



Trump Scotland

Menie Estate Development

Precognition by

Iain D C Webster

of

Johnston Carmichael, Chartered Accountants

19 May 2008.

Statement From Iain D C Webster

1. Introduction

1.1 I am Iain Douglas Collins Webster, a member of the Institute of Chartered Accountants in Scotland, a Fellow of the Securities Institute and a member of the Corporate Finance Faculty of the Institute of Chartered Accountants in England and Wales. I have been in professional practice for 26 years, 21 of which have been in corporate finance. I was 18 years with KPMG, latterly as a corporate finance partner in Scotland; I practiced on my own for two years and for the past 6 years I have headed up the corporate finance practice at Johnston Carmichael, Scotland's largest independent accounting practice.

2. Terms of reference

2.1 My brief was to provide a critical and analytical review of the financial case for the proposed development. This was done to establish whether the project was viable based on the assumptions being employed by the management of Trump Scotland. I was engaged to review the financial assumptions and where appropriate to challenge the management on those assumptions. The purpose of the review was to enable management's financial projections for the development to be entered into the public domain for the purpose of the Public Enquiry into the Outline Planning Application. Management were keen that their projections were critically and independently reviewed before they were made public.



2.2 The work we have done has been to check all the main cost and revenue driving assumptions in the projections. Where possible we have checked these against a source of reasonable third party evidence. As the plans are at an outline stage, the development costs and operating costs are also by necessity at a similar level. Where possible the costs and revenues have been compared to comparable facilities or have been built up from base data which has been checked for reasonableness in relation to the facility and the proposed level of operation. We also requested that the Management of Trump Scotland provide further information on some of the assumptions and in some cases, based on the work we have done, the Management have changed their assumptions to make them more robust.

2.3 A computer based financial model has been developed which models the proposed development costs on an annual basis by taking all the input parameters on a real cost basis and running them through a series of calculations to produce annualised capital expenditure, operating revenues and costs on a cash-flow basis. The purpose of producing this on a cash basis is to allow the project to be evaluated for investment purposes using the well established technique of discounting the cash-flows to arrive at a Net Present Value. The model does not produce profit and loss accounts on the basis of Generally Accepted Accounting Principles as this would not be appropriate for project evaluation purposes.



2.4 Based on the fact that there is objection to the need to develop the residential homes, we were asked to evaluate the returns for the Golf Resort with and without the residential homes. The output of the financial model has therefore distinguished the net present value for the golf related elements of the development and the residential housing elements. This has been done to establish whether the golf resort on its own would provide an acceptable rate of return for all investors (being Trump Scotland and those banks and other financial institutions who may lend money to build and operate the development). Two scenarios have therefore been run. The first is to evaluate the golf resort (golf course and related activities, five star hotel, golf villas and holiday-style accommodation largely for use by visitors to the golf resort) and the proposed residential development and sale of 500 privately owned homes. The second excludes the proposed residential development.

3. The key capital, operating and revenue costs

3.1 The proposed development at the Menie Estate in Aberdeenshire is a significant new development with construction costs expected to exceed £1 billion in Nominal terms (**Section 4 and Figure 4.1 of Document T7**). These costs are to be phased over 7 years (**Appendix III Document T7**). The initial development is to focus on building the main championship quality, 18 hole golf course and supporting facilities, including golf villa's and holiday homes which make up the core of the proposed Resort Development. Thereafter the plan is to build a 450 room 5 star hotel, a second golf course, a conference centre and spa, further holiday homes and a residential development all within

the boundaries of the Golf Resort. The expected construction period of 7 years starts from the date work commences on the first golf course.

3.2 The key sales revenues, being the one-off revenues generated from the construction of the Resort are set out in **Section 5 of Document T7**. These comprise:

- Golf joining fees (**Section 5.1 of Document T7**)
- Golf villa sales (**Section 5.2 of Document T7**)
- Holiday Home sales (**Section 5.3 of Document T7**)
- Residential home sales (**Section 5.4 of Document T7**)

3.3 The key operating costs and revenues have been considered in **Section 6 of Document T7** for each of the on-going operational activities within the resort as follows:

- Golf course and related activities (**Sections 6.1 and 6.2 of Document T7**)
- Hotel and associated facilities (**Sections 6.3 and 6.4 of Document T7**)
- Rental income from golf villas (**Sections 6.5 of Document T7**)
- Holiday home resort income (**Section 6.7 of Document T7**)

4. The annual cash spend arising from capital expenditure and operations

4.1 The annual cash spend arising from the capital expenditure and operations is shown in each of the sections described above and is summarised in annual terms in the output schedules in **Appendix II of Document T7**. The spending

assumes that construction will commence in April 2009. The aggregate construction costs, income and operating expenditure are summarised in the column headed “Forecast” in **Figures 7.1.1 (with residential) and 7.1.2 (without residential) of Document T7**. This includes forecast operating income and expenditure from the date of commencement of operations for each part of the resort up to 31 March 2022. These totals are shown in Nominal amounts (which allow for expected inflation of both revenues and costs). Also included in these summary amounts is an amount representing the “residual value” of each of the operational parts of the Resort which are necessary to perform the financial evaluation.

4.2 **Figure 7.1.1 of Document T7** shows that the aggregate amounts for the whole resort (including the residential development) are:

- Construction costs - £1,069.6 million
- Sales revenues - £971.1 million
- Residual values - £374.0 million
- Net Operating Income - £223.2 million
- Total project cash flows - £498.6 million

4.3 **Figure 7.1.2 of Document T7** shows that the aggregate amounts for the whole resort (excluding the residential development) are:

- Construction costs - £887.5 million
- Sales revenues - £673.9 million
- Residual values - £374.0 million

- Net Operating Income - £211.3 million
- Total project cash flows - £371.7 million.

5. Return on Investment with and without housing

5.1 The evaluation discounts the cash flows to their net present value using a discount rate of 10%. This is a weighted average rate determined based on an assumption that the financing for the resort will be a mixture of debt and equity funding. The net present value output shown in the column's headed "NPV" in **Figures 7.1.1 and 7.1.2 of Document T7** are:

- Total including residential - £35.536 million
- Total excluding residential - £(20.720) million
- Residential only - £56.257 million

5.2 This analysis illustrates that the golf resort on its own would be unlikely to generate sufficient return on investment to be attractive to investors and lenders since it produces a negative net present value. This means that the actual returns for all the investors falls below the 10% target return. The inclusion of the residential development provides the project with income from the profit on sales of the residential homes which reduces the net capital outlay for the whole resort. The net capital investment is lower and the operating income is slightly higher due to additional revenue from annual membership fees from the residential home owners resulting in a higher rate of return on investment. This results in a positive net present value.



6. Conclusion

- 6.1 Based on the analysis carried out of the project and based on the evaluation of the project cash flows to derive the net present value, I have concluded that, based on the proposed Outline Planning Application the project may only be attractive to investors if the element of residential development is undertaken as part of the overall development.

Iain D C Webster

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