Horwath HTL

Hotel, Tourism and Leisure

BUSINESS MASTER PLAN FOR

Development and Construction of a Ski Center in the Galičica National Park

AD MEPSO d.d.
Orce Nikolov b.b.
1000 SKOPJE

INTRODUCTION

DISCLAIMER

Our study and report are based on assumptions and estimates that are subject to uncertainty and variation. In addition, we have made assumptions as to the future behaviour of consumers and the general economy, which are uncertain.

This Report is for your internal purposes and for submission to strategic partners and potential creditors of the project. Any use of the Report must include the entire content of such report in the form delivered to you. No portion or excerpts thereof may be otherwise quoted or referred to in any offering statement, prospectus, loan agreement, or other document unless expressly approved in writing by Horwath HTL. Reproducing or copying of this Report may not be done without our prior consent.

© COPYRIGHT

TABLE OF CONTENTS

LIST OF ABREVIATIONS, GLOSSARY

ADR	Average Daily Rate	average achieved rate per room: rack rate after deduction of VAT, discounts, etc.
av.	average	
DOF	Double Occupancy Factor	average number of guests per room occupied
e.g.	for example (exempli gratia)	
EBITDA	Earnings before Interest, Income Tax, Depreciation and Amortization	operational result after deduction of management fees and fixed charges
etc.	et cetera	
F.I.T.	Frequent Independent Traveller	
F&B	Food & Beverage	
FF&E	Furniture, Fixtures & Equipment	movable furniture, fixtures or other equipment which have no permanent connection to the structure of the building
GDA	Gross Developed Area	
GDP	Gross Domestic Product	
GOP	Gross Operating Profit	operational result before management fees and fixed charges
GOPPAR	Gross Operating Profit per Available Room	
KPIs	Key Performance Indicators	
MICE	Meetings, Incentives, Congresses, Events	overall term to describe the meetings & congress market
NDA	Net Developed Area	
Occ.	Occupancy Rate	percentage of rooms occupied in relation to number of operating days (or 365 days)
p.a.	Per Annum	per year
Rev.	Revenues	
RevPAR	Revenue per Available Room	total room revenues divided by number of total available room nights
SOP	Standard Operating Procedure	

Tot. Rev.	Total Revenues
USP	Unique Selling Proposition
VAT	Value Added Tax

Horwath HTL

Hotel, Tourism and Leisure

CHAPTER 1

Assignment and Procedures

1 ASSIGNMENT AND PROCEDURES

1.1 ASSIGNMENT

Horwath and Horwath Consulting, in Zagreb, Croatia and Ecosign Mountain Resort Planners Ltd. at Whistler, Canada (together with Ecosign Europa Mountain Recreation Planners GmbH of Wolfurt, Austria as subcontractor) have been assigned by Electricity Transmission System Operator of Macedonia, AD MEPSO – Skopje, the task of providing professional planning services related to the Drafting of a Feasibility Study and Master plan for the Development and Construction of a Ski Center in the Galičica National Park.

Horwath HTL is a partner in consortium responsible for business planning aspects of the project. This document contains report of the Business Master plan:

- Situation analysis;
- Market analysis;
- Marketing strategy;
- Concept and business model;
- Financial evaluation.

1.2 PROCEDURES

Horwath HTL has performed assessment and valuation of the situation and market for Development and Construction of a Ski Center in the Galičica National Park according to standard consulting procedures, as follows:

- Visited and evaluated the project site;
- Made a meeting with Client representatives and other key stakeholders;
- Performed a situation analysis of Macedonia, Ohrid and Resen municipalities and Galičica region;
- Performed a detailed market research and analyses;

- Analysed the relevant competition for this project;
- Made a market potential estimation and recommendations on marketing strategy as a conclusion of market and situation analysis;
- Defined marketing strategy of the future resort including resort positioning, elements of differentiation, product structure and target markets;
- Made a several meeting with Client representatives and members of Macedonian Government in order to present and discuss findings of the feasibility study and determine changes for the Master plan;
- In collaboration with Ecosign, defined detailed concept and space allocation for phase 1 accommodation capacities;
- Analysed and elaborated possible management models of resort development and operations;
- Made a detailed financial evaluation of the resort development and operations including several sub variants.

This Report has been completed in June 2014.

CHAPTER 2
SITUATION ANALYSES

Horwath HTL
Hotel, Tourism and Leisure

2 SITUATION ANALYSES

2.1 MACEDONIA

2.1.1 General facts, geography

Republic of Macedonia is a land-lock European country, located in the south-east part of the Continent. It occupies 25,713 sq. km[1], out of which land occupies 25,433 sq km and water 280 sq km[2]. According to its territory, Macedonia is ranked as 38 compared to other European countries and 150 worldwide[3].

[1] Macedonia in figures, 2012, State Statistical Office of the Republic of Macedonia, Skopje
[2] The World Factbook, Central Intelligence Agency, USA
[3] The World Factbook, Central Intelligence Agency, USA

Capital of Republic of Macedonia is Skopje, located in the northern part of the country on the banks of Vardar, the largest national river. The city had close to 500.000 people in 2009, according to The World Factbook, CIA.

There are three National Parks in Republic of Macedonia – Galicica, Mavrovo and Pelister, with total surface of 1,083 sq km, occupying close to 4.3% of total national territory and tradition of existence of more than 50 years.

	sq km	year of proclamation
Galicica	228	1958
Mavrovo	731	1949
Pelister	125	1948

Based on data provided by Macedonia in figures, 2012,
State Statistical Office of the Republic of Macedonia, Skopje

Largest natural lakes in the Republic of Macedonia are Ohrid, Prespa and Dojran, occupying close to 440 sq km[4], or approximately 1.7% of national territory. Ohrid lake is shared with Republic of Albania, Dojran lake with Greece, while Prespa lake is shared by all three countries.

[4] Macedonian part of lakes, without Albanian and Greece parts

	Sq km	Altitude (m)	Maximum depth (m)
Ohrid	230.1	693	286
Prespa	176.8	853	54
Dorjan	27.4	148	10

Based on data provided by Macedonia in figures, 2012,
State Statistical Office of the Republic of Macedonia, Skopje

According to data provided by Spatial Plan of Republic of Macedonia, measured by surfaces by height point, more than 74% of Macedonian surface is 500m above sea level, while more than 30% is 1000m above sea level, making it primarily mountainous territory covered with deep basins and valleys.

Main mountain tops are:

- Golem Korab (2.764 m) – the highest mountain peak of Macedonia
- Šar planina/Titov vrv (2.748 m)
- Baba/Pelister (2.601 m)
- Jakupica/Mokra (2.540 m)
- Nidže/Kajmakčalan (2.520 m)

Main rivers are:

- Vardar (388 km, 301 km in Macedonia)
- Bregalnica (225 km)
- Crna reka (207 km)

- Treska (132 km)
- Pcinja (128 km)
- Crni Drim (122 km)

According to Central Inteligence Agency of USA, Republic of Macedonia has total of 766 km of land borders, out of which with Albania 151 km, Bulgaria 148 km, Greece 246 km, Kosovo 159 km and Serbia 62 km.

Population

According to the State Statistical Office of the Republic of Macedonia, last Census was held in 2002. Thus, the Office estimates the population of Macedonia on 31.12.2011, to 2,059,794 inhabitants, close to 1% more compared with 2001. The population is concentrated in 1,767 settlements, organized in 84 municipalities.

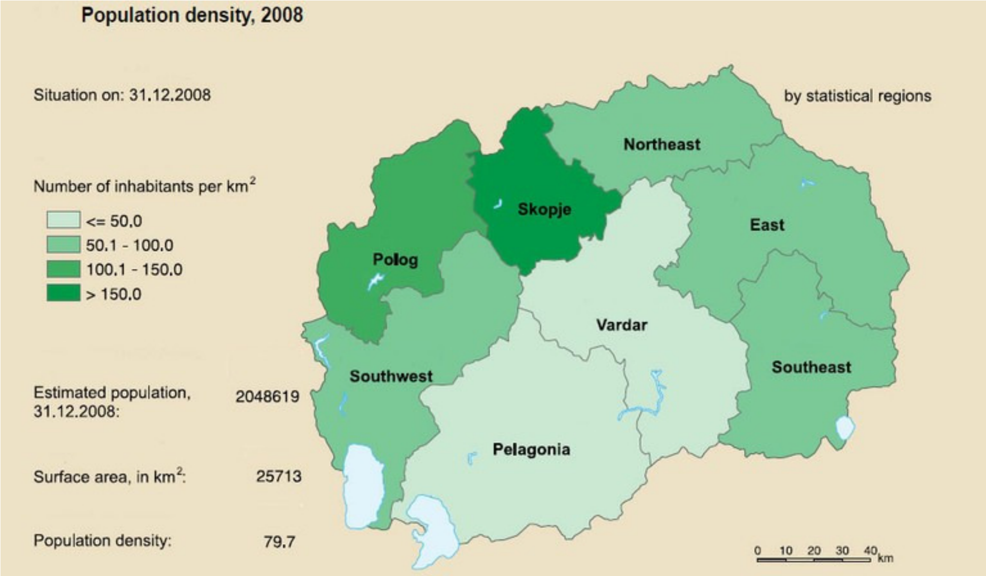
Average population density of Republic of Macedonia in 2010 was 80 inhabitants per sq. km.[5]

According to the same source, the Macedonian population is increasingly aging, observed by age structure. In the period 2001-2011, the participation of the young population (age group 0-14) in the total population decreased from 21.5% to 17.2%, whereas the participation of the old population (age group 65 and over) increased from 10.5% to 11.8%.
Population of Macedonia is significantly disproportionally distributed, with very large concentration of the population in the relatively small number of rural settlements (mostly located in the western and north-eastern parts of the country). Out of total population, 57.8% live in 34 cities, with the highest concentration being in the capital, Skopje (20.5%) which is the only city in the country with over 100,000 people. At the same time, a large part of the rural settlements (the total number of settlements is 1 728) are completely depopulated (141 settlements) or have extremely small number of inhabitants.[6]

---

[5] Macedonia in figures, 2012, State Statistical Office of the Republic of Macedonia, Skopje

[6] Macedonia in figures, 2012, State Statistical Office of the Republic of Macedonia, Skopje



Source: State Statistical Office

Data source: http://www.eea.europa.eu/soer-draft/countries/mk/country-introduction-macedonia-the-former-3/map-3-population-density-in-1/view

We can observe that main areas with highest density of population are in the western and northern parts of the country, relatively close to Ohrid region and Galičica Mountain, connected with moderately well developed network of highways and roads, allowing comfortable transfer of passenger and potential tourists with both cars and buses.

Macedonian society is characterised by its multi-ethnic, multi-religious and multi-cultural composition. According to 2002 Census, Macedonians represent 64.2%, Albanian 25.2%, Turkish 3.9%, Roma (Gypsy) 2.7%, Serb 1.8% while other represent 2.2% of total population.

Accordingly, Macedonian language is native to 66.5%, while Albanian, to 25.1% of total population, while dominant religion is Macedonian Orthodox 64.7%, followed by Muslim religion 33.3%. In geographical terms, most of Albanian population, which is mainly of Muslim religion, is dispersed in western and north-west parts of the country, bordering Albania and Kosovo.

According to Central Intelligence Agency of USA, urban population of Macedonia is estimated at 59% of total population in 2010, with foreseen annual rate of urbanization of 0.3% in the period from 2010 to 2015. According to Horwath HTL international experience, growing number of urban population, (along with growth of disposable income) increases the potential pool of probable skiers in the country.

Like most of others countries in Europe, Macedonian population is in the Demographic transition, meaning that number of new workers entering the labour market is higher than number of workers permanently leaving labour market (newly born - future workers vs. elders) as a result of ageing population. According to the Vital statistics survey by State

Statistical Office of the Republic of Macedonia, natural growth of population (calculated as difference between live born and death per 1000 population) decreased for 45%, from 7,393 in 2001 to 3,305 in 2011.[7]

(per 1000 population)	2001	2011
no. of deaths	24183	22770
no. of live born	16790	19465
natural growth	7393	3305

Source of data: Macedonia in figures, 2012,
State Statistical Office of the Republic of Macedonia

In the period 2000-2010, the participation of the young population (age group 0-14) in the total population decreased from 22.3% to 17.4%, and the participation of the old population (age group 65 and over) increased from 10% to 11.7%.[8]

The above mentioned facts may hampers ability of the government to pursue pro-investment policies vs. socially sensitive policies. Related to tourist industry, we would expect this fact to positively influence the trend of health related tourism, culture/history, SPA and wellness driven demand, while increasing level of GDI levels will fuel business, leisure, fun and adventure tourism driven demand.

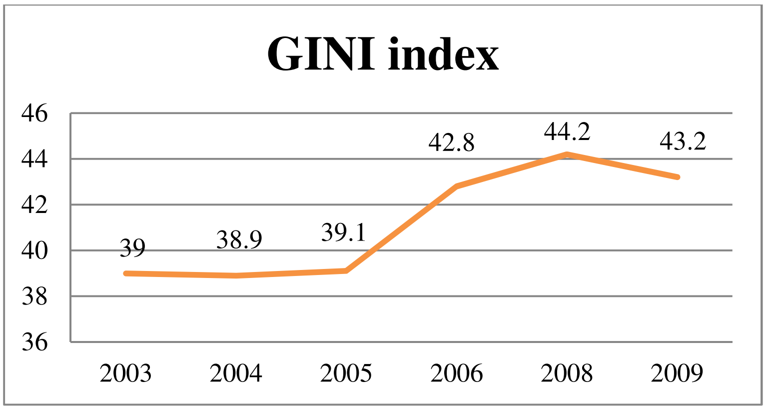
According to Macedonia in figures, 2012, publication, number of reported adult perpetrators of criminal offences is steadily on the rise in the period 2001-2011, from 18,000 to approximately 31,000. Even though the trends are not favourable for tourism development, the numbers are still insufficient to hamper the tourist industry more severely.

However, it is advisable to the Government to initiate policies that would counter the trends, as earlier efficient actions may reduce overall costs, with special attention to crimes related to car stealing, due to vicinity of border crossings and anticipation that majority of tourists would come with their own car, either from Macedonia or other countries of the region.

[7] Macedonia in figures, 2012, State Statistical Office of the Republic of Macedonia, Skopje
[8] State Statistical Office of the Republic of Macedonia, Skopje

GINI

The GINI indicator calculated by the World Bank, which measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution, shows rising inequality in the Macedonian society with modest decline in 2009[9].



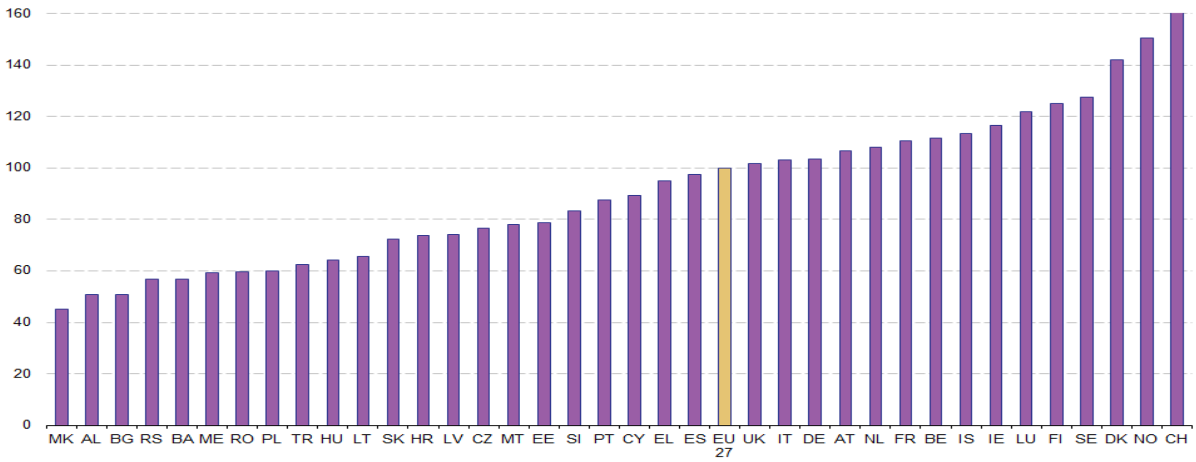
Source of data: The World Bank Development Research Group

2009 Income share held by:				
highest 20%	second 20%	third 20%	forth 20%	last 20%
48.9	22	14.5	9.5	5.1

Source of data: The World Bank Development Research Group

Furthermore, we can observe that two quintiles with highest share of income have more than 70% of total income, which to a significant extend shapes the demand for tourism services, pushing it towards high end of the pricing range. At the same time, Macedonia remains to be among the countries with relatively lowest average costs (lowest HFCE – EUROSTAT Price Level Index)[10] compared to most of European countries, including its regional peers, allowing its tourism industry to utilise the price difference even in the high end pricing range.

[9] No data after 2009 are available by World Bank for Republic of Macedonia
[10] Eurostat, Price level index for 4 groups of goods and services



Source: Eurostat, Price level index for household final consumption expenditure (HFCE), 2011, EU27=100

History

Macedonian territory holds many historical monuments that witness about turbulent history that shapes cultural matrix of contemporary Macedonian society; from Alexander the Great, Orthodox Christianity, Byzantine Empire, uprisings led by Tsar Samuilo, Ottoman Invasion, Balkan wars, both World Wars and Balkan conflicts of the nineties.

Following the collapse of Former Yugoslavia, Macedonia declared independence on 8 September 1991, and became a member of the United Nations in 1993[11]. The country suffered from loss of single Yugoslav market and prolonged transition towards functional capitalism and democracy. Even though it gained its independence peacefully, it came out of the federation as one of the least-developed Yugoslav republics producing just 5% of the total federal goods and services. Insufficiently developed infrastructure, UN sanctions on part of former Yugoslavia which used to be Macedonia's largest market and the Greek economic embargo related to the dispute about the name of the country constrained economic development up to 1996. The economy started to recover up to 2000. However, the commitment to continue with reforms and EU integration was undermined by ethnic conflicts in 2001.[12]

Leaving conflict behind, Republic of Macedonia – along with other Western Balkans countries – was identified as a potential candidate for EU membership during the Thessaloniki European Council summit in 2003. The Republic of Macedonia applied for EU membership in

[11] UN General Assembly A/RES/47/225, adopted on 8 April 1993

[12] http://www.eea.europa.eu/soer/countries/mk/soertopic_view?topic=country%20introduction

March 2004. In November 2005, the Commission issued a favourable opinion, and the Council decided in December 2005 to grant the country candidate status. In October 2009, the Commission recommended that accession negotiations be opened.[13]

Climate

According to European Environment Agency, maximum air temperature of 44.8` C was recorded in Demir Kapija in July 2000, which was surpassed in July 2007, with 45.7` C recorded in Demir Kapija and 45.3` C in Gevgelija. A minimum air temperature of -30.4` C was recorded in Bitola in January 1993. The largest annual sum of sunny hours, about 2 400, is in the central and southern part of Povardarie, with about 2 200 hours on the mountain massifs.

Precipitation is characterised by uneven spatial and temporal distribution across the country, due to the complex orography affecting the pluviometric regime during months, seasons and years. This distribution is accompanied by alternating periods of long droughts and high intensity rainfall, which contribute to soil erosion and land degradation.

According to the climate change scenarios developed under the National Communication on Climate Change, the Republic of Macedonia is in the group of vulnerable countries with significant mean temperature increases projected for the coming period.

	days with			Average annual air temperature (C`)	Annual precipitation (mm)
	rain	snow	fog		
Berovo	66	18	11	8.8	464.2
Bitola	95	20	22	11.5	381.3
Demir Kapija	72	11	59	13.8	391.8
Kriva Palanka	98	24	14	10.1	409.8
Ohrid	107	10	2	11.5	489.7
Prilep	89	21	10	11.6	399.7
Skopje	86	17	13	12.9	329.2
Shtip	79	17	10	12.9	310.1

Source of data: Macedonia in figures, 2012,
State Statistical Office of the Republic of Macedonia

[13] European Commission detailed country information - FYROM http://ec.europa.eu/enlargement/countries/detailed-country-information/fyrom/index_en.htm

2.1.2 Traffic access

Road Access

Republic of Macedonia is situated on the crossroads of two mayor Pan-European road corridors, defined at the second Pan-European transport Conference in Crete, March 1994 and amended at the third conference in Helsinki in 1997:

- Corridor X (Salzburg – Ljubljana – Zagreb – Beograd – Niš – Skopje – Veles – Thessaloniki, including Branch D: Veles – Prilep – Bitola – Florina – Igoumenitsa) and
- Corridor VIII (Durrës – Tirana – Skopje – Sofia – Plovdiv – Burgas – Varna).
    - Including "Branch D": Veles – Prilep – Bitola – Florina – Igoumenitsa

Source: http://balkan.fabian-vendrig.eu/macedonia

Existing high way network consists of:

- M1 high way, connecting Serbian border to the north near Kumanovo and Greece border to the south, near Gevgelia.
- M4 high way and motorway, connecting M1, and Gostivar, via Skopje
- Skopje roundabout, connecting M1 and M4 north of Skopje.

Existing highways, with relatively cheap tolls, allow relatively easy access to most of main tourist destination to majority of Macedonians and other countries in the region, except for Albania, which still have no highway connection with Macedonia, though some developments have been implemented towards Kosovo*.

