venue for an activity centre
- It is proposed that outdoor activities such as mountain biking, hiking, sphering and watersports will all commence from this facility
- Catering and retail space are important in making this a commercially viable venture
- As it is likely, this facility will be a joint venture with the community, office space for 4-6 businesses should be allowed for
- Shower and toilet facilities should be 'top of the range' – these will be charged for

More detailed information

- Assume a proportion of existing walkers / climbers will use this facility and a range of new and growing outdoor markets – total estimated 30-40k users
- A design day is likely to be 6% - approx 250 / 300 people
- Provision of shower facilities for 12 people
- A 10/12 person sauna
- 2 outside hot tubs with provision for 16 people and access to good views
- Existing car parking will suffice for this facility
- A viewing terrace with seating for spectators is desirable – seating approx 50 people

Space Requirements

- (a) Industry norms for space per person are as follows:
- | | | |
|----------------|---|--|
| Car park space | - | 15m ² per car plus reversing area |
| Restaurant | - | 3m ² |
| Exhibition | - | 2.25m ² |
| Retail | - | 2.5m ² |

Phasing

It is understood that due to planning restrictions and budget the above programme of activity may require to be phased. The following is a summary of our thoughts on this;

1. Phase 1

- Car park
- Site clearing
- Redesign of Base Station and Day Lodge

New designed feel for Cafe / Retail
Viewing terrace
Internal redesign of Ptarmigan;
Catering, retail and exhibition
Ciste Building

2. Phase 2

New building joining Day lodge and Base Station
New viewing platform at the Ptarmigan

This appendix is intentionally blank as it is contained in a separate document

CAIRNGORM MOUNTAIN - DEVELOPMENT PROPOSALS

POSSIBLE PHASING /CASHFLOW PROJECTION

A. Introduction/Assumptions etc.

- 1 This projection is very much a preliminary assessment based on the sketch design proposals which have been put forward for consideration in our Feasibility Report.
- 2 The decision as to which of the proposed development options are to proceed and the timing of same is entirely a matter for HIE to decide. Consequently this projection is based on a number of assumptions as follows:-
- 3 For the purpose of this projection the following assumptions have been made as regards the timing and phasing of the works.

| <u>Phase</u> | <u>Assumed Option</u> | <u>Budget Allowance</u> | <u>Year</u> |
|--------------|--|-------------------------|-------------|
| 1 | "Quick Fix" Option 1 to Day Lodge | £350-£375k | 2010 |
| 2 | "Quick Fix" Option 2 to Day Lodge | £320-£350k | 2010 |
| 3 | Upgrade Car Park | £250k | 2010 |
| 4 | Phase 1 Development of Base Station | £2.25m - £2.50m | 2011-2012 |
| 5 | Ptarmigan Building Upgrade/Concept Development | £1.5 - £2m | 2012 |

| | | | |
|---|--------------------------------------|-------------|-----------|
| 6 | Phase 2 Extension to Base Station | £3.5-£3.75m | 2013-2014 |
|---|--------------------------------------|-------------|-----------|

4 For the purpose of the cost projection it has been assumed that the "Quick Fix" option for the Day Lodge is taken forward rather than those for the Base Station. It has also been assumed that the Phase 2 Development of the Base Station and consequent demolition of the Day Lodge is the final phase of the development.

5 The timing of the proposed developments takes into account the need to obtain the necessary consents (Planning and Building Warrant) and assumes that works are programmed to avoid the winter period.