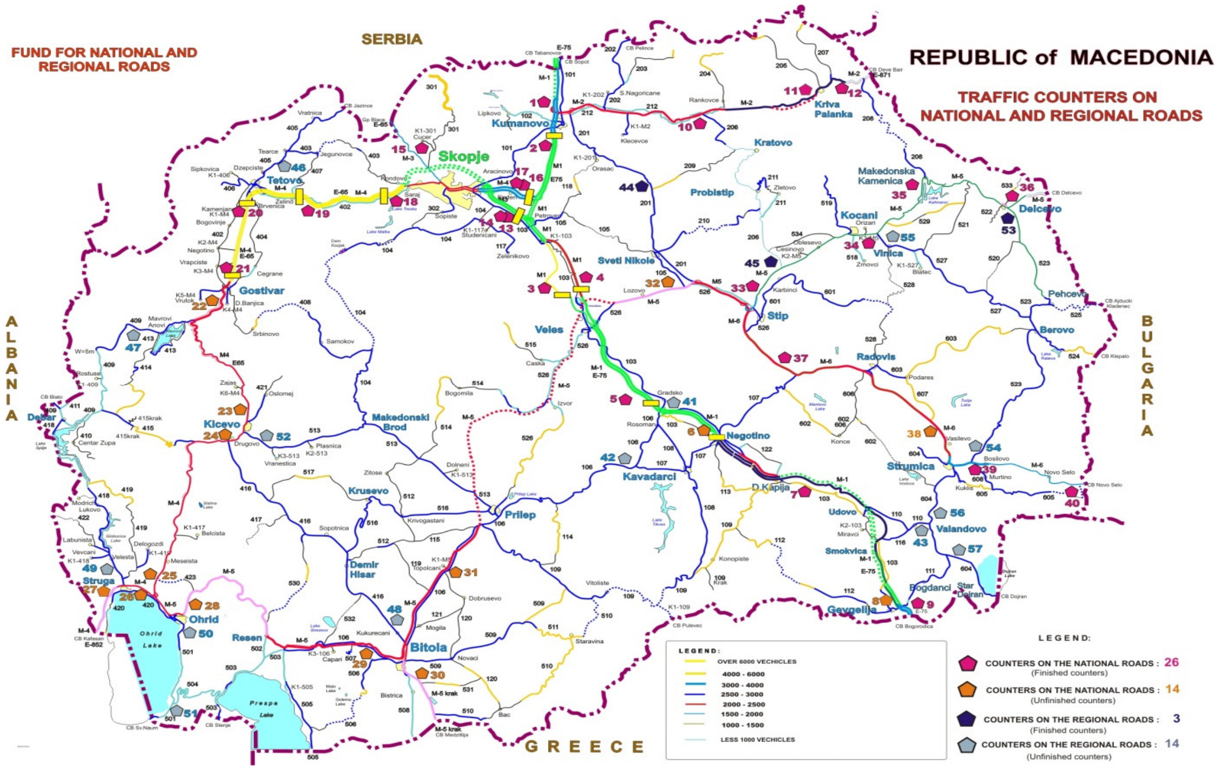
Source: Fund for National and Regional Roads of the Republic of Macedonia

Approximate cost calculation of car drive to Ohrid from:				
	Km (one way)[14]	petrol cost (EUR)*	toll (EUR)*	total (EUR)*
Tirana	139	27	0	27
Skopje	178	35	6	41
Pristina	226	44	0	44
Podgorica	316	62	0	62
Thessaloniky	281	55	10	65
Sofia	407	80	0	80
Nis	388	76	10	86
Belgrade	636	125	22	147
Novi Sad	694	136	27	163

* 1.4 EUR per 1l petrol, 7 liters per 100 km

Most distant of the observed cities (Novi Sad, Serbia) is approximately 8.5 hours of car drive far from Ohrid, due to relatively well developed network of highways in the region. According to total cost of car transport, it seems that biggest urban areas of Albania and Macedonia have lowest access costs to Ohrid/Galicica region, while Belgrade and Novi Sad have the highest costs. At the same time, majority of high-ways are north-south oriented, leaving parts of the region (Bulgaria and Montenegro) relatively distant in cost of time.

[14] Calculated by Via Michelin.com internet route planer. All costs are calculated for both directions.

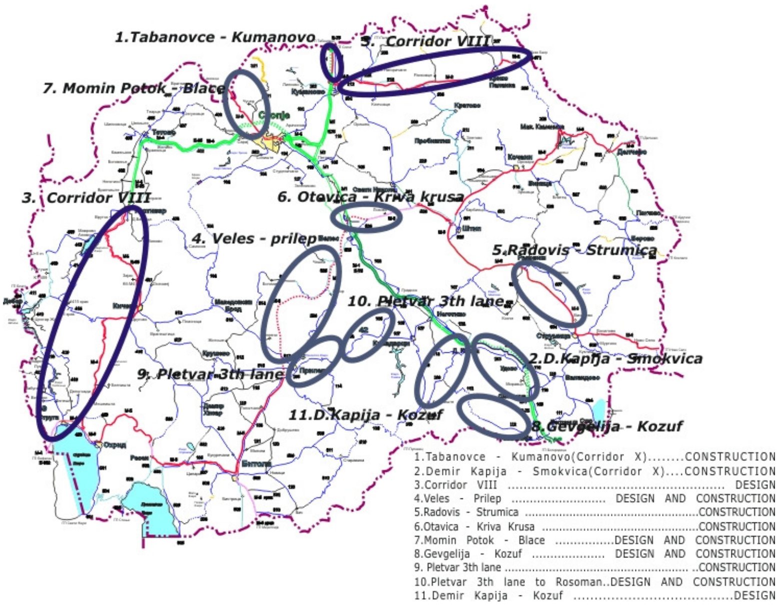


Source: Fund for National and Regional Roads of the Republic of Macedonia

Available data[15] about existing utilisation of the roads shows that traffic levels are far from maximum, allowing for additional utilisation fuelled by new tourism developments. Most of the peaks are during Summer season and National holidays like Ilinden holiday (August 2nd) towards Ohrid lake and on the Corridor X, connecting Europe with Greece, via Serbia.

According to data provided by Fund for National and Regional Roads of the Republic of Macedonia , most utilised road is high-way Skopje-Gostivar with more than 6000 vehicles per day. The road forward from Gostivar towards Ohrid/Struga seems to have much lower utilisation, between 2000 and 2500 vehicles per day.

[15] Fund for National and Regional Roads of the Republic of Macedonia



Source: Fund for National and Regional Roads of the Republic of Macedonia

Corridor VIII, connecting Skopje with Ohrid/Struga via Gostivar is among 11 priority projects of Fund for National and Regional Roads of the Republic of Macedonia. Construction of this road, along with further access to Albania may significantly increase the potential catchment area of Ohrid/Galicica tourism destination on the markets of Albania and Montenegro, while enhancing the accessibility from east and all traffic using Corridor X.

Air access

Republic of Macedonia has two international airports:

1. Skopje Alexander the great Airport and
2. Ohrid, St. Paul the Apostle airport.

Vast majority of the traffic goes through Skopje airport. Despite the 2008 contract signed between Macedonian Government and Turkish company Tepe Akfen Ventures (TAV) for a twenty-year long concession during which this company would manage Macedonia's two existing airports in Ohrid and Skopje, Ohrid airport remained heavily underutilised, with only one struggling registered flight to Zurich, Switzerland.

On the other hand, Skopje airport offers number of direct flights to key markets, like Serbia, Turkey, Croatia, Germany, Italy, Netherland, Austria, Hungary, Czech Republic, France, Denmark…

Other means of transport (railway)

According to available data, there are no train connections to Ohrid or its surroundings, as railway network does not cover the area. According to the map, the closest railway station seems to be in Kicevo, which is half way to Skopje, and thus does not represent a viable transport solution.

Source: Macedonian Railways

Having in mind that in the past, though subsidized by the Government, some direct flights from Ohrid were established, this way of transport remains an option. As there are no railway connections, it is expected that tourist arriving by roads (cars and busses) would have the strongest impact on the Ohrid/Galicica tourist market demand.

2.1.3 Economic environment

Even though Macedonian national market is relatively small in population terms, businesses in Macedonia enjoy the privilege of duty free[16] market access to 650 million customers, through three multilateral Free Trade Agreements:

- SAA (Stabilization and Association Agreement) with the EU member states
- EFTA (Switzerland, Norway, Iceland and Liechtenstein)
- CEFTA (Macedonia, Albania, Moldova, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo)

[16] http://www.investinmacedonia.com

Macedonia also has two bilateral Free Trade Agreements signed with Turkey and Ukraine, while being a member of the World Trade Organization (WTO) since 2003.[17]
Trade and economic collaboration with EU and countries of the region is the most important for Macedonian economy.
According to the "Regional Economic Prospects in EBRD Countries of Operations", published by EBRD Office of the Chief Economist in January 2013, "**South-eastern Europe** has had another year of weak economic performance in 2012. Confidence and investments remain at low levels, while macroeconomic policy is highly constrained on the fiscal side and financial sector vulnerabilities are still significant.

It seems that the whole region remains highly exposed to developments in the Eurozone, and within it to its periphery, the main market for exports. Parts of the region also suffered from drought last year, leading to much-reduced agricultural production in the second half of the year."

According to EBRD, "**Albania's** economy slowed down significantly in the first half of 2012, but some growth returned in the third quarter, largely as a result of recovery in manufacturing and extractive industries. However, Albania's strong trade, investment and remittance ties to Greece and Italy, both of which face continued economic gloom, are likely to continue to constrain growth in the coming year, and the high level of public debt, at close to the statutory limit of 60 per cent of GDP, will limit the room for fiscal manoeuvre."

Further to the same source: "**Bosnia and Herzegovina's** economy has been relatively stable in the past couple of years, but domestic consumption has remained subdued, largely due to fiscal austerity measures, falling remittances and slow credit growth. Growth in 2012 is likely to have been zero or slightly negative, and prospects for this year are little better. The 24-month US$ 520.6 million Stand-by

Arrangement with the IMF, approved in September 2012, provides a buffer against external shocks from the on-going eurozone crisis as well as a policy anchor for outstanding structural reforms."

EBRD report emphasizes that "recovery is expected to continue to be modest in **Bulgaria** into 2012, due mainly to sluggish export demand. Fiscal performance remains very good, with only a very small deficit recorded in 2012. There was also a successful Eurobond issue in July 2012; the five-year €950 million bond issue was heavily oversubscribed and achieved an impressively low coupon of 4.25 per cent. As a result, Bulgaria has significant fiscal and monetary buffers to help the country withstand further shocks. But growth in 2012 is likely

[17] http://www.investinmacedonia.com

to have ended up at around 1 per cent only, with a modest forecast increase in 2013 to between 1 and 2 per cent."

The same report further elaborates that "The economy in **Kosovo** continues to out-perform the rest of the region in terms of growth, albeit from a low base, partly because, with its low export base, it has been more insulated than others from the direct impact of the Eurozone crisis. Real GDP growth was likely around 2.5 - 3 per cent in 2012, below previous years because of a slowdown in the growth of key variables, including exports, FDI and remittances. Inflation is low, fiscal policy has been prudent and the banking sector is reasonably capitalised, has a low level of NPLs (7 per cent) by regional standards and appears profitable. However, unemployment and poverty remain significant problems."

According to EBRD, "**Montenegro's** economy is still struggling to recover from the effects of the crisis. The country's current account deficit remains high, industrial production is volatile and credit growth is still negative on a year-on-year basis. However, significant inflows of foreign direct investment continue to arrive from abroad. The continued uncertainty over the future of the aluminium complex KAP, which has been making significant losses, is another source of concern."

"Regional Economic Prospects in EBRD Countries of Operations" Report further emphasizes that **"Serbia's** economy is showing several weaknesses at present. Real GDP fell by around 2 per cent in 2012, reflecting low domestic demand and fallout from the Eurozone crisis, which has affected export demand. This, together with political and related policy uncertainty have impacted investment and general confidence. Inflation has risen sharply to around 13 per cent by year-end reflecting exchange rate depreciation and food price hikes, the latter partly caused by a summer drought which badly affected agricultural output. The government faces a major challenge in reducing the fiscal deficit (currently close to 7 per cent of GDP) and bringing down public debt, which has risen to above 60 per cent of GDP, way above the legal limit of 45 per cent. The current IMF Standby Arrangement, which has been frozen for nearly a year, will expire soon. The IMF's continued anchoring role under a potential new arrangement, currently being discussed, could be critical for stabilising market confidence under the current challenging external and domestic policy conditions."

Compared to the regional pears, **Greece** is still by far the most developed economy with highest GDP and GDP per capita terms. It is the only member of the EU and EMU in the region. Unfortunately, Greece spiral of crises is continuing to hamper both growth and consumption of the country, while joint efforts of EU, IMF and Greek Government are continuing with strong austerity measures. It remains doubtful if Greece would be able to sustain fiscal efforts in the face of a bleak economic outlook, public discontent, and political instability, necessary to reverse the depressing economy outlook.

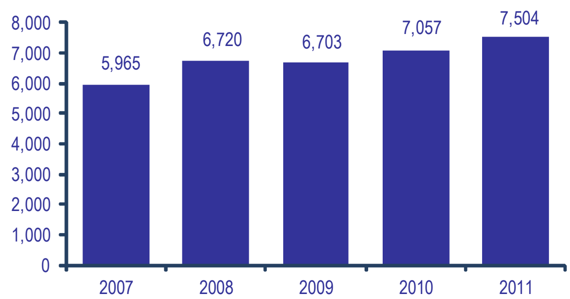
Bearing in mind that most of the countries of the region are still coping with economic crises, and that vast majority of the tourists in Ohrid/Galicica region are expected to come from Macedonia and rest of the SEE region, slow recovery may significantly influence the overall trends of demand for tourism services.

MACEDONIA - ECONOMY PERFORMANCE

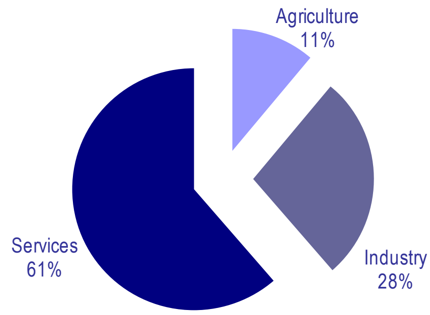
Key Macroeconomic Indicators

	2007	2008	2009	2010	2011	2012f	2013f
GDP, mill. MKD, current prices**	364,989	411,728	410,734	434,112	461,730	465,424	473,336
GDP in current (mill. EUR)**	5,965	6,720	6,703	7,057	7,504	7,564	7,693
GDP per capita in current prices (EUR)**	2,919	3,283	3,269	3,434	3,645	3,674	3,737
GDP real growth (%)*	6.1	5.0	-0.9	2.9	2.8	0.8	1.7
Current account balance (% of GDP)****	-7.4	-12.6	-6.5	-2.2	-3.1	n/a	n/a

GDP - current prices (mill. EUR)

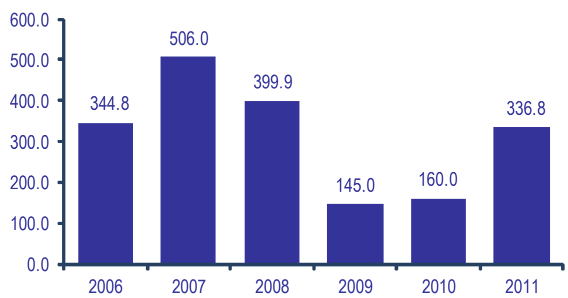


GDP structure (2011)***



	2006	2007	2008	2009	2010	2011	2012
Inflation - consumer prices annual (%)****	3.2	2.2	8.3	0.7	1.6	3.9	n/a
Unemployment rate (%)	36.0	34.9	33.8	32.2	32.0	31.4	n/a
Nominal gross wage (annual average) in MKD****	23,037	24,139	26,228	29,922			
Foreign direct investments, net (mill. EUR)*****	344.8	506.0	399.9	145.0	160.0	336.8	n/a
General gov. gross debt as a % of GDP)*******	34.9	27.6	20.6	23.8	24.8	28.1	30.5

Foreign Direct Investments (in mill. EUR)



Credit rating of Republic of Macedonia

S&P sovereign country rating is BB.
Fitch sovereign country rating is BB+.

* EUROSTAT, Real GDP growth rate - volume
** Statistical Office of Republic Macedonia
*** CIA World Factbook, 2011. est.
**** The World Bank, Indicators
***** National Bank of Macedonia
****** International Labour Organization 2011
******* Global Finance and Finance Ministry of Macedonia

According to the EBRD "**Macedonia** was affected significantly by the Eurozone crisis in 2012, which weakened demand for exports and led to a drop in investment and remittances. The fiscal deficit target was raised from 2.5% of GDP to 3.5%. The economy contracted in the first six months on a year-to-year basis, with no discernible recovery in the rest of the year. A modest upturn is likely in 2013.

The Government implemented strict fiscal policies, keeping the overall public deficit within the acceptable levels, measured as % of GDP, from -2.7% in 2009, -2.4% in 2010 and -2.5% in 2011, keeping relatively good credit ratings (S&P rewarding Macedonia with BB and Fitch with BB+).[18]

According to the European Commission - Macedonia 2012 Progress Report:

- Macedonia has maintained the consensus on the fundamental features of the economic policy set;
- Economic activity has decelerated since autumn 2011, although private consumption and investment remained rather resilient in view of the markedly weaker international environment;
- The current account deficit shrank. However, the financing of the deficit increasingly relied on foreign loans, leading to an increase in public gross external debt;
- The situation in the labour market remains weak. Unemployment continues to be very high, particularly among the young and less educated;
- The exchange rate and monetary policies have remained sound;
- Core inflation remained fairly stable and below 2%;
- In sense of interplay of market forces, the role of the state has remained largely unchanged and limited;
- Some further progress was made on facilitating market entry and exit;
- The functioning of the legal system has continued to gradually improve. However, weaknesses related to lengthy procedures, corruption and difficult contract enforcement are continuing to hamper the business environment;
- The trend towards further deepening and widening of the financial sector continued. However, the levels of financial intermediation and competition in the market are still low, constraining more dynamic growth in the private sector, particularly for SMEs. Furthermore, some regulatory and supervisory agencies continued to be impeded by insufficient levels of resource endowment and leverage.

[18] National Bank of Macedonia

Overall, the European Commission has found that the policy mix in Macedonia continued to be directed towards stability. Monetary conditions were supportive to growth, while taking into account the country's policy of a de facto peg to the euro. Public spending was kept largely in line with revenue. However, budgetary planning and the management of public expenditure have deteriorated markedly and the quality of public spending has remained weak. Unemployment continues to be very high, in particular among the young, posing a persistent major policy challenge. Macro-fiscal risks are mainly related to external shocks, such as a further decline in external demand, higher import prices and/or a drop in current transfers.

The most problematic factor for doing business remains to be "Access to financing"[19]. As Government does not have the resources or ability to fill in the gap with public investments, the whole economy is in the stand-steal. The phenomenon is affecting all of surrounding markets and countries. With both rising and high unemployment levels in the region, economy remains to be week and underperforming.

UNEMPLOYMENT RATE IN THE REGION	
	2011.est
Albania	13.40%
Bosnia and Herzegovina	43.30%
Bulgaria	8,8 %
Greece	17.00%
Macedonia	29.10%
Montenegro	19.50%
Serbia	16.70%

Source: www.cia.gov

Thus, in order to attract FDIs in specific sectors like tourist development of new sites, similar to Galičica, Government needs to invest into infrastructure and even to initiate some site developments similar to other Governments in the region.

Macedonia remained with the same Global Competitiveness Index in 2011-12 like a year before, keeping the 79 place, out of 142 observed countries and regions. Main obstacles to for doing business in Macedonia are[20]:

[19] World Economic Forum, Country Profile, Macedonia
[20] World Economic Forum, Country Profile, Macedonia

- Access to financing (19.7%)
- Inefficient government bureaucracy (13.2%)
- Inadequately educated workforce (10.0%)
- Poor work ethic in national labor force (9.8%)
- Corruption (8.8%)

According to 2013 Index of Economic Freedom, "Macedonia's economic freedom score is 68.2, making its economy the 43rd freest in the 2013 Index. Its overall score has decreased by 0.3 point from last year, with modest declines in monetary freedom, freedom from corruption, and labor freedom outweighing small improvements in the control of government spending and trade freedom. Macedonia is ranked 21st out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

Macedonia's transition to a more open and flexible economic system has been facilitated by substantial restructuring measures over the past decade. While maintaining macroeconomic stability, it has made considerable progress in income growth and poverty reduction. Competitive flat tax rates and a permissive trade regime, supported by a relatively efficient regulatory framework, have encouraged the development of a growing entrepreneurial sector.

Implementation of deeper institutional reforms is critical to strengthening the foundations of economic freedom and inducing more dynamic long-term economic expansion. Systemic weaknesses persist in the protection of property rights and enforcement of anti-corruption measures. The judicial system is weak, undercut by lingering corruption, and vulnerable to political influence."