CAIRNGORM MOUNTAIN - DEVELOPMENT PROPOSALS

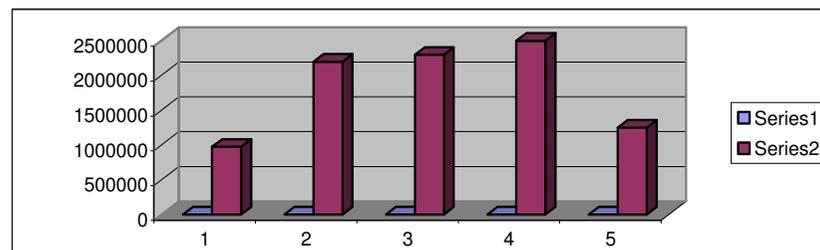
POSSIBLE PHASING/CASHFLOW PROJECTION

| Year | No | Phase | Estimated Duration | Proposed Timing | Budget Cost | Comments |
|--------------------------------------|----|---|--------------------|--|-----------------------|--|
| 2010 | 1 | 1. "Quick Fix" Option 1 to Day Lodge - Reinstate former T Bar area. | 3 Months | Commence April 2010 - Complete July 2010 | £350 - £375k | Assumed this option is preferred to the alternative of developing the short term options for the Base Station. |
| | 2 | "Quick Fix" Option 2 to Day Lodge - Convrt/Upgrade existing Café to Retail. | 3 Months | Commence August 2010 - Complete October 2010 | £320-£350k | Assumes this option is developed in conjunction with Option 1 and is commenced immediately on completion of Phase 1 |
| | 3 | Upgrade Car Park. | 3 Months | Commence May 2010 Complete August 2010 | £250k | Assumes this Option is developed concurrently with the "Quick Fix" to the Day lodge. |
| Total Expenditure Year 2010 = | | | | | £920k to £975k | |
| 2011-2012 | 4 | Base Station - Phase 1 Development - major replanning and extension. | 9/10 Months | Commence May 2011- Complete February 2012 | £2.25-£2.50m | A phased programme to enable the Funicular railway to remain in operation with closure during the final phase (November/December 2011). Excludes FF&E following construction handover. |
| Total Expenditure Year 2011 = | | | | | £2m - £2.2m | |
| Expenditure Year 2012 = | | | | | £250k- £300k | |

| | | | | | | |
|--|---|--|-----------|--|------------------------|--|
| 2012 | 5 | Ptarmigan Building - Upgrade and new external walkway. | 6 months | Commence May 2012 - Complete December 2012 | £1.5-£2m | Programme weather dependant - possible closure required at some point during the construction works. Budget allowance only at present. |
| Expenditure Year 2012 = | | | | | £1.5-£2m. | |
| Total Expenditure Year 2012 | | | | | £1.75m - £2.30m | |
| 2013-2014 | 6 | Phase 2 Development of Base Station including demolition of Day Lodge. | 12 Months | Commence May 2013 Complete May 2014 | £3.5 - £3.75m | |
| Expenditure Year 2013 = | | | | | £2.25m - £2.5m | |
| Expenditure Year 2014 | | | | | £1.25 - £1.25m | |
| Total Expenditure 2010 - 2014 = | | | | | £8.17m - £9.22m | |

EXPENDITURE BY YEAR

| Year | Max. Expenditure |
|----------------|------------------|
| 2010 | 975,000 |
| 2011 | 2,200,000 |
| 2012 | 2,300,000 |
| 2013 | 2,500,000 |
| 2014 | 1,250,000 |
| Total = | 9,225,000 |



Annual inflation has been assumed at 2.5% in all the models.
All revenues and cost assumptions are projected net of VAT.

“Do Nothing” Option

- Visitor spend per head is assumed to increase in line with inflation only
- Payroll costs are assumed to increase in line with inflation only
- Running expenses for Lifts and Tows, the Funicular Railway and Site Services are expected to increase in line with inflation, but are linked to turnover levels
- All other operating expenses are assumed to increase in line with inflation only
- Catering cost of sales, Events cost of sales and wages, and Retail cost of sales are all expected to increase in line with inflation, but are linked to turnover levels
- All other commercial expenses are assumed to increase in line with inflation only
- Electricity costs are assumed to remain static, a combined result of the effects of annual inflation and falling visitor numbers
- Annual rentals payable to HIE are assumed to remain as £100k
- Bank charges are expected to increase in line with inflation, but are linked to turnover levels
- All other overheads are assumed to increase in line with inflation only
- Routine capital expenditure has been projected based on the business’s current projections
- Stock, debtors and creditors have been assumed to stay largely in line with the current business model
- The existing business will pay for the minimum annual maintenance required for the running of the Funicular Railway
- HIE will be required to pay for the predicted cyclical and contingency repairs and renewals on the Funicular Railway

In this option the business will generate a deficit each year, which will require ongoing financial support from HIE.