Macedonia – Topic rankings	DB rank 2013	DB rank 2012	Change 13/12
Starting a Business	5	6	1
Dealing with Construction Permits	65	65	0
Getting Electricity	101	116	15
Registering Property	50	50	0
Getting Credit	23	23	0
Protecting Investors	19	17	-2
Paying Taxes	24	24	0
Trading Across Borders	76	70	-6
Enforcing Contracts	59	58	-1
Resolving Insolvency	60	56	-4

Source: http://www.doingbusiness.org/data/exploreeconomies/macedonia,-fyr

According to World Bank doing business report, Macedonia has made incremental progress in two out of 10 observed sectors, but have failed to make any progress or even has worsen business environment in remaining 8 sectors.

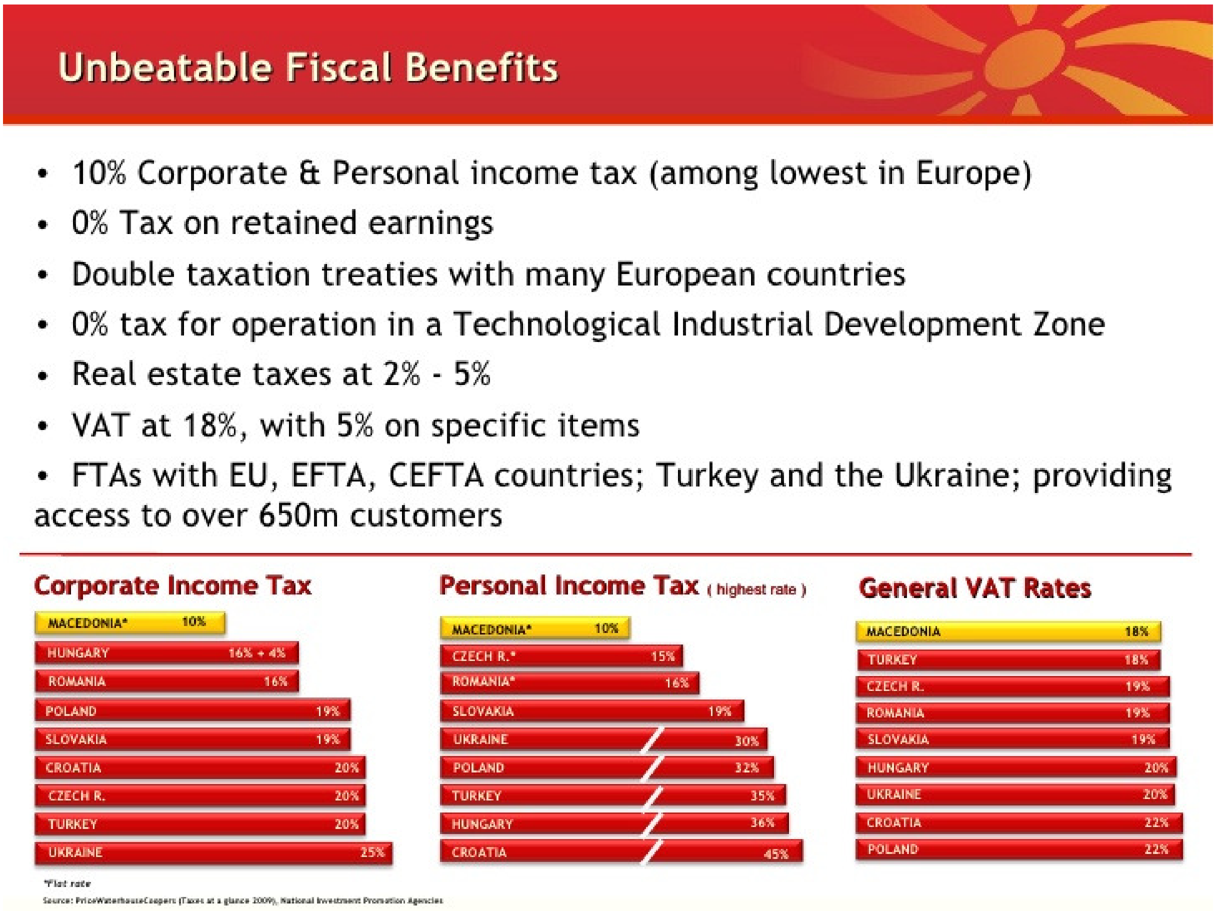
Getting electricity still remains to be the most hampering sector for economic development, although some progress was evident in last year. Dealing with Construction Permits is second most affecting sector that hampers economic development in Macedonia. Macedonia made the biggest progress in "Trading across borders".

Taxation

Tax	Tax Rate
Corporate Income Tax	10%
Personal Income Tax	10%
Value Added Tax	General Tax Rate: 18%
	*Preferential Tax Rate: 5%
Property Taxes	
Property Tax	0.1% – 0.2%
Inheritance and Gift Tax	**2 – 3% or 4 – 5%
Sales Tax on Real Estate and Rights	2 – 4%

Source of data: http://www.investinmacedonia.com/node/42

Republic of Macedonia remains to be among countries with lowest Corporate Income Tax, Personal Income Tax and General VAT rat in Europe.

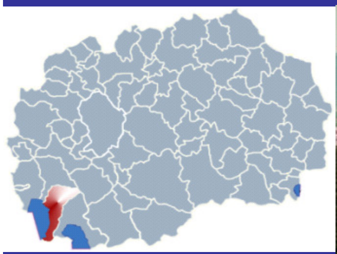


Source: http://www.slideshare.net/filippetkov/2010-invest-in-macedonia

2.2 GALIČICA AREA

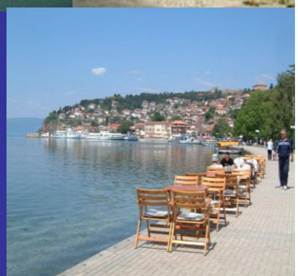
2.2.1 Ohrid municipality – general facts

THE MUNICIPALITY OF OHRID



Ohrid - the city of centuries...

Location: South-western statistical region of Macedonia
Coordinates: 41°07′N 20°48′E
Elevation: 695-800 m
Area: 203 km^2
Population: 55,749 (2002.)
Population density: 256/km^2
Climate: Modified Mediterranean moderate continental
Mayor: Alexander Petreski



Location: City of Ohrid is in the South-Western part of Macedonia, located on the northeastern shore of Lake Ohrid, whose third belongs to the Republic of Albania. To the west, high mountain Galicica dominates the terrain, with its highest peak Magaro (2254m). The Ohrid lake is 4-10m years old, with maximum depth of 286m, surface of 358m2, altitude of 695m length of 31km and width of 15km. The transparency of the water is 22m with summer maximum water temperature of 24 - 25 ° C.

Climate: Ohrid is 110 km distant from the Adriatic Sea. It microclimate is a modified Mediterranean climate - moderate continental, but due to the high mountains - 2000 and altitude 695m has a mountain climate as well. Average annual temperature is 11 ° C, average winter temperature is 2.7 ° C and average summer temperature is 19.6 ° C, with annual insolation of 2,300h per year.

Population: According to estimates based on latest Census held in 2002, Ohrid has close to 56.000. The majority of population are Macedonians (85%), followed by Albanians (5.3%), Turks (4%) and others. Dominant religion is Christian Orthodox.

According to the State Statistical Office of the Republic of Macedonia, „the Southwest region" comprises the extreme southwest part of the Republic of Macedonia. According to the 2011 population estimates, 10.8% of the total population in the country lived in this region. It takes up 13.4% of the total area of the country and has a population density of 66.3 citizens per km2.

The configuration of the terrain, encompassing the river basins of Treska and Crn Drim and the Ohrid Lake basin, indicates the great hydro potential of the region, partly utilized by the artificial lakes Shpilje and Globochica with their hydroelectric plants. These natural geographical characteristics and the mild climate provide opportunities for development of fruit growing. The region includes a number of high mountains covered with lush forests, which provide timber for the needs of the wood processing industry.

Tourism has great importance for the development of this region, mostly owing to the natural characteristics of Ohrid Lake and the cultural and historical significance of the Ohrid area, protected by UNESCO. No less important for the development of tourism is the National Park Galichica, as well as the mineral and hot water springs near Debar."

2.2.2 Ohrid History and culture

According to the City of Ohrid official web page, "the shores of Lake Ohrid have been inhabited since prehistoric times. Archaeological findings speak of settlements form the Neolithic period (the early Stone Age) 6.000 years B.C." Thus, the region around Ohrid lake, offers plenty of monuments testifying about past times, presenting a true archaeological treasury. There are many archaeological sites from the Neolithic period in this region.

The oldest recorded mention of the city Lichnydos – the ancient name of Ohrid, occurs in connection with Philip 2nd of Macedonia (353 BC). And here on this region the Slavs came and settled in the 6th century and give the city the new name Ohrid.

It was in 879, when the name Ohrid first appeared. After, in the late 9th and 10th century, Ohrid became the capital and stronghold of the Samoil's medieval Macedonian state. In the same period, Ohrid was also the seat of the Ohrid Patriarchate, which was later downgraded to an Archbishopric and placed under the authority of the Ecumenical Patriarch of Constantinople, following the Byzantine conquest of the city in 1018.

As an episcopal city, Ohrid was an important cultural center. Almost all surviving churches today were built by the Byzantines, the rest of them date back to the short time of Serbian rule during the late Middle Ages.

At the end of the 14th century, the Ottomans conquered the city and ruled it until 1912, during which the town was a part of the Monastir Sandzak, with a seat in Bitola.

Even today, it is commonly said among the population of Ohrid region, that there used to be 365 churches in Ohrid – one for each day in the year.

However, according to Official web site of Ohrid City, among most important cultural and historical monuments in City of Ohrid and the coast of Ohrid Lake are:[21]

- Ohrid Fortress
- Golden Mask
- Ohrid Isis
- Ancient theatre
- early Christian Episcopal Church
- Clement's Monastery of Saint Clement and Panteleimon Plaosnik
- Naum Monastery of Holy Archangels
- Art of Samuel
- St. Sofia – Torrent
- St. Mary Perivlepta (St. Clement)
- Church of St. John the Theologian – Kaneo
- Ohrid Icon Gallery

Ohrid churches from the fourteenth century are:

- Church of St. Nicholas Hospital
- Church of St. Mary Hospital
- Little St. Clement
- Church St. Demetrius
- Church St. Constantine and Helen
- Church St. Cosmas and Damian
- Church of St. Mary Celnica
- St. Nicholas the Wonderworker – Chelnichki

[21] Ohrid City official web page

Churches near Ohrid:

- Zaumska
- Rural churches of the fifteenth century
- Assumption in Velestovo
- Leskoec
- St. George Godivje (Debarca)
- Church and Monastery Si St in Leshani (Debarca)
- cave churches from the thirteenth to the fifteenth century end Ohrid Lake
- St. Mary Kaneo
- Erasmus
- St. Stephen
- St. Mary Peshtanska
- Ohrid churches of the nineteenth century
- St. Mary Kamensko
- St. Nicholas Gerakomija
- St. Cosmas and Damian – St. Handed Major
- Catholic Church in Ohrid
- St. Cyril and Methodius
- Islamic monuments from the Ottoman period in the of Ohrid

Among other tourist attractions are:

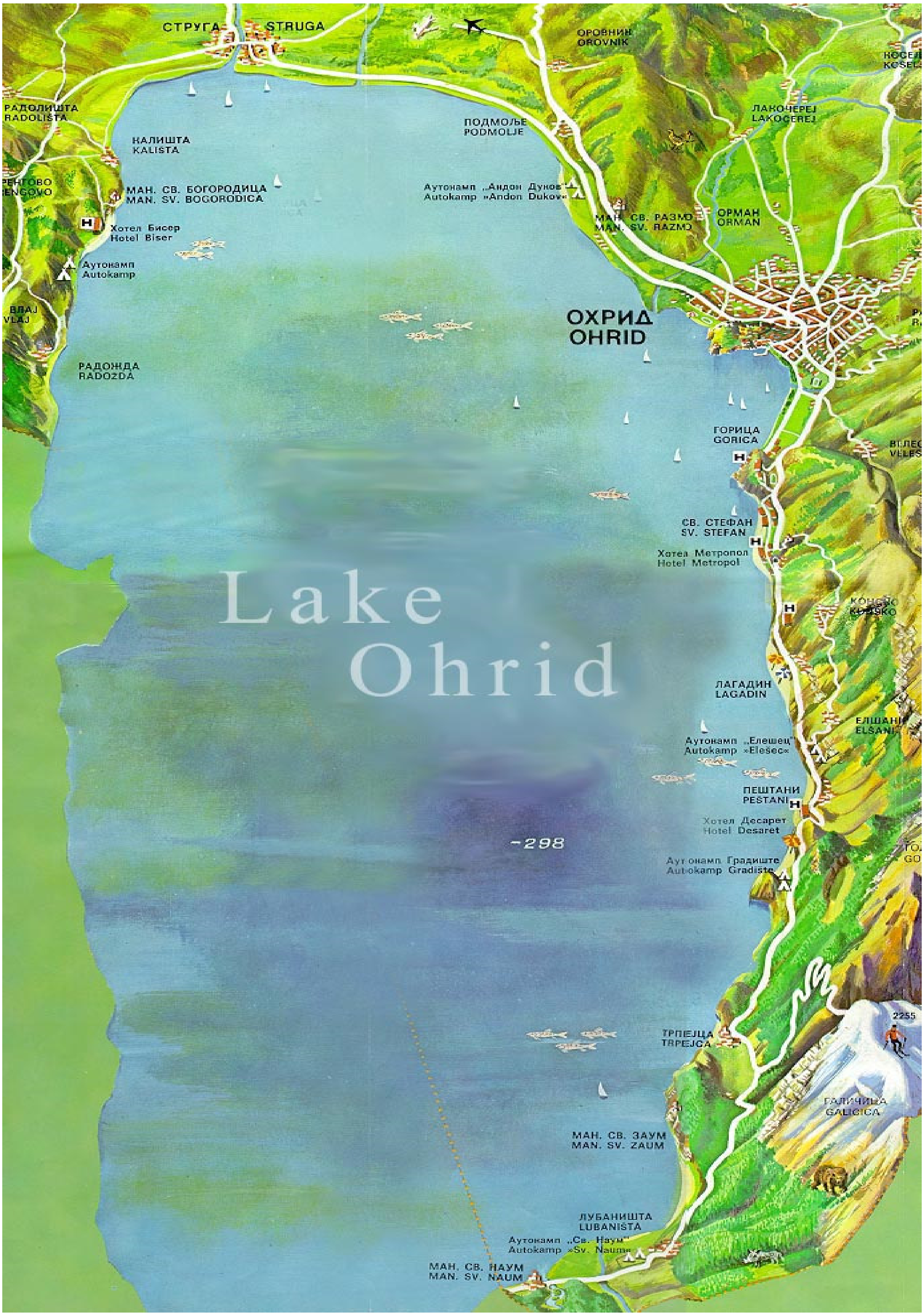
- Classy archaeological exhibits in the National Museum
- Constitution of Ohrid
- City architecture of the nineteenth century
- Ohrid Bazaar
- Bay of the bones, prehistoric Palafitte Settlement

Even though many of historic and cultural object exist in the region, UNESCO “branded” heritage, along with few monasteries (St. Naum), churches (St. Sofia), “Bay of Bones” museum and old city centre and fortress will probably continue to play the most important role as tourist attractions, as many of the objects have been neglected for years without any reconstruction or renovation.

Throughout the year, many events bring tourists to City of Ohrid. However, most of the events takes place during summer season from June to August.

Events Calendar of City of Ohrid		
January	19	Epiphany - baptism of Lake Ohrid water
February	5	Prlichev's orations - days of the Ohrid poet Grigor Prlichev
June	10	ECO festival - international festival of ecology and cultural tourism
	21	Day of Lake Ohrid Summer 2010
	25	Ohrid International Swimming Marathon
	26	Festival of French Film in Ohrid (Till July 2nd)
July	6	Balkan festival of folk songs and dances
	12	Ohrid Summer Festival - a traditional musical and theatrical cultural manifestation, held each year in Ohrid since 1960
August	2	International sailing regatta held on occasion of Ilinden, national and state holiday
	15	Macedonian Language, Literature and Culture Seminar - gathering of linguists from all over the world
	26	Ohrid Choir Festival - the biggest choral event in south-east Europe
	30	Ohrid Fest - international festival of pop and folk music
December	8	Municipality day, feast day of St. Kliment of Ohrid, protector and patron saint of the city

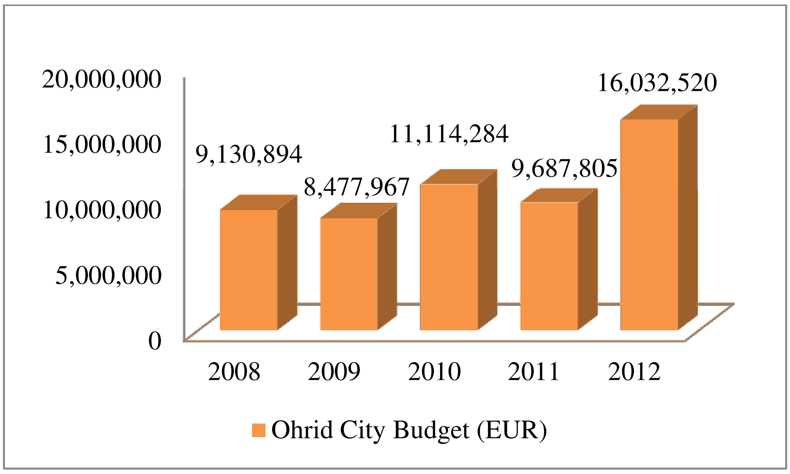
Source of data: City of Ohrid official web page



Source: http://mappery.com/map-of/Lake-Ohrid-Tourist-Map

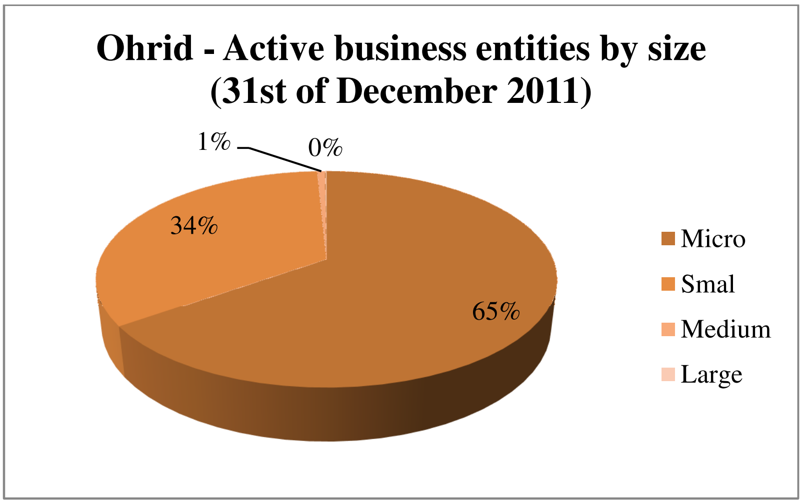
2.2.3 Economy

Ohrid city budget spending has the upwards trend, with more than 16 million EUR budgeted in 2012, compared to 9.6 million EUR in 2011. Increased budget of the City allows for more intensive investments in infrastructure in the municipality.



Source: City of Ohrid official web page

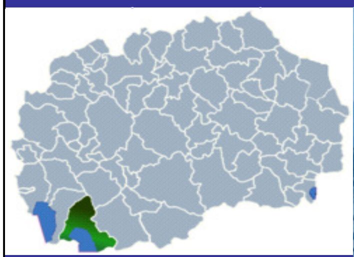
Most of Ohrids economy is organized through "micro" size of enterprises, which represent 65% of all registered business entities in the city. Small business entities represent 34%, while medium and large enterprises represent only 1% of registered business in the municipality.

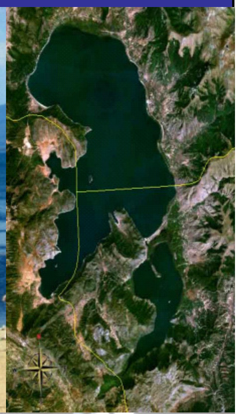


Source of data: Statistical yearbook of Macedonia 2012,
State Statistical Office of Republic of Macedonia

2.2.4 Resen municipalities – general facts

THE MUNICIPALITY OF RESEN





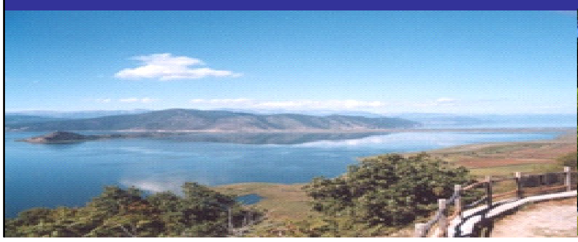
Resen - on the Roman path "*Via Egnatia*"...

Location: South-western statistical region of Macedonia
Coordinates: 41°05′20″N 21°00′44″E
Elevation: 885 m
Area: 739 km^2 out of which water covers 177km^2
Population: 16,825 (2002.)
Population density: 30/km^2
Climate: Modified Mediterranean moderate continental
Mayor: Mihail Volkanovski

Location: City of Resen is in the South-Western part of Macedonia, located in the Prespa valey, north of Lake Prespa, which is divided among three countires (Macedonia, Albania and Greece). To the west and south-west, high mountain Galicica dominates the terrain, with its highest peak Magaro (2254m). The Prespa lake has maximum depth of 54m, surface of 273m2, altidute of 853m length of 34km and width of 10km.