Should the business experience higher than average skier numbers in a year, it may generate a surplus, and if it experiences a substantially poorer year than projected, HIE will be required to provide additional funding to keep the business going.

Full Option

- Visitor spend per head is assumed to increase in line with inflation except for:
 - Funicular only revenue expected to increase by an additional 2.5% in each of years 4 and 5
 - Uplift and Ski Hire revenue expected to increase by an additional 2.5% in each of years 4 and 5
 - Catering and Retail revenues are expected to increase by an additional 5% in each of years 3 and 4, and by an additional 2.5% in year 5
 - Events revenues are expected to increase by an additional 2.5% in year 3, 5% in year 4, 10% in year 5 and 2.5% in year 6
- Car Parking revenues are projected to increase from £2 to £2.20 per car from year 4, and to £2.50 per car from year 8
- The £2 Car Parking fee is projected to be refunded to those visitors who use the Funicular Railway, as a discount on the price of their ticket
- The proportion of visitors spending on ski hire has been assumed to increase in relation to current budgets / actual, from 18% to 20%, catering from 76% to 80% and retail 35% to 37%
- Payroll costs are assumed to increase in line with inflation, and additional staff members have been allowed for at the following annual rates:

| | |
|------------------------------------|-----------|
| – 1 x Chef de Partie | £17.1k |
| – 4 x Kitchen Assistants | £12.7k ea |
| – 3 x Retail Assistant | £12.7k ea |
| – 2 x Car Park Assistants | £16.5k ea |
| – 1 x Customer Services Supervisor | £16.2k |
| – 1 x Accounts Assistant | £16.1k |
- Running expenses on the Funicular Railway are based on the average for 2009 and 2010 (budget) amounting to c.£57,000
- Running expenses for Lifts and Tows, the Funicular Railway and Site Services are expected to increase in line with inflation, but are linked to turnover levels
- All other operating expenses are assumed to increase in line with inflation only
- Catering cost of sales, Events cost of sales and wages, and Retail cost of sales are all expected to increase in line with inflation, but are linked to turnover levels
- All other commercial expenses are assumed to increase in line with inflation only
- Electricity costs are assumed to increase each year, not wholly in line with the increase in visitor numbers
- Rentals payable to HIE are assumed to remain as £100k per annum in years 1 to 5, increasing to £200k per annum thereafter
- A requirement for additional spending on Marketing and refreshing exhibition and other materials has been projected at £50k per annum in years 1 and 2, £75k in year 3, £100k in years 4 and 5, and increasing to £120k per annum thereafter
- Bank charges are expected to increase in line with inflation, but are linked to turnover levels
- All other overheads are assumed to increase in line with inflation only
- Routine capital expenditure has been projected based on the business's current projections plus allowances for additional capital expenditure as follows:
 - Buildings - £5k per annum in years 1 and 2, increasing to £10k per annum from year 3 onwards, indexed in line with inflation
 - Ski Equipment - £5k per annum from year 4 onwards indexed in line with inflation
 - Vehicles - £5k per annum in years 4 and 5, increasing to £10k per annum from year 6 onwards, indexed in line with inflation
 - Computer Equipment - £5k per annum in years 3, 6 and 9, and £2k per annum in years 4-5, 7-8 and 10, indexed in line with inflation
- Stock, debtors and creditors have been assumed to stay largely in line with the current business model
- The existing business will pay for the minimum annual maintenance required for the running of the Funicular Railway
- HIE will be required to pay for the predicted cyclical and contingency repairs and renewals on the Funicular Railway
- HIE will be entitled to a profit based rental return which has been

provided for at a rate of 30% of profits after tax, calculated annually in arrears

- Expenditure on refurbishing the Exhibitions is incurred as follows:
 - Year 3 - £250,000
 - Year 4 - £500,000
 - Year 7 - £250,000
 - Year 8 - £400,000

Cairngorm Review

Recap

State Aid is prima facie incompatible with the common market unless it is covered by the limited exemptions contained in the Treaty.

To constitute State Aid a measure must:

- A. involve the transfer of State resources
- B. represent an economic advantage that the recipient would not otherwise enjoy
- C. involve a degree of selectivity (i.e. it is not a benefit available to all similar undertakings throughout an entire Member State)
- D. have a potential effect on competition and trade between Members States

If the measure fails any one of those tests it is not State Aid.

Any solution except the straight sale by HIE of the entire assets will tick boxes A, B and C above.

Our focus must clearly be on D

- **If the installation remains predominantly a ski facility** it is eminently arguable that the Cairngorm operation does not distort competition and trade between Member States by analogy with the Italian State Aids cases (see Appendix for references) subject to the limitations I adumbrated.
- **If the emphasis were to shift away from skiing to the function of an interpretation centre / simple tourist facility** the Brighton West Pier case [C (2002)942] is almost as convincing authority for the operation's lack of distortive affect on trade between Member States, although slightly weakened by the existence of a cultural and heritage aspect (that could not be claimed in respect of Cairngorm) that called into play the additional ground

provided by Art.87(3)d . Nevertheless two other precedents can be relied on in support of the local market argument which are not diluted by any Art 87(3)d element – *the Leisure Pool Dorsten case SG(2001) D/ 285046 of 12 January 2001* (involving a local swimming pool with limited catchment radius of 50km-see Appendix for detail) and *the Dutch Marina Cases (Enkhuizen,Nijkerk and Wiermingermeer OJC 69,22.32003)* where inter alia a 10% international use of fixed moorings did not imply any distortion of intra- Community trade.

- **International promotion** – evidence of the international promotion of a facility is sufficient to imply an impact on intra- community trade, however, [*Terra Mitica Theme Park Benidorm C(2002)2980*] even if limited international use is claimed. This international promotion issue is critical as was stressed in each of the cases cited in the above paragraph.

Conclusion

So, subject to the limitations described, these precedents offer significant reassuring evidence that any assistance to the Cairngorm operation does not constitute State Aid and the EC recent decision not to pursue further the referral of the HIE take-over of the Cairngorm facility after a local objection must further reinforce that conclusion, although the Commission stopped short of making a decision on the issue.

Bearing in mind the UK Government advice on the need to adopt a risk-based – rather than over cautious – approach in assessing state aid issues¹² it is reasonable to conclude that the prospective exercise in respect of the Cairngorm facility – as it is currently envisaged - does not constitute State Aid so long as international promotion is avoided.

¹² Taking Account of State Aid Issues in Policy Making – a Risk –Based Approach (DTI/Treasury 2004)

The two options presented

Given the severe consequences of breaching the State Aid rules and the possibility that the above analysis could be flawed e.g. by the inadvertent omission of more recent case law, it is prudent to address the options you have now put forward as if there is indeed potential for impact on trade between Member States. The focus must then turn to ensuring that the ‘disposal’ methodology adopted does not involve the conferring of an economic advantage that the recipient would not otherwise enjoy. (‘the Private Investor – or the Market Economy Investor - principle’ C-39/94 SFEI v La Poste 1996ECR I-3547).

This can be achieved by ensuring that the contract is awarded by an open transparent and non discriminatory competitive process¹³. If this is properly secured it is beyond question that the exercise is delivered at the market price (your final question) but every step must also be taken to ensure that best value for money is achieved¹⁴.

The Altmark decision addresses the provision of services of general economic interest (SGEI) and Public Service Obligations (PSO) – and so its very specific compliance requirements do NOT apply to the Cairngorm facility as the operation of a ski resort or tourist facility / interpretation centre does not constitute an SGEI or be subject to a PSO. However, this situation is analogous to the provision of an SGEI and the letting of a concession and it is submitted that observance of the third Altmark condition - that compensation to the operator shall not exceed the cost and ‘reasonable profit’ for the operator will establish that best value for money has been secured.

Any excess over the reasonable profit should be clawed back by HIE which must demonstrate in so far as is possible in the circumstances of this case that it expects to earn a return on its investment in the same way as a private investor would.