Climate: Municipal climate is temperate continental with Mediterranean influence, characterized with hot summers with crisp nights and mild winters. The average annual relative humidity is 64%. The average annual temperature is 10.2 ° C, with the warmest month of July with an average temperature of 21 ° C. The minimal average temperature is in January, 0.3 °C. Prespa valley is characterized by long-term solar radiation and average amount in the range from 1 400 to 2 600 hours. Fog in the Prespa area is rare.

Population: According to estimates based on latest Census held in 2002, Prespa has close to 56.000. The majority of population are Macedonians (76.1%), followed by Turks (10.7%), Albaninans (9.1%) and others. Dominant religion is Christian Orthodox.



According to the State Statistical Office of the Republic of Macedonia: “The Pelagonia Region is located in the south of the Republic of Macedonia and comprises the Pelagonia basin and the Prespa Lake basin. This region is the largest, covering 18.9% of the total land area of the country, but also one of the most sparsely populated, having a population density of 49.5 people per km2. In 2011, 11.3% of the total population of the Republic of Macedonia lived in this region.

Pelagonia is a region with pronounced emigration of the population, and, as a result, has a negative natural increase. The Pelagonia basin, which is the largest plain in the country, the Prespa Lake basin, the specific climate and the extensive hydrographical network are the basic preconditions for the agricultural development in the region. All of this makes this region the breadbasket of the country and the largest producer of tobacco, apples and milk.

At the same time, the largest coal deposits are located in this region, making it the country’s largest producer of electricity. The Prespa Lake, the Pelister National Park and the winter tourist resort Krusevo represent the basis for development of summer, winter and cultural tourism in the region.”

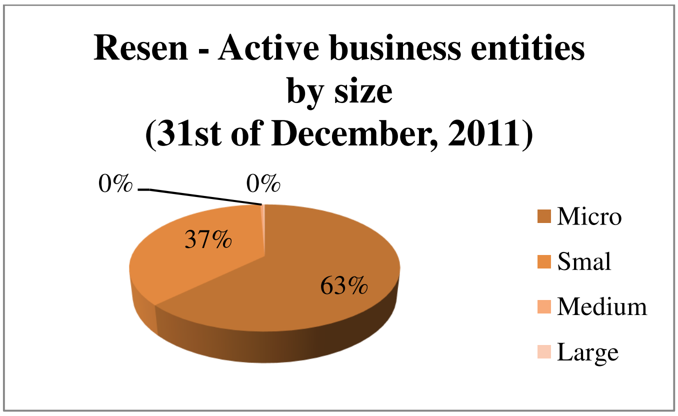
2.2.5 History and culture

According to official web page of city of City of Resen, main religious and cultural monuments are:

- St. George church – Kurbinovo, built in 1191
- St. Ilija church – Grncari
- St. Peter church – on the island of Golem Grad, built in 1360.

The city is also hosting artists from around the world through Ceramics colony - since 1973. Resen is a hometown of Ms. Keraca Visulceva - a famous Macedonian painter (1910-2004). The city has organized a museum exhibition dedicated to the late artists, in the cultural center "Dear Tozija" as a gesture of respect for the rich and significant legacy of this artist, whose life work was completely donated to Macedonia.

2.2.6 Economy



Source of data: Statistical yearbook of Macedonia 2012,
State Statistical Office of Republic of Macedonia

Resen economy is completely organized through Micro and Small business entities, with almost no medium and large entities present in the municipalities.

2.2.7 Regions Infrastructure and current planning framework

The Spatial plan of Ohrid-Struga region and the Plan for Management of National Park Galicica 2010-2020, provides detailed planning framework of development two municipalities and National Park.

According to the Spatial development plan of Ohrid-Struga region for period 2005-2020, both Ohrid and Struga city centres are covered with water pipes, supplying the needs of their citizens. Currently, water pipes stretch south of Ohrid, along the cost of the lake to Lagadin village, covering almost half of the lakes cost line, towards Albanian border. Water pipes suppling water also stretch south of Struga to village Mali Vlaj, towards Albainan border.

Water supply to the rest of the cost line is supposed to be developed according to this Plan both south of Struga and south of Lagadin, to Albanian border by 2020.

Sewage system is also developed in city centres of Ohrid and Struga, parallel to water pipes. However, at the moment there are two independent sewage systems, each in one city, that are planned to become one integrated system by 2020. South of Struga, sewage system is fully developed, almost to Albanian border, while south of Ohrid, sewage system is constructed along the cost line up to village of Elsani.

Telephone cables are constructed all along the coast line of Ohrid lake, allowing all of the villages to have access to telecommunication services.

Majority of both municipalities of Ohrid and Struga are situated in the seismic region of 8` by MKS-64 standards, making the region highly vulnerable to possible earthquakes of devastating power. Parts of Ohrid municipality, south of village Pestani is situated in the seismic region of 9` by MKS-64 standards according to the Spatial plan.

According to the same Spatial plan, a railway construction is planned to Ohrid city and along the Ohrid lake coast line. The Plan also envisages the construction of new highway connecting Ohrid with existing highway network in Macedonia via Corridor VIII.

Seasonal water transport exists along the coast line of Ohrid lake, with plan to develop an international ferry connection to Albanian city of Pogradec and make the docking also possible in the villages of Trepejca and Ljubanista and also close to Elsani village.

The Plan envisages a hidrodrom constructed in the shore of Ohrid city.

Galicica mountain, has no infrastructure developed, expect for the parts along the lake Ohrid coast line. There is only one road constructed on the mountain, connecting lake Ohrid near Trpejca village and lake Prespa near Stenje village. The road is fairly devastated and needs to be fully reconstructed.

New 400Kv trafo-station (electric transformation station) between Ohrid and Struga with connection to Bitola electric lines is planned by 2020.

Tourism development in Galicica national park, according to the plans, is mainly focused on cultural and natural sights, mountain, rural and ecotourism, hunting and fishing. With more than 130 different species of trees and bushes, Galichica is one of Europe's richest national parks in terms of vegetation.

2.3 CONSLUSIONS OF THE SITUATION ANALYSIS

Following are the key conclusions on general situation of Macedonia and project area relevant for Galičica project development:

- Macedonia is characterized by Increasingly aging population, but progressive urbanization. Most of the population is concentrated in the north and east regions, well connected with Ohrid area.
- Distribution of wealth shows rising inequality (GINI) i.e. significant share of income (70%) is held by 40% of richest population affecting rather low share of middle class consumers;
- Macedonia is characterized by modest overall economic development:
    - Growing economy (GDP and GDP per capita);
    - Growing unemployment;
    - Volatile level of FDI;
    - Stable Credit ratings;
    - Low inflation;
    - Low average salary;
    - Low public debt;

  - Unfavourable economic environment in the regional markets, due to prolonged spill-over effects caused by crises in the EU zone;
  - Favourable taxation policies.
- Macedonia has the following favourable aspects for tourism development:
  - Favourable climate for both winters and summer tourism products.
  - Lowest price level index compared to all of the observed European countries;
  - Relatively favourable traffic access through existing functional airfield near Ohrid and highways, corridor X that is already in function and corridor VIII among 11 priority Government projects.
- Besides the above mentioned strongholds deriving from national situation, project can lean on the following facts:
  - Galicica is one out of three existing National parks in Macedonia and the only one without serious tourism infrastructure in place;
  - Ohrid lake, set immediately to project area, is the strongest tourism brand of Macedonia, a UNESCO heritage with plenty of historical and cultural sites and Developed tourism supply.

CHAPTER 3

MARKET ANALYSES

Horwath HTL

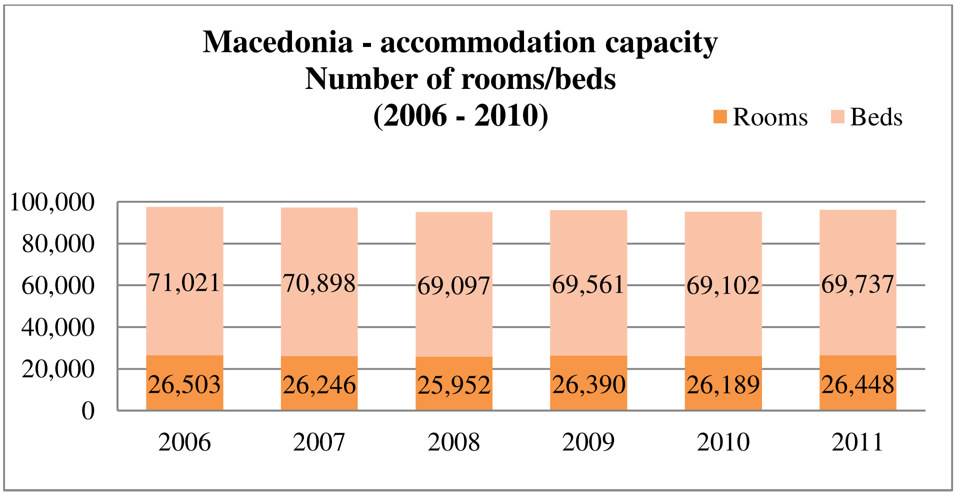
Hotel, Tourism and Leisure

3 MARKET ANALYSES

3.1 MACEDONIA TOURISM AND HOTEL MARKET

3.1.1 Accommodation supply

According to latest data provided by State Statistical Office of Republic of Macedonia, there are 69,737 available beds in 26,448 rooms in registered accommodation supply in Macedonia.



Source of data: State Statistical Office of Republic of Macedonia

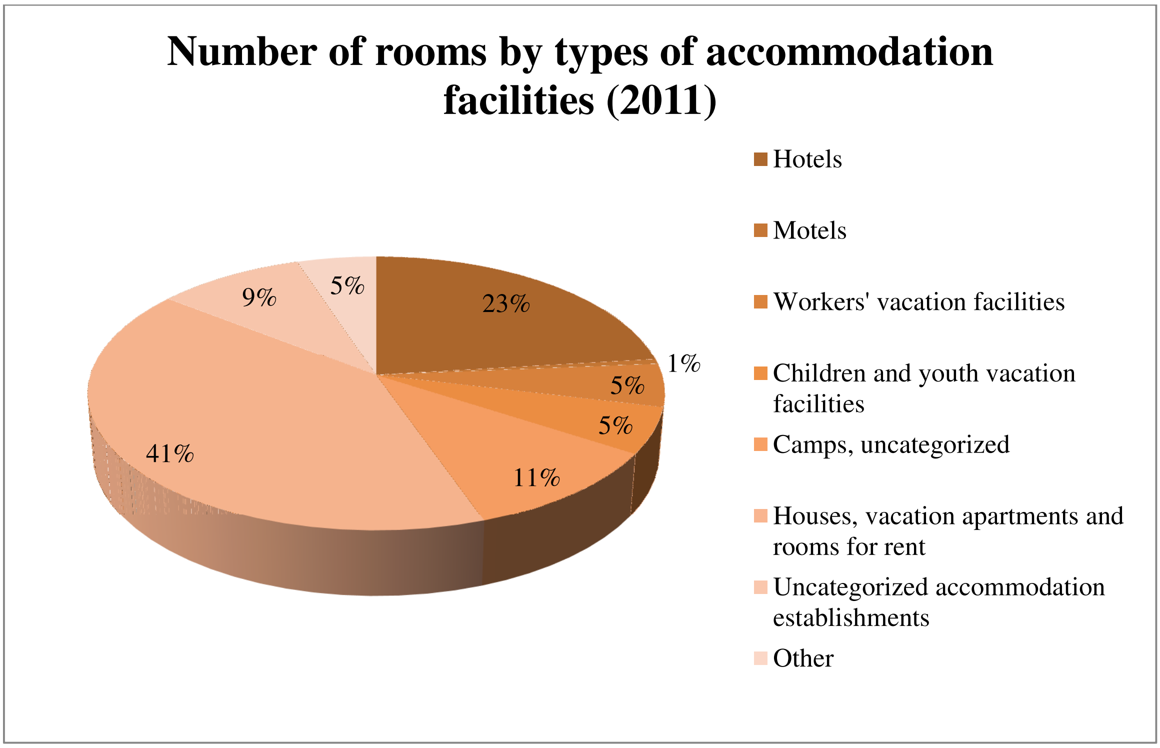
There is relatively low volatility of registered supply of beds and rooms in Macedonia. Relatively low volatility is probably the consequence of relatively low Greenfield investments inflow in tourism supply capacities. Furthermore, we can observe a slight decrease in number of rooms and beds in 2011 compared to 2006.

In 2011, Houses, vacation apartments and rooms for rent represented close 41%, while hotels represented 23% of total accommodation supply in Republic of Macedonia.

At the same time, we can observe that “Hotels accommodation” had the strongest growth of 28.71%, compared to other types of accommodation, while “Uncategorized accommodation establishments” followed by “Children and youth vacation facilities” and “Workers' vacation facilities” had the strongest decline in total number of available rooms.

Number of rooms by types of accommodation facilities									
	Hotels	Motels	Workers' vacation facilities	Children and youth vacation facilities	Camps, uncategorized	Houses, vacation apartments and rooms for rent	Uncategorized accommodation establishments	Other	Total
2008	4,747	104	1,432	1,548	2,916	10,569	3,449	1,187	25,952
2009	5,142	129	1,508	1,592	2,903	10,624	3,292	1,200	26,390
2010	5,651	159	1,352	1,431	2,784	10,827	2,663	1,322	26,189
2011	6,110	152	1,334	1,431	2,782	10,817	2,481	1,341	26,448
% of change (2008/2011)	128.71	146.15	93.16	92.44	95.40	102.35	71.93	112.97	101.91

Source of data: State Statistical Office of Republic of Macedonia



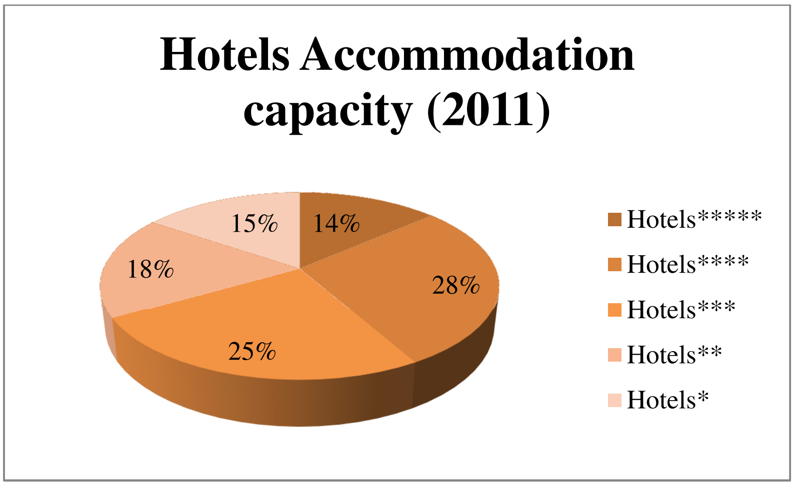
Source of data: State Statistical Office of Republic of Macedonia

Hotels with three stars had the most tremendous growth rate (336%) in total accommodation capacity in the period 2008/2011, compared to other types of hotel accommodation. Even though number of international high-end luxury brands is still incremental in Macedonia, hotels with five and four stars had remarkable growth of 132% and 122% respectively. Hotels with two and one star seem to be losing their market penetration, due to pressure from other types of relatively affordable accommodation like private houses, vacation apartments and rooms for rent.

Hotels Accommodation capacity					
	2008	2009	2010	2011	% of change 2008/2011
Hotels*****	628	688	709	833	132.64
Hotels****	1408	1293	1453	1719	122.09
Hotels***	452	728	963	1522	336.73
Hotels**	1307	1402	1541	1088	83.24
Hotels*	952	1031	985	948	99.58

Source of data: State Statistical Office of Republic of Macedonia

In 2011, the highest hotels market penetration in Republic of Macedonia, had four star hotels, followed by three stars hotels. The lowest market penetration had five stars hotels.



Source of data: State Statistical Office of Republic of Macedonia

East statistical region of Republic of Macedonia had the strongest relative growth of both number of rooms and number of beds. Polog and Southwest statistical region of Macedonia had only incremental changes in number of available beds and rooms, while most of other regions suffered from downsizing of available beds and rooms, with strongest decrease in Vardar and Pelagonia regions. The only outliers are Skopje and Northeast statistical region, where we can observe relatively strong decline in number of available rooms, but also relatively strong increase in number of available beds.

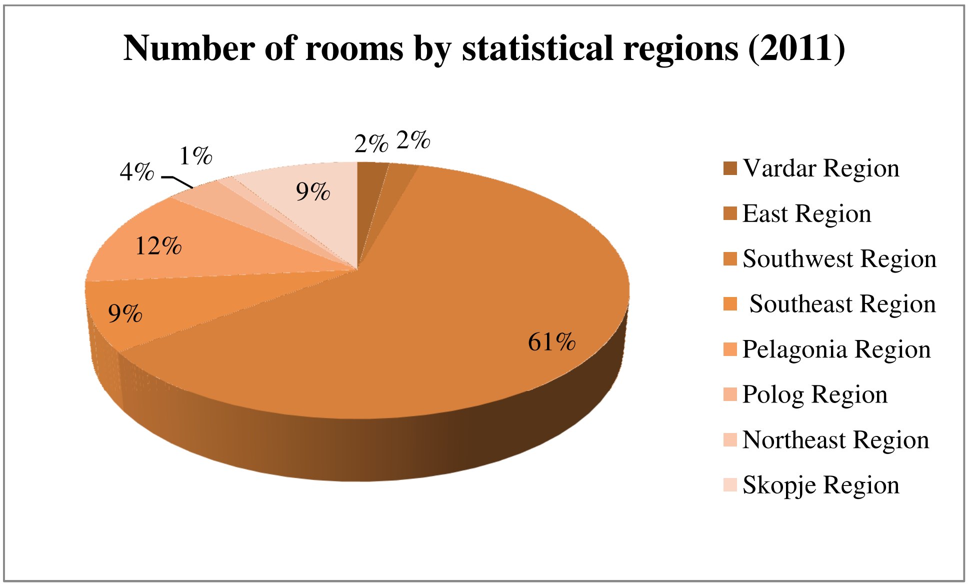
Republic of Macedonia is divided into eight statistical regions.

Source: http://upload.wikimedia.org/wikipedia/commons/f/f1/Regions_of_Macedonia-en.svg

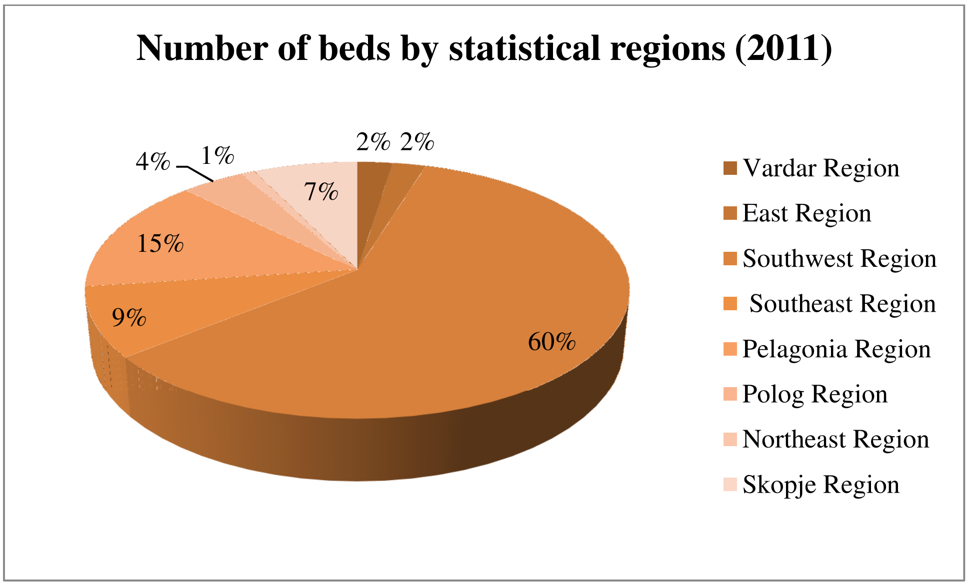
	Number of rooms				Number of beds					
	2008	2009	2010	2011	2008	2009	2010	2011	Rooms, % of change 2008/2011	Beds, % of change 2008/2011
Vardar Region	550	508	554	589	1,504	1,360	1,496	1,701	93.38	88.42
East Region	588	598	533	544	1,729	1,718	1,591	1,606	108.09	107.66
Southwest Region	16,154	16,369	16,013	16,033	41,703	42,103	41,458	41,454	100.75	100.60
Southeast Region	2,095	2,152	2,105	2,277	5,893	5,750	5,724	6,069	92.01	97.10
Pelagonia Region	3,053	3,102	3,390	3,330	8,993	8,999	10,229	10,165	91.68	88.47
Polog Region	1,020	1,080	1,011	1,018	3,046	3,182	3,057	3,058	100.20	99.61
Northeast Region	291	297	292	302	800	805	633	645	96.36	124.03
Skopje Region	2,201	2,284	2,291	2,355	5,429	5,644	4,914	5,039	93.46	107.74
total	25,952	26,390	26,189	26,448	69,097	69,561	69,102	69,737		

Source of data: State Statistical Office of Republic of Macedonia

In 2011, Southwest statistical region continued to be the biggest in terms of accommodation supply in Macedonia, in both number of rooms and number of beds. Pelagonia statistical region remains to be the second most important region of Macedonia in terms of available accommodation capacities, followed by Southeast and Skopje statistical regions.