If for whatever reasonable ground the lowest bidder is not the selected bidder, it is arguable that, by the application of the *de minimis* rule¹⁵, as long as the engagement of

¹³ Case N 264/2002 London Underground Public Private Partnership, para 79 Case C-280/00 Altmark Trans and Regierungspräsidium Magdeburg [2003] ECR I-7747, para 93

¹⁴ Case N 46/2007 “Welsh Public Sector Network Scheme”, United Kingdom, of 30.5.2007, see http://ec.europa.eu/community_law/state_aids/comp-2007/n046-07.pdf

¹⁵ Up to € 200,000 may be granted to an undertaking over any period of three years without prior Commission approval, see Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid, OJL 379, 28.12.2006.

the tenderer selected does not - over a three fiscal year period - incur an increased cost of more than €200k above lowest tender a cost, no State Aid is conferred.

Conclusion

The objective must be to be able to demonstrate that the solution achieves the optimal operation of the facility while securing the best return on capital for HIE as the public owner.

Although a proposal by HIE to retain responsibility for replacement of the assets as required with the operator responsible for maintenance and upkeep seems preferable from a presentational point clearly shifting a substantial risk onto the operator one would expect a reduction in the level of the bids to reflect this in comparison to those that would be attracted by your second option where HIE takes responsibility for both replacement and maintenance. From a State Aid point of view I submit that they are equal if the tender procedure is rigorous. The difference is effectively that between a simple lease and a full repairing lease and ultimately the choice is a business choice not a State Aid choice.

6/ 6/ 09

Appendix

The Italian State Aid Sky Facility Cases

Brussels, 27.11.2008-08-19
 C(2008)699 final
 State Aid case N 731/2007 – Italy
 Aid to ski zones of local interest in Veneto

Bruxelles, 07.05.2004
 C (2004)1615fin
 Oggetto: Aiuto di Stato N 676/2002 – Italia
 Impianti funiviari Valle d’Aosta

STATE AID — ITALY

Commission communication to the Member States and other interested parties concerning State aid N 376/01 — Aid scheme for cableways
 Authorisation of State aid under Articles 87 and 88 of the EC Treaty
 (Proposal to which the Commission has no objection)
 (2002/C 172/02)

COMMISSION DECISION

of 9 April 2002
 on the State aid implemented by Italy for cableway installations in the Autonomous Province of Bolzano
 (notified under document number C(2002) 1191)

Brussels, 21 December 2000

On application by Germany, Commission decides that municipal aid for public swimming pool is not state aid

The European Commission has held that an annual subsidy for the private operator of an open-air swimming pool in Dorsten (North Rhine-Westphalia) does not

constitute state aid under the EC Treaty. It has therefore decided that the aid does not have to be notified to it in advance under the aid rules.

Germany had notified the Commission of the annual DM 2 million grant for the swimming pool in order to obtain a Commission ruling on whether the measure had to be notified. At the same time it sought a Commission decision that the measure does not constitute aid within the meaning of the Treaty. This the Commission has now done.

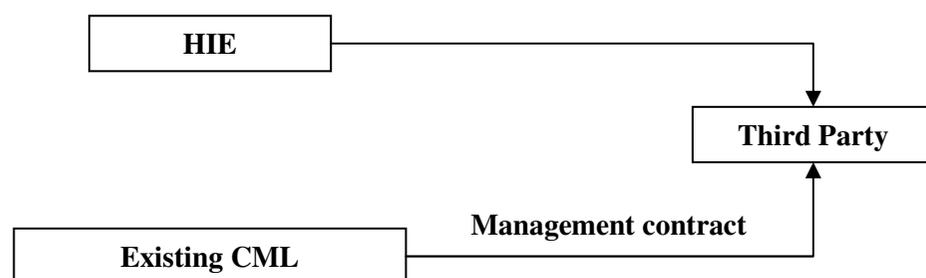
The facts are as follows. The town of Dorsten runs several public swimming pools at a loss. Faced with substantial costs for renovating them and building a new open-air pool, it decided to put the new investment and the running of the pools out to tender in a Community-wide procedure in order to find a private operator to keep the amenity open for the local population. The wide-ranging rights and obligations laid down in the contract between the town and the operator include the obligation on the operator to make the pool available for schools and swimming clubs free of charge and the obligation on the town to make an annual payment of DM 2 million.

The Commission's examination of the case led it to conclude that the measure does not constitute state aid within the meaning of Article 87(1) of the EC Treaty, because it does not affect trade between Member States.⁽¹⁾ In the light of the description of the scheme, the Commission concluded that the amenity is used by the inhabitants of the town and the surrounding area. It held that there was a clear difference between this aid to promote major theme parks targeted at the national or even international market and advertised far beyond the area where they are located. By its very nature, aid in favour of facilities aimed at attracting international visitors is likely to affect trade between the Member States, whereas in this case the Commission took the view that there was practically no likelihood of intra-Community trade being affected, especially since the catchment area of the swimming pool did not extend to the nearby Netherlands.

Since one of the conditions of Article 87(1) of the EC Treaty is not met, it was not necessary for the purposes of the decision to consider whether the measure fell under any of the others.

A. Tender for a Management only contract

This option would retain the ownership of CML whether under HIE as at present or by hiving up all the assets into HIE itself. This would include all the employees of the company who would become direct employees of HIE. However, HIE would enter into a management only contract with a management company to run the operation on a commercial basis.



The management team would be paid an annual management fee which could be structured to have an element of performance related bonus depending on the overall results of the mountainside operation. However, the majority of the risk and rewards of the financial performance of the operations would be borne by HIE directly.

The advantages and disadvantages of this structure are as follow:

Advantages:

- New management team – new ideas
- Can be contracted to a third party with specialist knowledge of the industry
- The contractor could be incentivised by the potential for a share in profits generated above a certain level
- HIE retains control of CML and therefore control of the potential contingent liability
- Management might be willing to invest small amounts of capital in the expectation of a share in improved profits, e.g in short life assets such as kitchen and dining equipment or retail fit-out costs,

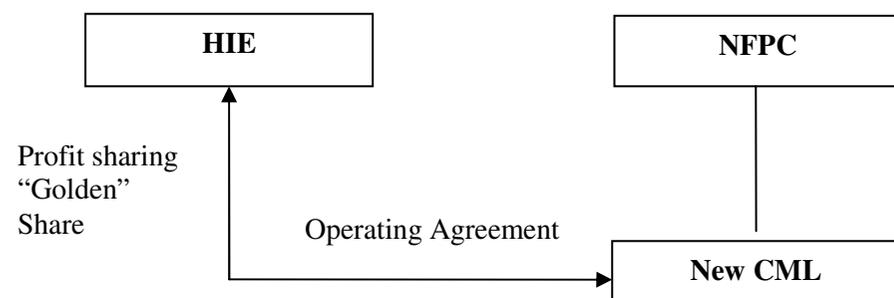
Disadvantages:

- Potentially capital constrained – the management contract would be for a short-term which would probably be insufficient to encourage any substantive investment by the contractor
- All operation costs and risks remain with HIE
- There is a risk to HIE of management not performing and potentially walking away
- It would be difficult to replace management in the event of a breach of contract
- HIE might be in a position whereby a new contractor must be sought at the end of each contract term

B. Transfer ownership to a not for profit community ownership company

This option would return CML to the ownership of an NFPC, similar to the original operating arrangement when the Funicular Railway was first built. An NFPC is a company, limited by guarantee, which has charitable or community objectives. It cannot distribute any surpluses to its members in the form of dividends but can use any accumulated surpluses towards the charitable objectives. The objectives of the NFPC might be, for example, the furtherance of environmental understanding in the National Park area.

It would involve HIE setting up a new company (“New CML”), transferring the operating assets of the business (essentially the assets of existing CML) into New CML (but not the debt and the land assets) and then selling that company to an NFPC with an independent board.



There would need to be an operating agreement between HIE and new CML which would govern the way in which New CML operated. However, New CML would be operated under the direction of the independent board. Any profits made by New CML would be distributed to the NFPC and used for the agreed objectives. However, there could be some concern if New CML makes profits that it would be considered unacceptable that HIE had retained all of the historical costs and losses of CML. This could be dealt with through HIE retaining a “golden share” which would allow for a proportion of profits to be distributed to HIE in future.