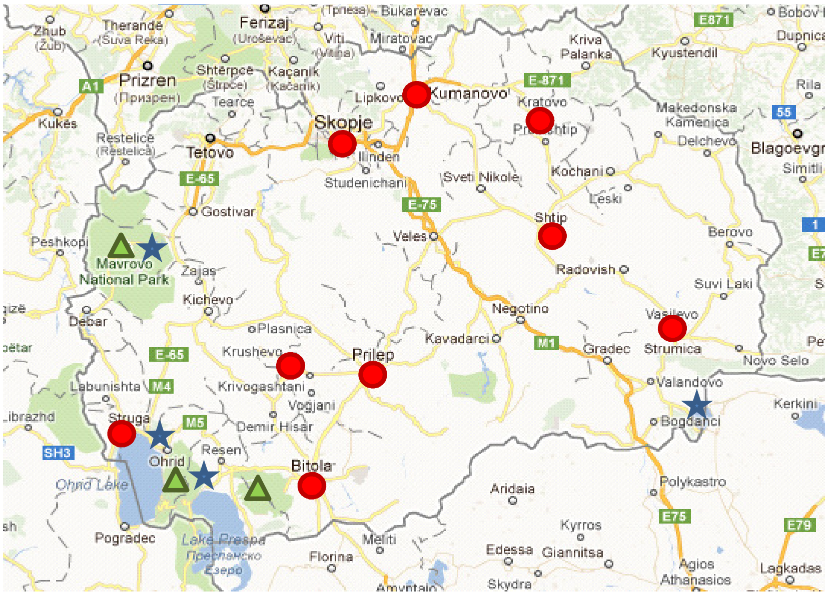


Source of data: State Statistical Office of Republic of Macedonia



Source of data: State Statistical Office of Republic of Macedonia

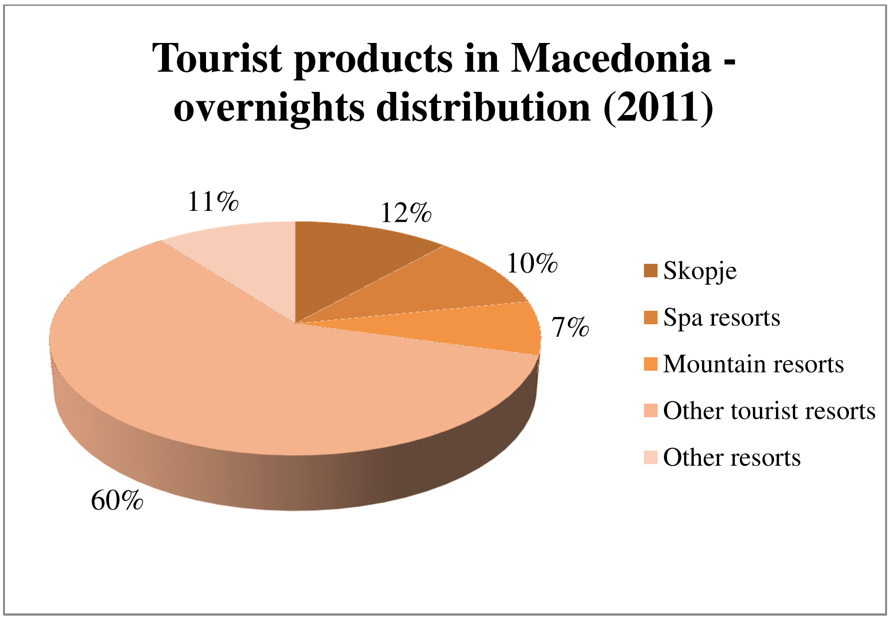
3.1.2 Key attractions and destinations



CITIES: LAKES: NATIONAL PARKS:

Apart from Ohrid as the most popular tourist destination in Macedonia, other key tourist destinations in the country include:

- Skopje, as the capital city of Macedonia, and a city break and MICE (MICE – Meetings, Incentives, Conferences, Exhibitions) destination, holding 12% share in the total number of tourist overnights;
- Spa resorts, holding 10% share in the total number of tourist overnights;
- Mountain resorts, holding 7% share in the total number of tourist overnights;
- „Other tourist resorts“ and „Other resorts“ hold 71% of total market of tourist overnights.



Source of data: State Statistical Office of Republic of Macedonia

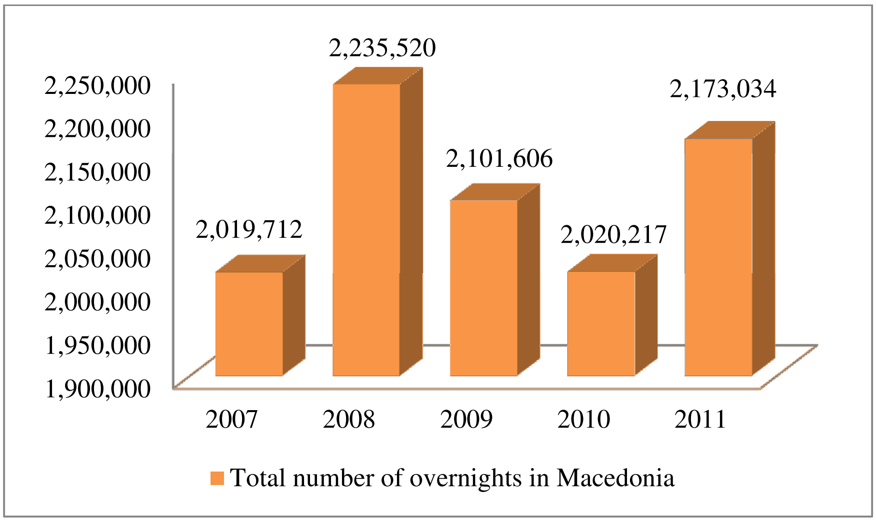
With growth rate of 92.57%, in period 2007-2011, mountain resorts have experienced the strongest growth in number of tourist overnights compared to other types of resorts. SPA resorts were also has strong growth of number of tourist overnights, reaching growth rate of 84.12% in the same period. At the same time, other resorts and Skopje, had relatively moderate growth rates of number of tourist overnights, 37.7% and 18.39% respectively. Other tourist resorts, experienced a decline in number of tourist overnights in the observed period.

Tourist arrivals and nights spent, by types of resorts						
	2007	2008	2009	2010	2011	2007/2009
Skopje	214988	251950	240695	229521	254533	118.39
Spa resorts	119835	137166	134840	216526	220640	184.12
Mountain resorts	83806	110012	120891	160336	161382	192.57
Other tourist resorts	1436121	1562487	1418318	1250866	1309184	91.16
Other resorts	164962	173905	186862	162968	227225	137.74

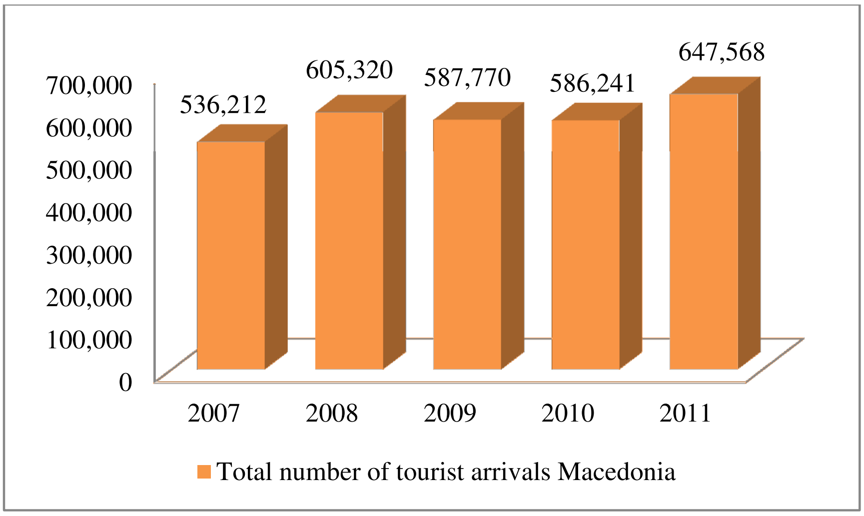
Source of data: State Statistical Office of Republic of Macedonia

3.1.3 Demand

Total number of tourist arrivals in Macedonia has a slowly growing trend, with relatively low volatility. On the other hand, total number of overnights in Macedonia, although has upwards trend as well, has relatively much higher volatility.



Source of data: State Statistical Office of Republic of Macedonia



Source of data: State Statistical Office of Republic of Macedonia

Both domestic and foreign tourist arrivals in Macedonia in period 2007-2011, have grown, but growth of number of foreign tourist arrivals (42%) has significantly outperformed growth of domestic tourist arrivals (4.5%) in the observed period. At the same time, number of domestic tourist overnights has slightly declined, while number of foreign tourist overnights has strongly grown for more than 45%.

Foreign tourists have outperformed domestic tourists in number of arrivals in 2011 for the first time, but domestic tourist still have substantial advantage in number of overnights.

In total, we can observe that number of arrivals has grown faster compared to number of overnights in 2007-2011 period.

Year	Tourist arrivals 2007-2011			Tourist overnights 2007-2011		
	domestic	foreign	total	domestic	foreign	total
2007	306,132	230,080	536,212	1,501,624	518,088	2,019,712
2008	350,363	254,957	605,320	1,648,073	587,447	2,235,520
2009	328,566	259,204	587,770	1,517,810	583,796	2,101,606
2010	324,545	261,696	586,241	1,461,185	559,032	2,020,217
2011	320,097	327,471	647,568	1,417,868	755,166	2,173,034
2007-2011 (%)	104.56	142.33	120.77	94.42	145.76	107.59

Source of data: State Statistical Office of Republic of Macedonia

Tourist arrivals measured by types of accommodation, observed by domestic, foreign and total number of arrival show remarkable levels of volatility in period 2007-2011. Mountain resorts experienced the strongest growth of both domestic and foreign tourist arrivals in the observed period (114%). Furthermore, domestic tourists had the strongest growth in number of arrivals in mountain resorts (119%) in period 2007-2011, followed by growth of foreign tourist arrivals (96%).

Apart from mountain resorts, “other resorts” are the only other type of accommodation that experienced growth of both domestic and foreign number of arriving tourists in the observed period, though the growth itself was moderate, compared to growth in mountain resorts.

Skopje and “other tourist resorts” had growth of foreign tourist arrivals, but decline of domestic tourist arrivals in the period 2007-2011, while Spa resorts had growth of domestic tourist arrivals and decline of foreign tourist arrivals in the same period.

Tourist arrivals, by types of resorts															
	Skopje			Spa resorts			Mountain resorts			Other tourist resorts			Other resorts		
year	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total
2007	24,498	95,136	119,634	16,110	4,710	20,820	26,501	6,714	33,215	196,799	82,586	279,385	42,224	40,934	83,158
2008	20,088	113,963	134,051	17,776	5,189	22,965	35,665	7,500	43,165	220,598	85,195	305,793	56,236	43,110	99,346
2009	19,304	107,962	127,266	17,062	4,307	21,369	40,130	12,354	52,484	193,768	89,662	283,430	58,302	44,919	103,221
2010	15,962	110,365	126,327	24,688	3,886	28,574	58,170	13,287	71,457	181,143	82,135	263,278	44,582	52,023	96,605
2011	15,979	125,407	141,386	23,401	4,040	27,441	58,100	13,209	71,309	175,612	104,083	279,695	47,005	80,732	127,737
2007-2011 (%)	65.23	131.82	118.18	145.26	85.77	131.80	219.24	196.74	214.69	89.23	126.03	100.11	111.32	197.22	153.61

Source of data: State Statistical Office of Republic of Macedonia

Like in the previous analysis, mountain resorts are again the champions, measured by change in number of overnights, with total of 92% of growth, out of which 148% of growth is generated by growth of foreign tourist overnights and 82% of growth by domestic tourist overnights in the period 2007-2011.

Spa resorts, also experienced strong growth in number of tourist overnights (84%), out of which domestic tourists generated 99% and foreign 18%.

In Skopje, "other tourist resorts" and "other resorts" domestic tourists had decline in number of overnights, while foreign tourists had growth. Overall, only "Other tourist resorts" experienced decline in total number of tourist overnights in the observed period.

Tourist overnights, by types of resorts															
	Skopje			Spa resorts			Mountain resorts			Other tourist resorts			Other resorts		
year	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total	domestic	foreign	total
2007	33,759	181,229	214,988	96,772	23,063	119,835	71,148	12,658	83,806	1,219,211	216,910	1,436,121	80,734	84,228	164,962
2008	29,828	222,122	251,950	108,634	28,532	137,166	94,063	15,949	110,012	1,324,241	238,246	1,562,487	91,307	82,598	173,905
2009	30,660	210,035	240,695	106,980	27,860	134,840	97,275	23,616	120,891	1,182,108	236,210	1,418,318	100,787	86,075	186,862
2010	24,592	204,929	229,521	189,324	27,202	216,526	131,786	28,550	160,336	1,045,624	205,242	1,250,866	69,859	93,109	162,968
2011	24,434	230,119	254,553	193,274	27,366	220,640	129,937	31,445	161,382	994,400	314,784	1,309,184	75,823	151,452	227,275
2007-2011 (%)	72.38	126.98	118.40	199.72	118.66	184.12	182.63	248.42	192.57	81.56	145.12	91.16	93.92	179.81	137.77

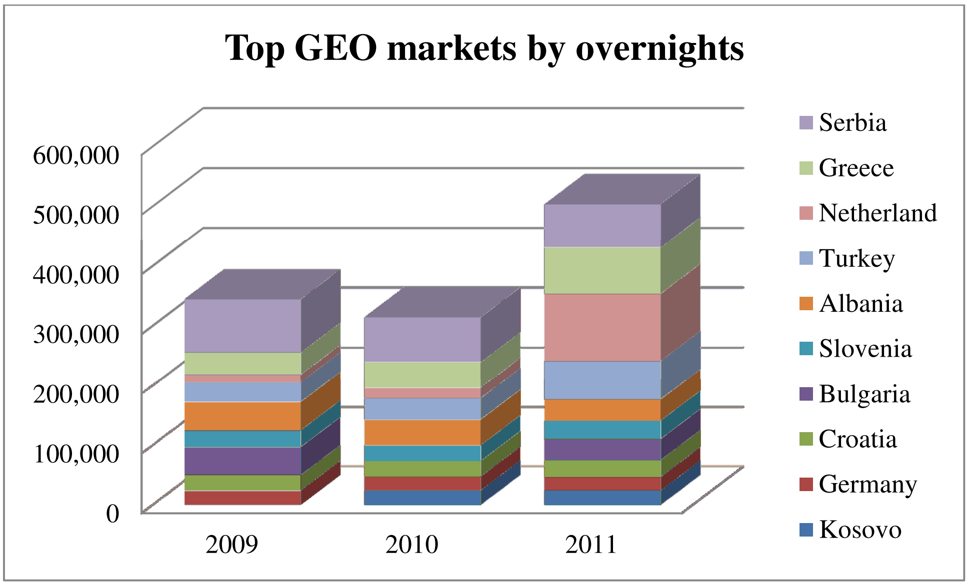
Source of data: State Statistical Office of Republic of Macedonia

In the period 2009-2011, most foreign tourists came to Macedonia from Serbia, Greece and Netherlands, where Netherlands had the strongest growth of incoming tourists of more than 890%[22]. The high number of tourists from Netherlands is a result of beneficial Benelux guests subsidies in the amount of 65 eur per passenger provided by the Government. Government has also subsidized charter flights to Ohrid airport and closely cooperated with tour operators "Corendon NL" and "Arke Travel – TUI".

However, even without influx of Dutch tourists, 10 main GEO markets had positive trend in number of foreign tourist arrivals to Macedonia. It is noticeable that biggest decline in number of tourists was from Serbia, followed by declining number of tourists from Albania

22

and Bulgaria. On the other hand, number of tourists from Greece, Turkey and Kosovo were among the fastest growing.

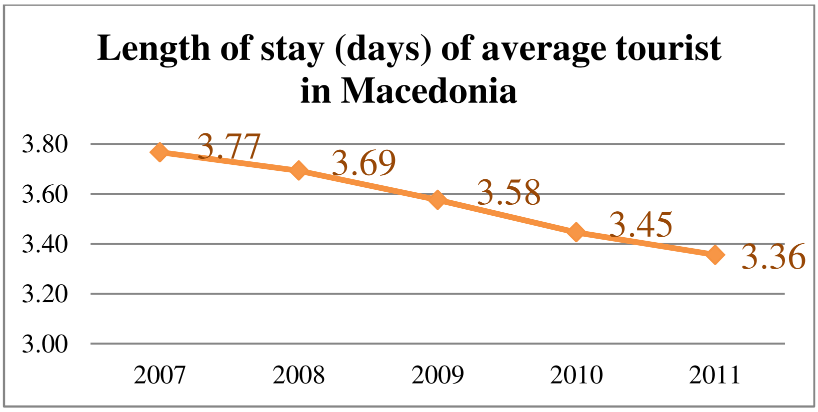


Source of data: State Statistical Office of Republic of Macedonia

Main GEO markets	Change in number of tourist arrivals (2011-2009)
Serbia	-16,281
Greece	40,173
Netherland	99,807
Turkey	31,254
Albania	-11,795
Slovenia	2,633
Bulgaria	-11,504
Germany	-1,623
Kosovo	24,265
Croatia	2,470
Total	159,399

Source of data: State Statistical Office of Republic of Macedonia

Length of stay of average tourist in Republic of Macedonia has a decreasing trend, from 3.77 days in 2007 to 3.36 days in 2011. In the observed period, average stay of average tourist in Macedonia was 3.57.



Source of data: State Statistical Office of Republic of Macedonia

Observed by types of accommodation, Spa resorts are the only type of accommodation that had growth of both foreign and domestic tourists average length of stay, while "Other resorts" accommodation is the only type of accommodation that had decline in both domestic and foreign tourist average length of stay.

Domestic tourists had increasing length of stay only in Skopje accommodation type, while foreign tourists had increasing length of stay in all others type of accommodation except Skopje.

Length of stay (days)											
	Skopje		Spa resorts		Mountain resorts		Other tourist resorts		Other resorts		
year	domestic	foreign	domestic	foreign	domestic	foreign	domestic	foreign	domestic	foreign	total
2007	1.38	1.90	6.01	4.90	2.68	1.89	6.20	2.63	1.91	2.06	3.77
2008	1.48	1.95	6.11	5.50	2.64	2.13	6.00	2.80	1.62	1.92	3.69
2009	1.59	1.95	6.27	6.47	2.42	1.91	6.10	2.63	1.73	1.92	3.58
2010	1.54	1.86	7.67	7.00	2.27	2.15	5.77	2.50	1.57	1.79	3.45
2011	1.53	1.83	8.26	6.77	2.24	2.38	5.66	3.02	1.61	1.88	3.36
average	1.50	1.90	6.86	6.13	2.45	2.09	5.95	2.72	1.69	1.91	3.57

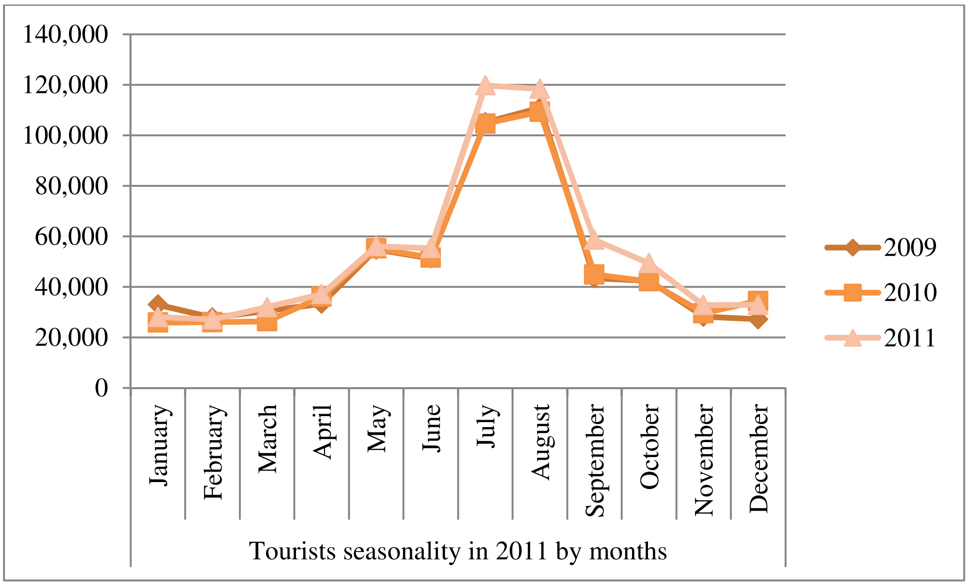
Source of data: State Statistical Office of Republic of Macedonia

Number of tourist observed by months in 2011, shows relatively high volatility with peak months in July and August, and low season in February and January.

The highest growth in seasonality was in September (34%), followed by November and July. The only two months with negative growth in seasonality were January and February.