The advantages and disadvantages of this structure are as follow:

Advantages:

- Likely to be viewed favourably by local community and increase their involvement
- More clearly linked to the social and environmental objectives of the local community
- Less conflict between objectives of a profit-making corporate body and other stakeholders
- Transfer of operational and financial risk away from HIE.

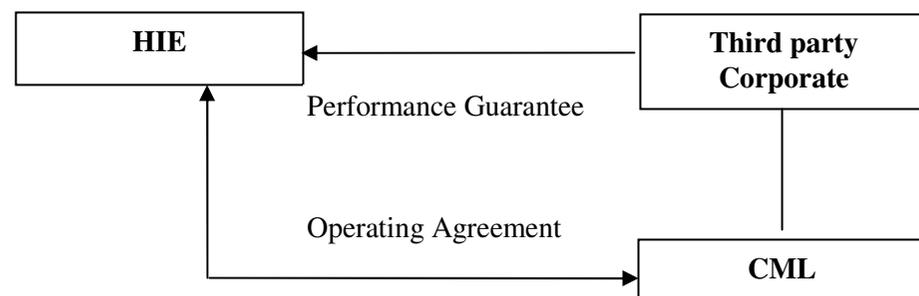
Disadvantages:

- Unlikely to develop the commercial focus necessary to survive on a stand-alone basis
- Potential conflict between not-for-profit and sustainable profit objectives
- If the project does not energise the local community, continued decline is likely
- Perception of going back to a failed structure
- Difficult to raise new capital via the NFPC other than through retained earnings
- May lack the incentive to management required to improve performance

C. Sell off the operating company (CML) to a third party corporate entity

There would need to be an operating agreement between HIE and CML which would govern the way in which CML operated. However, CML would be operated under the direction of the third party corporate.

Any profits made by CML would be retained by the third party corporate. HIE would need to put in place a performance guarantee to ensure that the Funicular Railway continued to operate, or control would have to revert back to HIE.



The advantages and disadvantages of this structure are as follow:

Advantages:

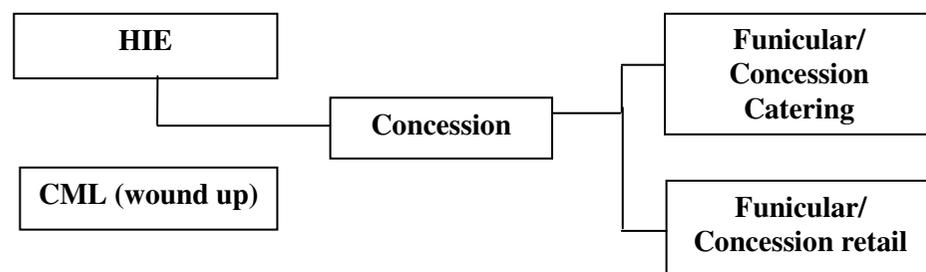
- Focus for operational decision making will be commercial viability
- Clear separation of HIE, as owner of site, from the operator
- Clear transfer of costs and risks to third party
- Ability to ensure that minimum standards are fulfilled
- Ability to require a guarantee and “step-in” rights for non-performance
- Additional capital investment opportunities in mountain infrastructure
- HIE has the opportunity to set the terms of the operating contract
- Access to commercial capital for investment purposes

Disadvantages:

- Conflicts of interest may arise as to use of assets and maintenance or investment expenditure
- Environmental education opportunities might be lost
- Company might misunderstand the market (by sticking to a fixed model which works elsewhere)
- If the operator is not successful, public sector might have to step in to rescue again
- Risk that focus on ski resort for the area is not maintained
- Community interest may not be considered
- If not sufficiently profitable, entity may simply stop trading
- No sharing of profits
- Little input in commercial direction in future
- Short-term decisions made to boost profits
- HIE retain residual losses and risks of non-performance

D. Provide an operating concession to a third party over a fixed term contract

HIE remain in control of CML and therefore the assets. An operating agreement is drawn up with a third party to operate the activities (concessionaire). The Concessionaire has the management responsibility of the operations with the ability to subcontract the non core activities (e.g. catering and retail) to industry specialists.



The advantages and disadvantages of this structure are as follow:

Advantages:

- More predictable revenues and costs for operating company. Non-core activities carried out by specialist operators
- No need for one operator to act as a 'jack of all trades'
- Staffing issues devolved to franchise operators (greater likelihood of efficiency)
- Potential to foster improved links between Cairngorm Mountain and operators based in Aviemore – some local operators may take out concessions e.g. ski hire could be run as a franchise of one of the Aviemore ski shops
- HIE retains full ownership control over key assets
- Strict conditions around maintenance of assets
- HIE would wind-up existing CML

Disadvantages:

- Only input to operation set by terms of initial concession agreement – may not cover evolving changes in the market
- Concession operator may pull out (albeit with penalties)
- Reduced level of direct influence and control over quality and nature of service
- 'Experience' might be based on lowest level of service
- Competing interests of different franchisees/operators could lead to a disjointed and worse customer experience
- Risk of offering concessions at the 'wrong' level – concessionaires being tied into loss making contracts
- Focus on high margin return services rather than the 'Experience'

EU Procurement Process

The Open Tender Procedure

All companies responding to an “open” contract notice must be sent the invitation to tender (ITT). This can result in a large number of tenders being received which may slow down the process.

The Restricted Tender Procedure

This allows the Authority to issue a “restricted” notice and then only send the ITT to those shortlisted by the Authority. The Regulations require that where there are a sufficient number of potentially suitable tenderers the Authority should intend to invite not less than 5 tenderers to tender.

The Negotiated Procedure is split into two elements

1) Negotiated Procedure With Prior Publication of a Contract Notice

The regulation set out the circumstances in which this procedure may be followed. These include, but are not limited to;

- tenders under the Open or Restricted Procedure have proved irregular or unacceptable;
- exceptionally when the nature of the work or works to be carried out, the goods to be purchased or hired or the services to be provided under the contract or the risks attaching to them are such as not to permit overall pricing.

2) Negotiated Procedure Without Prior Publication of a Contract Notice

The regulations set out the circumstances in which this procedure may be used. These include, but are not limited to:

- in the absence of response to an Open or Restricted notice, subject to the terms being substantially unaltered and a report provided to the Commission if requested;
- when, for technical or artistic reasons, or for reasons connected with protection of exclusive rights, the supplies may be manufactured or supplied by only one particular company (technical reasons include the need for compatibility of spares, or with existing equipment);
- when in cases of extreme urgency brought about by events unforeseeable to, and not attributable to the Authority, the time limits laid down for the Open, Restricted Procedures and Negotiated Procedure with Prior Publication of a Contract Notice cannot be met;

The Competitive Dialogue Procedure

Where the Authority wishes to award a particularly complex contract and considers that the use of the open or restricted procedure will not allow the award of that contract the Authority may use the competitive dialogue procedure.

This procedure was introduced in the 2006 Regulations. While there is prima facie overlap with the Negotiated procedure the EU Commission will expect use of the Competitive Dialogue rather than Negotiated procedure and there will be close examination of the use of the Negotiated procedure for complex contracts.

In a competitive dialogue, initially there is a pre-qualification procedure. Following the pre-qualification, the Authority then enters into discussion with pre-qualifying bidders about the form of contract and the technical specifications of the project (usually at least three) **before** the tender documents are issued.

The Authority then enters into bilateral dialogue with the bidders regarding any issues that they may raise on the contract **before** the bidders are required to deliver their bids. The Authority can employ an iterative procedure to reduce the number of solutions being discussed so long as this is stated in the contract notice or the descriptive document. This therefore sets out the basis for the dialogue. The dialogue finishes when the Authority identifies a solution or solutions which best meets its needs.

Bidders are then asked to submit tenders based on the best solution(s). Because the competitive dialogue may lead to more than one solution (which may be the case with CML), then it is necessary to develop evaluation criteria which is able to be used to assess several bids.

There is then a post tender negotiation leading to the award of a contract.