	Tourist seasonality in 2011 by months											
	January	February	March	April	May	June	July	August	September	October	November	December
2009	32,943	27,811	30,514	33,346	54,764	51,276	105,051	110,837	43,475	42,383	28,191	27,179
2010	25,872	26,048	26,389	36,127	55,220	51,596	104,605	109,291	44,923	42,194	29,606	34,370
2011	28,096	27,155	31,971	37,142	56,094	55,323	119,717	118,341	58,620	49,379	32,810	32,867
2009/2011 (%)	85.29	97.64	104.77	111.38	102.43	107.89	113.96	106.77	134.84	116.51	116.38	120.93

Source of data: State Statistical Office of Republic of Macedonia



Source of data: State Statistical Office of Republic of Macedonia

The Government of Republic of Macedonia has been implementing active subsidy policies in tourism sector. Furthermore, it has issued a statement that it will continue with existing policies, through a detailed plan presented on its official web page, with guidelines on how additional policies to promote tourism will be developed:

According to the official web page of the Government: "Tourism has great importance for the economic development; it may attract numerous investments, create new jobs and promote the cultural values and natural resources of Macedonia. The Government will continue with its support for this sector through appropriate measures, policies, specific projects for constructing modern tourist infrastructure and promoting the Republic of Macedonia as an attractive travel destination. Future developments will be achieved by introducing an offer based upon the comparative advantages of Macedonia, mostly referring to eco-tourism, cultural, lake, winter, sports, hunting, congress, spa, monastery, archaeological, rural, mountain and winery tourism. In this regard, the following projects will be realized:

- Reducing Value Added Tax (VAT) from 18% to 5% on tourism for tourist services and accommodation (overnight); bed and breakfast; full board and lodging (September 2011);
- Introduction of beneficial subsidy of 65 eur per passenger, same as for the Benelux guests, starting from:
    - 2013 – for UAE, Finland, Norway, Denmark, Sweden, Russia, Ukraine and Japan;
    - 2014 – for China and India;
    - 2015 – for Kazakhstan, Azerbaijan, Qatar, Germany, USA and England.
- Reorganization of the Agency for Promotion and Support of Tourism within the Macedonian National Tourism Organization (June 2012);
- Creating an integrated tourist information system with web-portal (March 2013);
- Investments for improving tourism infrastructure and stimulating transit tourism. In this regard, the following projects are envisaged:

- Establishing locations for construction of hotels, motels, modern gas stations and different tourist attractions along corridors 8 and 10 (2013);
- Determining of a location for construction of “Aqua Park” tourist attraction – Corridor X (2013);
- Building a city aqua park (alone or by means of a public private partnership) or encouraging the private sector to build it (2013);
- Continuing the project for marking and installing tourist signalization for large number of tourist attractions (2013);
- Continuing to attract foreign investors for construction of hotels and other tourist facilities in Skopje, Ohrid, Struga, Prespa and Dojran for lake tourism and in Gevgelija, Bitola, Krushevo, Tetovo and Ponikva for winter tourism, and in other places (December 2012);
- Establishing Tourism Development Zones on the shores of Ohrid, Prespa and Dojran Lakes in cooperation with the local authorities, aimed at building hotels and hotel complexes. The investors in the tourist zones will be offered low initial price for the land of 1 Euro per square meter, for the utilities of 1 Euros per square meter, exemption from profit tax for the first 5 years and a developed infrastructure (December 2012);
- Engaging a globally renowned architectural bureau for preparation of a long-term strategic development plan for Ohrid and the inhabited places around the Ohrid Lake for the next 20 years (December 2012);
- Continuing the activities for resolving the status of children’s resorts in order to refurbish them into hotels, motels or hostels (December 2012);
- Promoting the Macedonian cultural and tourist potentials in the national educational programs available to all generations (continuously).
- *Project “Eco Macedonia”* for positioning Macedonia as a tourist destination with intact beauty which offers high quality, authentic organic food (2012).

In order to improve the human resources in accordance with the necessity for highest level quality of tourist services, the Government will conduct the following measures and activities:

- Compulsory practice for students from high schools in the area of tourism as well as for students from tourism faculties (2012- continuously);
- Education of tourism managers by cooperating with global tour operators where each year a group of managers from Macedonia will spend a one-month period of practical training (2012- continuously);
- Support for establishment of training-centers for tourism and catering by providing vouchers for financial support and co-financing the employees in tourism (2012- continuously);
- Promotion of the cooperation with the domestic and the foreign higher education institutions in order to develop master’s studies and specialized programs in the area of tourism;
- 30 scholarships per year for the best students in the area of tourism in cooperation with the tourism and catering businessmen.

One image; one brand for Macedonia as a tourist destination – the Government of the Republic of Macedonia will support the unification of a single brand for promoting Macedonia as a tourist destination in partnership with the business community via the future Macedonian National Tourist Organization in a form of public private partnership. Funds will be provided for the creation of a single brand and for the implementation of marketing campaigns by:

- Continuing the concept of co-branding by supporting the creation of unified advertising materials (2012);
- Preparing digital presentation of the entire tourist potential of the country (December 2012);
- Information materials with a map and brochures on the tourist potentials of the country available free of charge to all visitors of the country at all tourist destinations (continuously);
- Organizing "Macedonian Week" at least twice a year in different countries for the presentation of the tourist potentials (continuously);
- Continuing the marketing campaign Macedonia Timeless and creating reportage on Macedonia on the most famous world TV channels (continuously);
- Opening offices for tourism promotion located in the centers of capitals of different countries which have traditionally provided inflow of tourists (the Netherlands, Sweden, Serbia, Kosovo, Russia, Israel and Turkey) (continuously);
- Expanding the network of Tourist Information Centers with at least six centers along the corridors 8 and 10 and in all other places as needed, in the more significant tourist locations (continuously);

For each segment of the tourist offer, specific activities will be undertaken which will become the basic elements of the Macedonian offer to foreign and domestic tourists:

Alternative tourism – ecotourism and mountain tourism

- Assistance will be provided to ten municipalities a year for preparation of strategies for development of alternative and ecotourism (continuously);
- The concept of urban recreational (active) tourism will be developed in 5 tourist locations (continuously);
- Support for development and promotion of winter tourism on Popova Shapka, Mavrovo, Pelister, Kozhuf, Krushevo and Ponikva will be provided (continuously);
- Project: "Mega attractive Popova Shapka ski centre". The project involves building new cable railways and ski-lifts, artificial snow installation, a new hotel and other accommodation capacities (2011-2015);
- Further development of Pelister winter centre by granting concessions for the ski-lifts and constructing new hotel facilities (2012);
- New locations for construction of additional commercial premises and hotels in Mavrovo (2012);
- Completion of the access road and construction of the necessary infrastructure to the ski centre Kozhuf (2011-2012);

- In Krushevo new ski lift will be built and the existing ski slopes and other tourist infrastructure in Krushevo will be expanded (2013-2014);
- construction of the infrastructure required for reaching Zrze and Treskavec monasteries (2013-2014);
- In cooperation with the city of Skopje, construction of a ski slope on Vodno mountain (2013);
- In cooperation with the city of Skopje, by using a public-private partnership model, we will ensure modernization and expansion of the Luna Park (Amusement Park) in Skopje (2013);
- Promotion of Macedonia for development of congress and research tourism (2012-2014);
- mapping out the sights of interest for the tourists and marking the roads in the required regions (2012-2014);
- Development of the Matka canyon into a tourist centre with appropriate promotional materials, additional locations for construction of tourist service facilities and direct bus line from Skopje (2011-2014);
- Development of the tourism potentials of the Osogovo and Maleshevo regions by providing locations for construction of accommodation and tourist service facilities etc. The preparation of promotional materials on the tourism potentials of the other micro-regions, as well as of the other mountainous regions in the country will be supported and locations where there are waterfalls and caves will be promoted (2011-2015);
- Development of a tourist program based on the "Active Vacation" concept that is, sports and adventure tourism. Setting signposts for at least 20 destinations for active vacation (2012-2015);
- Construction of 60 kilometer long tourist recreational trails on the mountains (Popova Shapka, Pelister, Ponikva, Kozhuf, Mavrovo and Golak) (2012-2015).

Developing the spa and health tourism:

- Concessions will be granted for exploration of hot water springs and locations for construction of hotels in the vicinity of the existing spas (Debar, Katlanovo, Kumanovo, Kezhovica, Bansko and Negorci spas), as well as new locations (2011-2013);
- The development of dental tourism will be supported by active promotion in cooperation with the Dental Association (continuously);

Supporting Wine Tourism through:

- Preparation of "Road of Wine" travel programs for domestic and foreign visitors in cooperation with the wineries, the chamber of commerce and the local government units, offering organized visits to wineries and wine regions, tasting traditional Macedonian foods and wines, as well as an opportunity to get an up-close look at the winemaking process (2011-2015);
- The diplomatic missions of the Republic of Macedonia, and the promoters from the Agency for Foreign Investments and Export Promotion will be tasked to become actively engaged in attracting renowned foreign tour operators which would include travel offers to Macedonia in their programs (continuously);

Cultural and Religious Tourism:

- Restoration and revival of Skopje Old Bazaar (2012-2014);
- Infrastructural support and promotion of numerous historic facilities in the country (continuously);
- Promotion of the archaeological treasures of Macedonia by organizing tour groups which for restoration and reconstruction of facilities of cultural and historic significance (continuously);
- Promotion of religious tourism and Ohrid as the "Jerusalem of the Balkans" (continuously);
- Investments in restoration, reconstruction and new facades of the facilities (continuously);

Rural tourism:

- Promotion and networking of several ethno villages from various regions in Macedonia (2014);
- Development of rural tourism by using European Funds, i.e. the IPARD program for support and development of this kind of tourism (continuously);
- Exhibitions and promotion of the ethno style, language, music and culture of the Macedonian villages from different regions of the country (continuously);
- Exhibitions and promotion of the traditional architecture, housing, as well as folk art, artifacts , customs and folklore (continuously);
- Promotion of the hunting grounds in the Republic of Macedonia (continuously);
- Integration of the Museum of Ethnology into the museum that is being constructed as a part of the project "Macedonian Village" (2014);
- Project: "Macedonian Village" - the construction of 12 authentic houses and accompanying facilities representing different regions of Macedonia and its multiethnic values will start in 2011. Deadline: 2012.

Lake Tourism - the activities for promotion of our three largest lakes, Lake Ohrid, Lake Prespa and Lake Dojran will continue, as well as development programs for other lakes in the country-Krushevo, Veles, Berovo, Mavrovo and Matovo lakes will be implemented.

- In order to maintain and preserve the natural treasures of Ohrid lake and the city of Ohrid, in addition to the construction of St. Clement University, the following activities will take place: 1/ organizing tours via travel agencies across the country; 2/ building an indoor swimming pool in Ohrid (2014); 3/ transforming the old Army barracks and providing working conditions for St. Paul the Apostle International University (2013); 4/ construction of wastewater treatment plants (2014); additional locations for construction of hotels and commercial facilities (continuously); 5/ establishing Ohrid-Podgradec shipping line (2012).

Business Incentives and Hotel Industry - In an effort to strengthen the accommodation capacities and improve the quality of tourism services, we suggest the following steps:

- Development of small and medium-sized enterprises which are active in the tourism industry, by subsidizing credit interest rates for construction, adaptation and equipping of smaller accommodation capacities (2013);

We will continue to subsidize the foreign organized tourism turnover with a subvention of 20-70 Euros per tourist (2013)."

3.1.4 Macedonia mountain centres

Key mountain resorts in Macedonia include: Popova Sapka, Mavrovo – Zare Lazarevski ski resort, Kozuf ski resort and Krusevo.

Mountain resorts in Macedonia have realized the following performance:

- The total number of tourist arrivals realized in mountain resorts in year 2011 was 71.309 representing 114% growth compared to year 2007;
- The total number of tourist overnights realized in the mountain resorts in year 2011 was 161.382, representing 92% of growth compared to year 2007;
- The average length of stay realized in Mountain resorts in Macedonia in 2011 was 2,27 days. The average length of stay of domestic tourists was 2,24 days, whereas the average length of stay of foreign tourists was 2,38 days in 2011. Foreign tourists have over performed domestic tourists in length of stay for the first time in 2011.
- Domestic tourists had stronger growth of arrivals compared to foreign tourists in Macedonia mountain resorts, while foreign tourists have over performed domestic tourists in growth of overnights.

	Mountain resorts tourist arrivals		
	domestic	foreign	total
2007	26,501	6,714	33,215
2008	35,665	7,500	43,165
2009	40,130	12,354	52,484
2010	58,170	13,287	71,457
2011	58,100	13,209	71,309
2007/2011 (%)	219.24	196.74	214.69

Source of data: State Statistical Office of Republic of Macedonia

	Mountain resorts tourists overnights		
	domestic	foreign	total
2007	71,148	12,658	83,806
2008	94,063	15,949	110,012
2009	97,275	23,616	120,891
2010	131,786	28,550	160,336
2011	129,937	31,445	161,382
2007/2011 (%)	182.63	248.42	192.57

Source of data: State Statistical Office of Republic of Macedonia

	Length of stay (days)	
	Mountain resorts	
	domestic	foreign
2007	2.68	1.89
2008	2.64	2.13
2009	2.42	1.91
2010	2.27	2.15
2011	2.24	2.38
average	2.45	2.09

Source of data: State Statistical Office of Republic of Macedonia

3.1.5 Performance

- The majority of hotel supply in Macedonia is situated in the capital city Skopje and Ohrid;
- At this moment, there are several hotels in Macedonia affiliated by international hotel chains (Holiday Inn and Ramada), with two internationally branded and managed hotel property in the pipeline (Skopje Marriott hotel and Radison Blu). Hotel brands development strategies imply their focus predominantly on Skopje as the capital and biggest city in Macedonia. Mountain resorts in Macedonia are still out of focus of global hotel brands;
- Demand for hotels in Skopje is primarily business driven. Higher quality hotels realize occupancy above 50% and ADR between 70 to 110 EUR;
- Housing market in Skopje for newly built apartments ranged between 1.000 to 1.200 EUR per sq.m. in 2009, increasing to 1.300 to 1.400 EUR per sq.m. in 2010*;
- Retail rent prices range between 10 to 60 EUR per sq.m. and office space rent prices range between 5 to 20 EUR per sq.m.*;

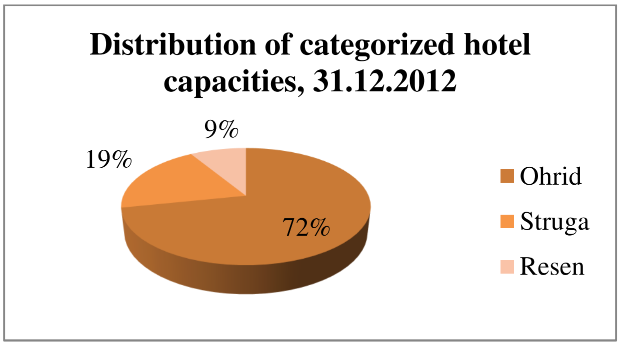
- Prices for real estate purchase in Skopje are ranging between 600 to 1.600 EUR per sq.m. for residential space, between 1.000 to 3.000 EUR per sq.m. for office space and 1.000 to 5.000 EUR per sq.m. for retail space*;
- Ohrid area in avergae achieves lower performance of both hotel and real estate market comapred to Skopje;

The price for construction per sq.m. in Skopje ranges from 400 to 700 EUR and the price of the construction land ranges from 20 to 200 EUR per sq.m.* Subsequently, cost for the construction of parking lots should be not more than 150 EUR per sq.m.

3.2 OHRID AND RESEN MARKET

3.2.1 Accommodation supply

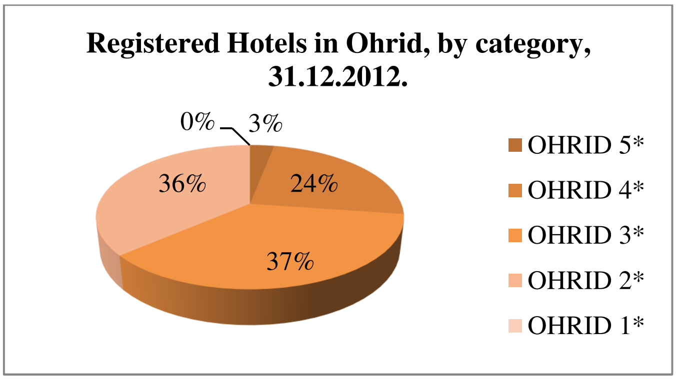
According to the data provided by HOTAM (Hotels, restaurants and cafes in Macedonia), there are 48 categorized hotels in the region of Ohrid, Resen and Struga, with vast majority being located in the Municipality of Ohrid.



Source of data: HOTAM

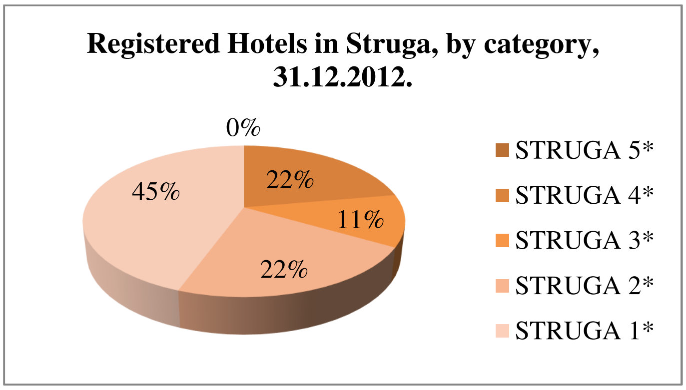
Distribution of registered hotels in Ohrid, according to their category shows that majority of Ohrid hotels incline towards 3*, 4* and 5* level of services, where 3* and 4* represent more than 67% of total number of registered hotels. Number of registered hotels with 2* is incremental, while there are no registered hotels with 1* in Ohrid.

According to data collected in our interviews conducted during our site inspection in Ohrid in January 2013, we were informed that close to 35% of the market supply comes from the non-registered accommodation – private houses.



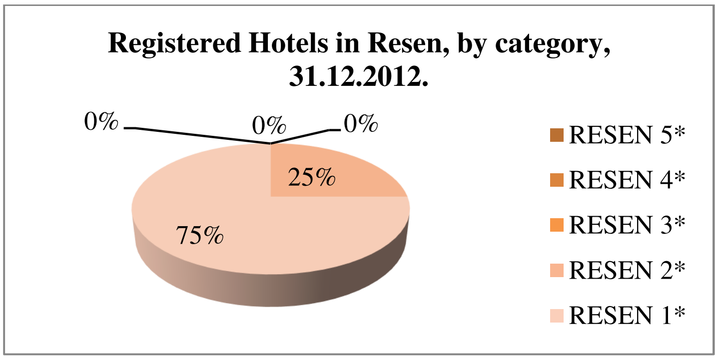
Source of data: HOTAM

Contrary to Ohrid, Struga hotel market inclines towards lower end of the level of services, with majority oh registered hotels with 1*, with only few hotels in upper cateogories.



Source of data: HOTAM

Resen hotel market supply offers only hotels with 1* and 2*.



Source of data: HOTAM

	5 * RATED HOTEL	
	1. HOTEL GORICA	OHRID
	4 * RATED HOTELS	
1	HOTEL DONCO	OHRID
2	HOTEL METROPOL	OHRID
3	HOTEL BELLEVUE	OHRID
4	MILLENNIUM PALACE HOTEL	OHRID
5	GRANIT HOTEL	OHRID
6	HOTEL TWO BISERA	OHRID
7	HOTEL BELVEDERE	OHRID
8	HOTEL SILEKS	OHRID
9	HOTEL DRIM	STRUGA
10	HOTEL MAKPETROL	STRUGA
	3 * RATED HOTEL	
1	HOTEL SUN GATE	OHRID
2	HOTEL AMBASSADOR	OHRID
3	TINO HOTEL	OHRID
4	TOURIST HOTEL-GARNI HOTEL	OHRID
5	HOTEL DENARIUS	OHRID
6	HOTEL PELLA	OHRID
7	HOTEL GRADSKA PLAZHA	OHRID
8	HOTEL LAGADIN	OHRID
9	DESARET PESTANI	OHRID
10	HOTEL DIPLOMAT	OHRID
11	HOTEL LEBED	OHRID
12	HOTEL PANORAMA	OHRID
13	HOTEL ZLATEN PRSTEN	PESTANI
14	HOTEL BEOGRAD	STRUGA

Source of data: HOTAM, December 2012

	2 * RATED HOTELS	
1	HOTEL VILLA ST. SOFIA	OHRID
2	HOTEL SLAVIJA SPEKTAR	OHRID
3	HOTEL ALEXANDRIA	OHRID
4	HOTEL BETON	OHRID
5	HOTEL ST. STEFAN	OHRID
6	HOTEL GARDEN	OHRID
7	HOLIDAY – M (ST. STEPHEN)	OHRID
8	HOTEL KLIMETICA	OHRID
9	HOTEL TONI	OHRID
10	HOTEL KOCAREV	OHRID
11	HOTEL KLIMETICA, St.STEFAN	OHRID
12	HOTEL PRESTOL	OHRID
13	HOTEL ROYAL 1	RESEN
14	HOTEL AMBIENT	STRUGA
15	HOTEL BISER	STRUGA
	1 * RATED HOTELS	
1	HOTEL LEJKVJU	OTESHEVO
2	HOTEL HOLIDAY	RESEN
3	HOTEL DIOR	RESEN
4	HOTEL RIVA S.STENJE	RESEN
5	HOTEL ARUBA	STRUGA
6	HOTEL RESTAURANT KALI	STRUGA
7	PANSION MONTENEGRO	STRUGA
8	HOTEL GALEB	STRUGA

Source of data: HOTAM, December 2012

3.2.2 Demand

According to HOTAM data, Ohrid registered hotels had the biggest number of arrivals and overnights in period January-October 2012, with 75.5% of total number of arrivals and 71.6% of total number of overnights.

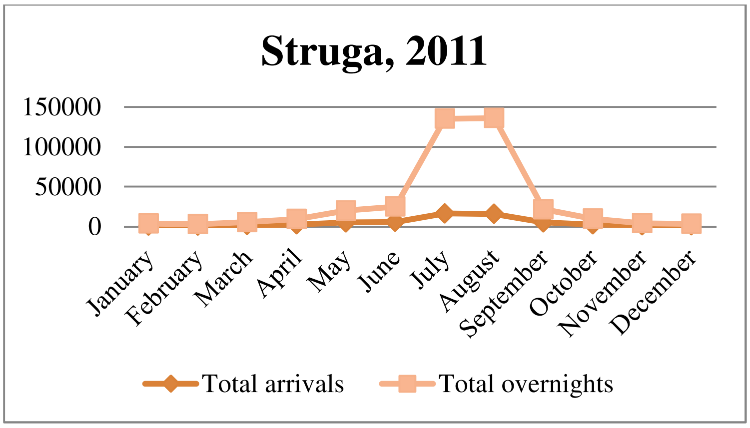
Struga had 22.4% of total number of arrivals and 25.6% of total number of overnights in the observed municipalities.

Resen had only incremental number of arrivals and overnights, in total number for the three municipalities.

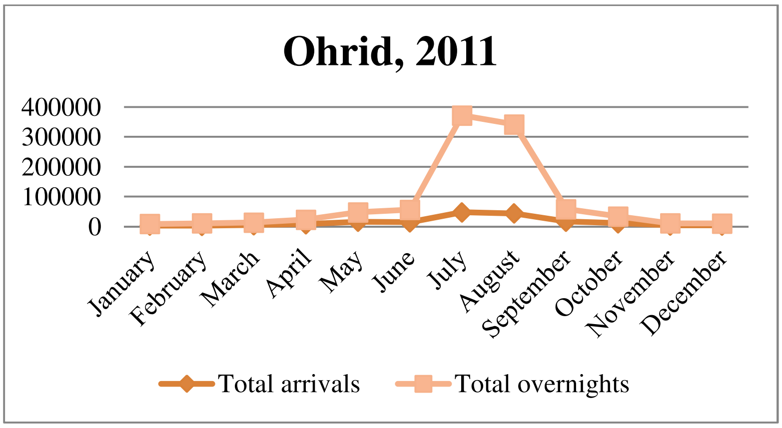
	Total January-October 2012	
	Arrivals	Overnights
OHRID	174,750	809,088
Domestic	96,154	569,387
Foreign	7,596	239,701
RESEN	4,659	31,020
Domestic	4,489	30,668
Foreign	170	352
STRUGA	51,915	288,877
Domestic	30,702	205,436
Foreign	21,213	83,441

Source of data: HOTAM

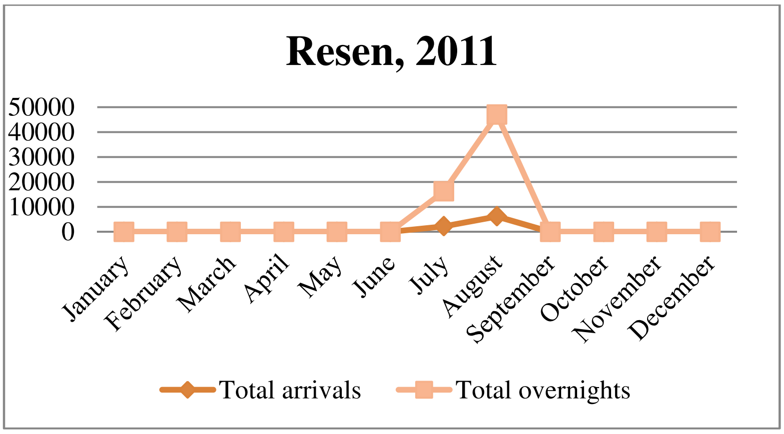
According to available 2011data, provided by HOTAM, all three municipalities had peaks in both arrivals and overnights during summer season, primarily in July and August.



Source: HOTAM, December 2012



Source: HOTAM, December 2012



Source: HOTAM, December 2012

Average number of nights spent by tourists in Ohrid in 2011 is 4.55 days, with highest average monthly stay reached in July (6.75).

Average number of nights spent by tourists in Resen in 2011 is 6.55 days, with highest average monthly stay reached in August (6.56).

Average number of nights spent by tourists in Struga in 2011 is 5.37 days, with highest average monthly stay reached in August (7.64).

Key GEO Markets (2011) of STRUGA	TOTAL number of tourist overnights
Domestic tourists	267,678
Netherlands	44,490
Turkey	10,574
Greece	10,390
Serbia	4,872
Albania	4,292
Slovenia	3,822
Kosovo	3,414
Total STRUGA	374,176

Source: HOTAM

Key GEO Markets (2011) of OHRID	TOTAL number of tourists overnights
Domestic tourists	692,835

Netherlands	71,013
Serbia	32,862
Turkey	20,753
Greece	17,109
Slovenia	15,532
Bulgaria	14,714
Total OHRID	982,540

Source: HOTAM

Key GEO Markets (2011) RESEN	TOTAL number of tourists overnights
Domaci turisti	63,065
Slovenija	26
Svedska	12
Germanija	8
Polska	8
Danska	7
Bugarska	5
Italija	4
Holandija	4
Total Resen	63,146

Source: HOTAM

TOURIST ARRIVALS IN 2011													
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals	Arrivals
OHRID													
Total arrivals	3,491	2,878	4,917	7,977	16,139	14,847	48,016	44,304	16,578	11,272	3,906	3,952	178,277
RESEN													
Total arrivals	0	0	0	0	0	0	2,209	6,209	0	0	0	0	8,418
STRUGA													
Total arrivals	1,006	798	1,592	2,439	5,035	5,737	16,418	15,735	5,023	2,578	1,494	1,224	59,079
Overall total	**4,497**	**3,676**	**6,509**	**10,416**	**21,174**	**20,584**	**66,643**	**66,248**	**21,601**	**13,850**	**5,400**	**5,176**	**245,774**

Source: HOTAM

3.2.3 Performance

According to the data provided by HOTAM, average occupancy rate is between 40 and 50% annually, while average daily rate (ADR) for 4* hotels is 23.5 EUR.

In general, price of 1 sq. meter of real-estate, near the coast line of Ohrid lake, is between 1,000 and 1,500 EUR.

3.3 COMPETITION ANALYSIS

3.3.1 Regional competition overview

In order to perform the accurate competition analysis, we need to determine the relevant market and to analyze all of the products offered by different existing companies competing in the determined market. In general terms, the relevant market defines the market in which one or more goods compete. Therefore, the relevant market defines whether two or more products can be considered substitute goods and whether they constitute a particular and separate market for competition analysis.

According to the definition stipulated by European Commission[23], the relevant market combines the geographic market and the product market, defined as follows:

1. A relevant geographic market comprises the area in which the firms concerned are involved in the supply of products or services and in which the conditions of competition are sufficiently homogeneous.

2. A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer by reason of the products' characteristics, their prices and their intended use;

Therefore, in order to perform the accurate competition analysis, we need to determine the relevant geographical market and relevant product market, for which we need to understand Galicia’s specific tourist products and related potential market catchment area.

Based on the revised ski terrain suitability analysis and after doing the Terrain Capacity Analysis (TCA) with consideration of the findings from the site visit, 4 areas have been identified within the study area which have potential for commercial alpine skiing. Based on the location, the areas have been named the South Zone, the West Zone, the North Zone and the East Zone.

According to Ecosign findings, the overall the West Zone is the most promising zone for potential ski area development. Main reasons are the problematic accessibility of the other three zones which would require a huge investment for road construction. Furthermore the North Zone and the East Zone do have quite small skier capacities and the South Zone is located within the strictly protected area of the National Park.

[23] http://europa.eu/legislation_summaries/competition/firms/l26073_en.htm

Based on the fact that most day skiers would come from the accommodation capacities within the Ohrid municipality, the West Zone also offers the advantage of proximity to the market (based on the assumption that the area is accessible from the lake side either by Gondola or by car)

Although the result of the TCA has shown that the overall potential of the West Zone is 4.740 skiers, according to the findings of Ecosign it does not make sense to propose to develop all of the identified pods (due to costs, connectivity, skill mix…). Thus, it is highly recommendable to develop a well-balanced area with a capacity of approx. 2.500-3.000 skiers (100.000-120.000 skier visits), with addition of summer operations.

Based on the proposed size and total potential of the Galičica skiing resort, we are establishing the “convenient car driving distance” as a relevant regional market. Although the possibility that some tourists would come to Galičica from more distant markets is not excluded, the majority would come from closer areas.

The envisaged number of skier visits, can hardly offer sufficient market attraction, in order to be considered as the only tourist product/attraction, which would generate sufficient demand by its self. Thus, the skiing as a tourist product in Galiica should only be considered as an important part of the total product portfolio which will be offered by the whole Ohrid region during winter season.

Thus, it is expected that smaller regional mountain resorts, within the convenient car driving distance, would represent the most dynamic competition to Galicica.

Furthermore, as Ohrid, along with Skopje, represents a region with most developed supply of tourist accommodation in Macedonia, expanding the season from only summer months, primarily offering sun&beach tourist products, with mixed portfolio of new winter tourist products, should result in extended season of the whole area. Therefore, existing accommodation capacity that is severely underutilised during winter months should benefit from the extended season and thus would be able to compete more successfully in price terms with its primary “summer” competitors.

At the same time, costs related to operations of ski-lifts during winter season, could be partly covered with summer season tourists, resulting in lower costs of operations compared to primary winter mountain resorts competitors.

The objective potential for Gondola business in summer is to a large extent the function of price, meaning - higher the price, lower the visitation. Tourist market in Macedonia is a price sensitive market, which can be concluded from the level of ADRs that are currently recorded at less than 25 EUR per overnight, with hotel supply standard being relatively good compared with the region.

Having this in mind, there are two potential strategies in front of Gondola operator. Either higher price would be set, resulting in fewer visitors, or lower price would be set resulting in more tourists using gondola. As this is a project financed by public money with marginal cost of each additional visitor equal to zero, it is highly recommendable to put the price level at the intersection of supply and demand curves, by which maximum utilisation of the gondola during summer time would be achieved (maximum number of sold tickets for the given demand), resulting in maximization of total revenue.

	Average price of daily ticket (EUR)*	Total number of ski days**	Total revenue in winter season
Winter season	12	60,000	720,000
	Price of one round ticket (EUR)***	Total number of visitors****	Total revenue in non-winter season
Non-winter season	8	150,000	1,200,000
Total annual revenues			**2,040,000**

* Estimated by Horwath HTL for the purpose of this calculation
** Estimated by Horwath HTL, 3.5.2. part of this Report
*** Estimated by Horwath HTL for the purpose of this calculation
**** Total number of Gondola visitors is estimated based on total number of tourist arrivals in Ohrid, Struga and Resen in 2011, with assumption that 60% of total number of tourists would use the Gondola during their stay.

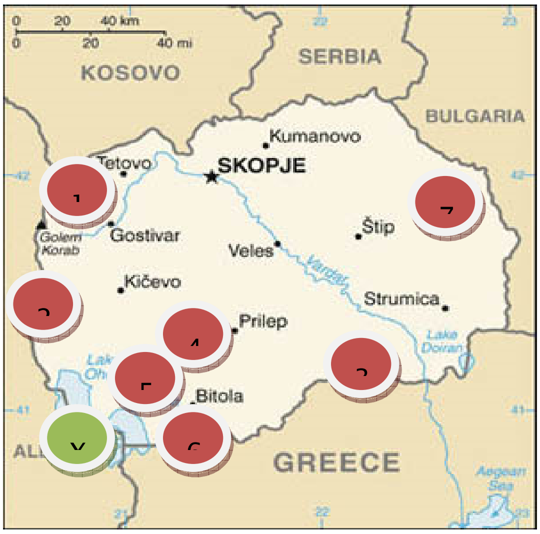
Overall, Galicica ski/mountain resort should be positioned (and developed) as a specific market segment/tourist product, that would help Ohrid to develop as a whole year destination.

The following maps show existing skiing/mountain resorts in the South-East Europe region.

Map prepared by Horwath HTL

Macedonia

The following map shows existing competition in Macedonia.



Source of map: CIA World fact book, edited by Horwath HTL, Zagreb Office

Resort numbered 1-3 (Popova Šapka, Mavrovo and Kozuf)[24] are larger ski resorts with serious development ambitions and thus would not represent the primary competition to Galicica as part of Ohrid whole year destination tourist products portfolio.

Resorts 4-7 (Kruševo, Pelister, Nižepole and Ponikva) are small local resorts, and potentially could represent a competition to Galicica if able to offer similar tourist products portfolio as Galicica. However, based in the utilisation of accommodation capacities and ski lifts (Gondola) throughout the year, Galicica enjoy significant price advantage compared to these four resorts.

Albania and Kosovo

Although primarily has mountain terrain, Republic of Albania has no ski resorts developed at international standard level at the moment. Kosovo has only one important ski and mountain resort - Brezovica, which needs substantial investments to be able to sustain regional competition.

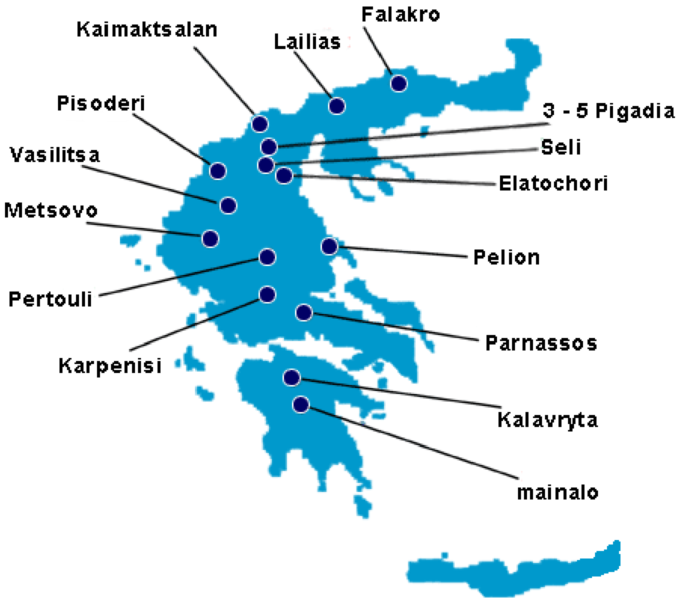
Both markets have very low purchasing power causing low population to market potential ratio, but with probably the best natural potential for ski resort development at the border of Kosovo and Macedonia, with one serious development plan for Brezovica.

Existing demand is mostly oriented to Macedonia and Montenegro and further market can account for Albanian guests with adequate price positioning.

[24] In the past 5 years, ski resort in Mavrovo has recorded best performance with the estimation of almost 100.000 annual overnights; Kozuf ski resort has recorded fastest pace of development in the same period becoming relevant regional resort

Greece

Greece mountain resorts are shown on the map bellow:



Source: http://www.greek-islands.us/greece/skiing-greece/

Greece is one of the top 20 tourism countries in the world by tourist volumes, with several times higher purchasing power than other countries in the region, despite the ongoing economic crises.

It has 18 ski resorts developed, most of which highly exceed regional quality standard.

Some ski/mountain resorts, especially in the northern parts of Greece can represent a competition to Galicica, but it is expected that Galicica would enjoy price advantage due to the reasons stated before (cost of operations and general level of costs/prices in two countries). Thus, there is some potential of penetrating this market under the condition of developing product at good international quality standard with good value for money offer.

Bulgaria

Most important Bulgarian mountain resorts are shown on the two maps bellow:

Source:

http://www.visittobulgaria.com http://www.balkan.co.uk/winter-resorts

With about the same population as Serbia, Bulgaria is an EU member with slightly better GDP per capita, purchasing power and is renowned international tourist destination with over 5 mil. international visits.

However, demand is more than matched with supply that includes three major and reputable ski resorts (Bansko, Borovets, Pamporovo) and more than 10 smaller ski resorts, but most of them can hardly be considered to be in the same geographical market as Galičica due to relatively large distance and existing road infrastructure.

Most of the major ski resorts were developed through real estate proliferation model that has come to dead end (most notably Bansko) and are in redevelopment process;

Despite the above supply/demand relation and poor traffic accessibility, it is estimated that only in future large ski/mountain resorts can Macedonia count on some share of Bulgarian market due it's to already established position on Bulgarian market (5th origin market by volume).

Serbia

Serbia has several ski resorts and was the first country of ex YU region to start redeveloping ski resorts in 2005; Kopaonik is a well developed large (in regional terms) mountain resort which along with development potential of Stara Planina could hardly be considered a competition to Galicica as part of Ohrid whole year destination tourist products portfolio.

Kopaonik, situated in southern Serbia, is the largest regional ski centre with 10,000 beds and 24 lifts. Expansion plans include optimization of ski system and doubling the supply of accommodation. It is considered to be the destination of the Serbian elite.

Stara Planina on the Bulgarian border is the most serious greenfield project in the pipeline with some initial developments already taking place and international brands already present – Falkensteiner hotel.

There is also a number of smaller local resorts (Zlatibor, Divčibare, Tara, etc.) and a plan for greenfield development on Golija mountain near the existing Kopaonik resort.

Zlatibor, represents more possible competition in tourist product portfolio terms, but can hardly share same geographical market due to relatively large distance and existing road infrastructure between the two resorts.

Montenegro

Currently two ski resorts are operational in Žabljak and Kolašin, with Žabljak having outdated ski facilities and low accommodation offer. However, thare are ambitious plans for development of Bjelasica/Komovi and Durmitor mountains.

Low population combined with a modest purchasing power will drive further developments to orientate on regional and international markets.

Road traffic connectivity will have to significantly improve in order to be able to significantly increase the visitor volumes.

Bosnia and Herzegovina

Bosnia and Herzegovina has several ski/mountain resorts remained from Sarajevo 1984 Winter Olympics (Bjelašnica, Jahorina), but can hardly be considered to be in the same geographical market as Galicica due to relatively large distance and existing road infrastructure.

Development plan for Jahorina made in 2005, still meets administrative and financial obstacles. Number of local ski-resorts (Kupres, Blidinje, Vlašić) in central and western part of the country realize 100 – 200 thousand overnights annually but with no serious opportunity of expansion due to natural limiting conditions (maximum altitude);

Parts close to corridor 10 are the most prospectus markets as they are in the same time far from Bosnian mountain resorts.

The basic figures of some of the regional and national skiing resorts are given in the tables bellow. Since it is estimated that Galicica is not direct competitor to large skiing/mountain resorts in the region nor that any of the existing resorts share the same product portfolio and geographical market, the tables and figures are given for informative purposes.

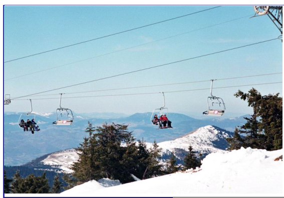
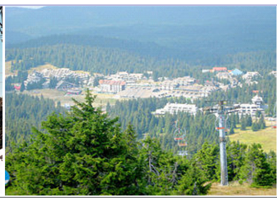
Competition analysis

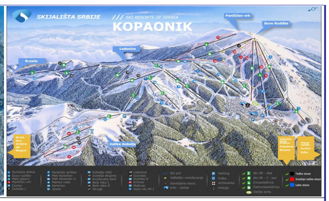
Mavrovo, Macedonia

LOCATION	The highest mountain peaks in Macedonia are all found in Mavrovo National Park, located in the western-central edge of the country. These peaks, which include the Sara, Desad and Bistra, are topped by the imposing Great Korab Mountain (2,764 m).		
ACCOMMODATION	1.000 (year 2010 estimate)		
SUPPLY AND PRICES OF REAL ESTATE	There are hotels and apartments on the ski slopes. Also, a the foothill of the slopes there are apartments, houses and other real estates available for buing (city of Mavrovo).		
TOURISM VOLUME	Arrivals: 23,000 (year 2010 estimate)	Overnights: 55,000 (year 2010 estimate)	
PRODUCTS AND ACTIVITIES	Winter season: skiing, snowboarding, paragliding, snow park, competitions	Summer season: mountain biking, trekking, hiking, horseback riding, hunting, fishing	
SKI SLOPES	Total length od ski slopes: 15 km		
SKI LIFTS	Total length of ski lifts: 5,7 km		
	Number of ski lifts: 11 (3 chairlifts, 8 ski lifts)		
	Capacity of ski lifts: 11,100 persons per hour		
SKI PASS PRICE	Daily pass: 17 EUR	Weekly pass: 98 EUR	
INDICATORS	Total no. of beds/ total capacity of ski lifts	Total capacity of ski lifts/ total length of ski slopes	Total no. of beds/ total length of ski slopes
	0,09	740,00	66,67

Competition analysis

Kopaonik, Serbia

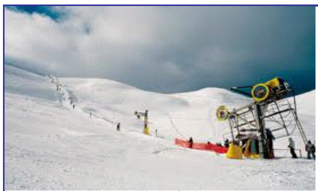





LOCATION	Kopaonik ski resort is situated 330 km from Belgrade - capital of Serbia. It is one of the largest mountain ranges of Serbia, located in the central part of Serbia, while small part is extended to north Kosovo. Its highest peak, Pancic's Peak, is at 2,017 m elevation.		
ACCOMMODATION	5.000 (year 2010 estimate) - 1.000 within resort, 4.000 in the area		
SUPPLY AND PRICES OF REAL ESTATE	On the ski slopes there are developments (hotels, apartments, etc.) as well as in narrow area. New luxury apartment in a building costs 2,000 Euros per square metre. Houses start at 1,500 Euros but with better position and quality, the price is adjusting.		
TOURISM VOLUME	Arrivals: 65,874 (year 2011)	Overnights: 270,535 (year 2011)	
PRODUCTS AND ACTIVITIES	Winter season: skiing, snowboarding, ice skating	Summer season: mountain biking, trekking, hiking, paragliding	
SKI SLOPES	Total length od ski slopes: 55 km and 12 km for Nordic disciplines		
SKI LIFTS	Total length of ski lifts: 18 km		
	Number of ski lifts: 25 (5 ski lifts with 4 seats, 5 ski lifts with 2 seats, 4 ski lifts, 9 towing lifts, 2 baby lifts)		
	Capacity of ski lifts: 32,000 persons per hour		
SKI PASS PRICE	Daily pass: 22 EUR	Weekly pass: 105 EUR	
INDICATORS	Total no. of beds/ total capacity of ski lifts	Total capacity of ski lifts/ total length of ski slopes	Total no. of beds/ total length of ski slopes
	0,16	581,82	90,91

Competition analysis

Bjelasica - Kolasin 1450, Montengro




LOCATION	Kolasin is located in northern Montenegro at altitude of 954 m. The ski center on Bjelasica in Jezerine is located at an altitude of 1450 meters and is located 8.5 km from Kolasin.		
ACCOMMODATION	around 500 (year 2010 - estimate) - hotels (around 300), private (200)		
SUPPLY AND PRICES OF REAL ESTATE	On the ski slopes there are no commercial real estates. Closest city is Kolasin where real estates can be bought. Prices range from 1000 Euros for houses and apartments in Kolasin city area.		
TOURISM VOLUME	Arrivals: 3,600 (year 2011 - estimate)	Overnights: 8,800 (year 2011 - estimate)	
PRODUCTS AND ACTIVITIES	Winter season: skiing, snowboarding	Summer season: hiking, mountain biking, trekking, rafting	
SKI SLOPES	Total length od ski slopes: 30 km		
SKI LIFTS	Total length of ski lifts: 4.7 km		
	Number of ski lifts: 6 (1 ski lift with six seats, 1 ski lift with two seats and 3 ski lifts)		
	Capacity of ski lifts: 6,300 persons per hour		
SKI PASS PRICE	Daily pass: 20 EUR	Weekly pass: 104 EUR	
INDICATORS	Total no. of beds/ total capacity of ski lifts	Total capacity of ski lifts/ total length of ski slopes	Total no. of beds/ total length of ski slopes
	0,08	210,00	16,67

Competition analysis

Bansko, Bulgaria

LOCATION	Bansko ski resort is located in southwestern Bulgaria, at the foot of one of the most beautiful Bulgarian mountains - Pirin, which is under national protection and on the list of world natural heritage. Distance from Sofia to Bansko amounts 160 km.		
ACCOMMODATION	around 7,000 beds (mainly in hotels and apartments)		
SUPPLY AND PRICES OF REAL ESTATE	City of Bansko is expanding and beeing built up. Apartments, flats, lodges are beeing built. Prices of new apartments/studios start at 1.100 Euros and up (in resorts, residential buildings and similar)		
TOURISM VOLUME	Arrivals: 100,000 - 150,000 (estimate)	Overnights: 400,000 - 500,000 (estimate)	
PRODUCTS AND ACTIVITIES	Winter season: skiing, cross-country skiing, snowboarding	Summer season: golf, fishing, hunting, trekking, mountain biking	
SKI SLOPES	Total length od ski slopes: 76 km		
SKI LIFTS	Total length of ski lifts: 25 km Number of ski lifts: 17 (1 gondola, 6 ski lifts with 4 seats, 1 ski lift with 3 seats, 6 ski lifts) and 10 children draggers Capacity of ski lifts: 24,500 persons per hour		
SKI PASS PRICE	Daily pass: 27 EUR	Weekly pass: 150 EUR (6 days)	
INDICATORS	Total no. of beds/ total capacity of ski lifts	Total capacity of ski lifts/ total length of ski slopes	Total no. of beds/ total length of ski slopes
	0,29	326,67	93,33

3.3.2 Brief assessment of regional markets

Overall, except for Bansko and Stara Planina, hotel supply in regional mountain resort centres doesn't include international brands and is often under international quality standards. However, some regional mountain resorts are increasing the level of quality standards in increasing Internationally branded hotels manage to achieve the lower edge of international price and occupancy standards (100 to 120 EUR ADR and up to 50% occupancy for a 4+ star hotel)* thanks to their easier commercialization on foreign markets, variety of products (meetings, wellness), good value for money proposals and the attraction of regional elites due to the lack of such hotel products on regional market.

Number of ambitious hotel projects in other destinations that implement international practices of equipment and delivery are unable to achieve ADRs and occupancy levels (max 80 EUR ADR and up to 40% occupancy)* sufficient to bring satisfactory return on investment.

Due to the inherited "Mediterranean" travel behaviour, regional demand for summer mountain tourism product is relatively weak that causes problems in hotel occupancy levels.

For majority of the regional centres, real estate supply is characterized by the uncontrolled development that is not in line with general urbanization of the area.
Considering that there are few real estate developments delivered at international level, real estate prices rarely exceed 1.500 EUR per sq.m..
Bulgarian resorts are pioneers in the region in implementing real estate management models (sell&leaseback, timeshare, condotel, etc.), mainly targeting western markets and with low performance (price) thanks to urban devastation caused by uncontrolled development.

Regional demand markets are slow to accept real estate management models, but it is to expect that this situation will change in next 5 to 10 years considering the anticipated end of the economic crisis and serious development plans in the region (Stara Planina, Kopaonik, Kolašin, Brezovica, etc.) that incorporate or are expected to incorporate such models.

3.4 CONCLUSIONS OF MARKET ANALYSIS

- Overall accommodation supply in Macedonia is stagnating in both number of registered beds and rooms offered on the market. However it is hard to assess the number of unregistered beds and rooms, especially in the region like Ohrid, where huge peaks of tourism demand occur in summer months.
- Number of rooms offered by registered motels and hotels shows most dynamic growth compared to other accommodation types in last few years meaning that this segment is primarily benefiting from the rising tourism demand. At the same time, hotels and motel represent less than 25% of total accommodation supply in Macedonia.
- Southwest statistical region, where Ohrid is located, continues to be the most developed tourist region in terms accommodation supply, both beds and rooms offered, while showing relative stagnation in absolute numbers.
- Total number of tourist arrivals and overnights in Macedonia are on the upward trend, whereas arrivals are primarily fuelled by foreign and overnights by domestic tourists.
- Mountain resorts in Macedonia have experienced stable growth in both foreign and domestic number of arriving tourists in the previous period.
- In absolute terms, Netherland, Greece and Kosovo are the strongest rising GEO markets for Macedonian tourism industry, while number of arriving tourists from Serbia, Albania and Bulgaria is declining. If looking at cumulative figures for the last three years, Serbia is the strongest GEO market.

- However, specific and focused Government subsidy schemes have shown remarkable results, which is primarily seen in strong growth of Dutch tourist inflow through Ohrid airport. This has even caused Netherlands becoming top GEO market in Macedonia in 2011.
- Tourism seasonality is still very present, due to relatively underdeveloped types of resorts not offering sun&see products and established tourist demand culture inclining to sun&see products. Furthermore, the peaks of summer season seem to be rising in last three years.
- Ohrid and Struga and to a certain extent Resen, are the primary supply markets for potential new demand generated by extended "whole year" season of Ohrid/Galicica region, with Ohrid being the milestone of potential supply with 72% of total market categorized hotels.
- Registered hotels in both Ohrid and Struga are primarily belonging to middle price segment, which does not match the existing inequality levels of population income in the country. Thus it is expected that certain adaptation of supply (increase of the supply on both ends of the price spectrum) should be expected in forthcoming period, especially if the economic downturn is reversed.

3.5 MARKET POTENTIAL ESTIMATION

3.5.1 Assumptions

- Market potential estimation shows the maximum potential that delivered product can achieve on the each of the listed markets for the base year 2013 and 2023;
- Calculation is based on:
  - The population to ski days ratio (the amount of the ski days that is generated by each country relative to it's population) that is estimated on the basis of Zermatt Symposium proceedings where key people of the ski industry gave their prognosis of the industry developments;
  - Market share means share of the total ski days that can be attracted from each national market to this particular project alone and is estimated on the conclusions of the overview of the regional mountain tourism market provided within this document;

  - Average expenditure per ski day that is dependent on the GDP per capita and purchasing power in non linear way (because visitors from wealthier markets will be attracted due to value-for-money proposal).

- For the simplicity of calculation, it is assumed that population of the observed countries will remain constant, that joint average GDP growth rate over the 10 years will be 3,5%* annually, that population to ski days ratio will increase 60 to 80% over the 10 years;
- It is assumed that resort doesn't have the potential to attract significant tourism volumes from other markets in the base year 2013, but it is assumed that it can reach 25% of its total business (in ski days) on international markets in 2023 ;
- Due to the specific strength of Ohrid tourism product and accommodation supply in the region and relatively poor local population density and purchasing power, it is assumed that number of ski visitors coming from accommodation will slightly exceed benchmark value of 50% and be closer to 60%.

3.5.2 Market potential 2013

Maximal market potential of Ohrid/Galicica ski resort in 2013 on main GEO markets						
	target population*	target GDP per capita (USD)**	Number of tourist in Ohrid region	% of ski days arrivals in total population	population to ski days ratio***	ski days
Serbia	7,186,862	6,310	37,734	0.13%	25.00%	3,423
Netherlands	16,742,993	50,076	115,507	0.34%	50.00%	19,362
Albania	2,821,977	4,030	12,348	0.04%	10.00%	2,895
Greece	10,815,197	25,662	27,499	0.10%	40.00%	488
Turkey	75,627,384	10,524	31,327	0.01%	25.00%	52
Kosovo	2,000,000	3,596	9,381	0.07%	15.00%	74
Bulgaria	7,364,570	7,158	16,821	0.05%	20.00%	0
Slovenia	2,055,496	24,142	19,380	0.38%	40.00%	0
Total	**124,614,479**	**n/a**	**269,997**			26,293
** Source: National population census- latest available*						
*** Source: The World Bank, in curent USD, 2011*						
**** estimated by Horwath HTL*						

Estimated by Horwath HTL

The projected maximal market potential of Galicica as part of Ohrid "whole year" tourist product portfolio is based on existing data of inflow of tourists from main GEO markets, multiplied by % of ski ratio of the total population of GEO markets and probability that they will come to Ohrid during winter season, which is equal to the % of skier in total population.

In case of national market, the same methodology can not apply due to the foreseen large number of daily skiers and fact that Galičica ski resort will not directly compete with other large skiing resorts in the region. Thus, it is estimated based on expected number of daily visits added to the total number of tourists who will spend nights in vicinity of Galicica ski resort Ohrid region) and who are coming from within the "convenient driving distance" multiplied with same parameters as for main GEO markets. Also, as tourist supply in mountain resorts is growing faster than demand, some cannibalism may happen and thus the numbers were corrected for 0.5 index in case of overnights and 0.9 index in case of daily visits.

Maximal market potential of Ohrid/Galicica ski resort in 2013 on national market							
	target population*	target GDP per capita (USD)**	Number of tourist in Ohrid region	% of tourist arrivals in total population	population to ski days ratio***	Reduction due to faster growth of supply vs. demand in mountain resorts****	ski days
daily visitors	200,000	4,925	200,000	100.00%	20.00%	90.00%	36,000
overnight visitors	1,023,578	4,925	1,023,578	20.00%	20.00%	50.00%	20,472
Total	1,223,578	n/a	1,223,578				56,472
** Source: National population census– latest available*							
*** Source: The World Bank, in curent USD, 2011*							
**** estimated by Horwath HTL*							
**** Supply market in mountain segment is growing faster than demand, and thus some canibalism might be expected							

Estimated by Horwath HTL

Based on these calculations, the total market potential of the Galicica ski resort, as part of Ohrid "whole year" tourist products portfolio in 2013, is estimated between 70.000 and 90.000 skier visits.

3.5.3 Market potential 2023

Based on estimated market potential in 2013, expected growth of GDP in main GEO markets and Macedonia, respective demographic changes in terms of total population numbers and continuing urbanization process, capitalisation of marketing activities and utilisation of "Ohrid" brand and other factors, we can expect average annual growth rate in terms of skier visits around 5%[25].

As a result, we can expect to have maximum market potential of up to 100.000 skier visits by skiing season 2016/2017, and to have optimal market potential, relative to recommended development of a well-balanced Galicica ski resort, with maximum potential capacity of approximatelly 120.000 skier visits, by season 2020/2021.

By 2023, maximum market potential is estimated to be arround 130.000-150.000 skier visits.

3.6 KEY CONSLUSIONS AND RECOMMENDATIONS

- Macedonia is characterized by increasingly aging population and progressive urbanization, leading towards development of more specific tourism products related to health and culture tourism for the aging population and business, leisure, fun and adventure tourism driven demand of increasing urban population.
- Most of the population is concentrated in the north and east regions, well connected with Ohrid/Galicica area, which would primarily fuel domestic demand in Ohrid/Galicica area.
- Rising inequality (GINI) with significant share of income (70%) held by 40% of richest population. However, the data provided by State Statistical Office of Macedonia, shows that most intensive development in last several years was in the segment of 3* quality hotels, which might be caused by relatively modest economic performance of the country in the same period. However, it is expected that relatively high inequality in terms of population income, should push the demand for hotels towards both ends of the price spectrum in the middle and long run.
- Lowest price level index compared to all of the observed European countries is a significant competitors advantage to Macedonian tourism so the value-for-money is undisputed argument element of value proposition for international markets for future Galičica resort.

[25] Estimated by Horwath HTL

- Access to Ohrid/Galičica is relatively satisfactory thanks to existing airfield near Ohrid and developing highway network, with corridor VIII (passing near Ohrid/Galicica) being among 11 priority Government road infrastructure projects.
- Strong attraction power of Ohrid BRAND, due to its heritage, culture and historical monuments, both in national market and other countries of the region, should be utilised in strategic positioning of Galičica ski resort as new significant part of "whole year" Ohrid mix of tourist products.
- 4 areas have been identified within the study area which have potential for commercial alpine skiing, but overall, the West Zone is the most promising location for potential ski area development due to:
    - Problematic accessibility of the other three zones which would require a huge investment for road construction and relatively small skier capacities potential.
    - The South Zone is located within the strictly protected area of the National Park.
    - Since it is expected that most day skiers would come from the accommodation capacities within the Ohrid municipality, the West Zone offers the advantage of proximity to the market (based on the assumption that the area is accessible from the lake side either by Gondola or by car)
- Although the result of the TCA has shown that the overall potential of the West Zone is 4.740 skiers, according to the findings of Ecosign it does not make sense to propose to develop all of the identified pods (due to costs, connectivity, skill mix...). Thus, it is highly recommendable to develop a well-balanced area with a capacity of approx. 2.500-3.000 skiers (80.000-120.000 skier visits) with addition of summer operations to match the expected market potential in next period of 3-5 years.
- The envisaged number of skier visits can hardly offer sufficient market attraction, in order to be considered as the only tourist product/attraction, which would generate sufficient demand by itself. Thus, the skiing as a tourist product in Galičica should only be considered as an important part of the total product portfolio which will be offered by the whole Ohrid region during winter season.
- Based on the proposed size and total potential of the Galicica skiing resort, we are establishing the "convenient car driving distance" as a relevant regional market. Although the possibility that some tourists would come to Galicica from more distant markets is not excluded, the majority would come from closer areas. It is expected that smaller regional mountain resorts, within the

convenient car driving distance, would represent the most dynamic competition to Galičica.

- Furthermore, as Ohrid, along with Skopje, represents a region with most developed supply of tourist accommodation in Macedonia, expanding the season from only summer months, primarily offering sun&beach tourist products, with mixed portfolio of new winter tourist products should result in extended season of the whole area. Therefore, existing accommodation capacity that is severely underutilised during winter months should benefit from the extended season and thus would be able to compete more successfully in price terms with its primary "summer" competitors.
- At the same time, costs related to operations of ski-lifts (Gondola) during winter season, could be partly covered with summer season tourists, resulting in lower costs of operations due to extended season of operations, compared to primary winter-only mountain resorts competitors.
- If Galičica ski resort is positioned as a part of extended tourist product portfolio of "whole-year" Ohrid tourism region, no significantly limiting competition is envisaged, as it will supply a relatively different tourist product compared to already existing, especially compared to major skiing resorts in Macedonia and the region.
- Multiethnicity and of nearby area should carefully be taken in consideration since it allows incorporating multicultural elements in tourism products (first and foremost touring tourism that is already one of the most important product in Ohrid area) that is praised on strongest international markets (western Europe, North America, China, Japan), but also from the aspect of potential regional demand in formulating specific tourism products (like specific food offers including "halal" certificates for some products, etc...).

CHAPTER 4

MARKETING STRATEGY

Horwath HTL

Hotel, Tourism and Leisure

4 MARKETING STRATEGY

4.1 STRATEGIC STRONGHOLDS

4.1.1. Introduction

Strategic strongholds of the project are those characteristics and aspects of project development in given situation that provide the most solid basis for its success, i.e. they are the pillars on which the project is based. Considering that the development of tourist resorts is long term process that leans on high volume investments that inevitably carry substantial risk (never mind who takes the responsibility for their implementation), these aspects must be chosen and formulated in a way to be stable and sustainable on the long term. It is therefore logical to base strategic strongholds on selected elements of geography, demography, economy and inherited social and cultural dimensions of the area, rather than on short term market trends on local or even global market.

Furthermore, it has to be understood that choice and formulation of these strongholds isn't just a matter of speech, internal or external marketing, but it is in fact a choice of "cards to play on". In other words, choice of the strongholds affect and in large degree determines the shape, scale, positioning and range of ambitions of the future project. This is why is the procedure of choice and formulation of these strongholds the first step in formulating marketing strategy of the future Galičica resort.

4.1.2. Strategic strongholds

On the basis of all the performed analytical procedures performed by Ecosign and Horwath HTL staff and elaborated in the report documents, the future project leans on the following strategic strongholds:

Unique location characteristics

Even the first glance of the project area shows that it is a National park mountain set in between two major lakes in southern Balkans – lakes Prespa and Ohrid that present significant attractions from the point of geography and endemic flora and fauna. Versatility of geography, points on the mountain that allow simultaneous views on both lakes, complementary climate (ability for summer guests to go to the mountain in hot summer days) are substantial advantages for the development of any tourism project. Last but not least, project area is practically set on the borders of three countries. Not only that it automatically means that it has easier access and favourable position on more than one national market, but it can be strategically important from the point of financing. Regardless of the current barriers, Macedonia will most certainly continue its way to EU integration, where at one point (when status of candidate is awarded), project area and even project itself can benefit from the various EU cross-border financing programs.

Strength of Ohrid tourism brand and it's existing supply chain

Market analysis has shown that Ohrid is internationally most renown tourism brand in Macedonia that already has strength to attract not only regional markets but is really becoming significant player on global tourism market. There are around 25,000 beds in various accommodation objects in municipalities surrounding the lake (out of which 25-30% in approximately 50 hotel objects) and many other elements of tourism supply chain already in successful operations. So, strength of the existing brand on the demand markets will allow easier commercialization of the future resort, while the strength and versatility of the existing industry will allow development of more complex and competitive products through combinations with other supply elements.

Integration of the wider area in one tourism region

Despite the strength of Ohrid tourism destination, it has one identified weakness that seriously undermines its competitiveness and this is seasonality. Ohrid records almost 90% of its business during summer, while most of the accommodation capacities are even out of operations in off season. This is a consequence of tourism supply chain that is strictly oriented to summer season. However, capital project like this can turn this situation around by resolving the key problem for winter offer while providing additional argument for summer season that can not only increase the volume of visitors but enable higher pricing. So, this project should be considered more as an addendum of the existing tourism supply chain rather than a standalone ski project. Such an extensive tourism supply chain can enable Ohrid and southwest region of Macedonia to become one of the leading tourism regions on Balkans. This also means that it will require integration of tourism management of the respective wider area according to best international benchmark models (like Destination management organisation) applied in leading tourism regions in the world. Otherwise, management will remain particularized, it won't be possible to resolve conflicts of interests between the key stakeholders, synergetic effects will be minimized and even the prospective of the subject project may be jeopardized.

Stable local and regional market demand

Technical assessment conducted by Ecosign has shown that natural setup of Galičica mountain doesn't allow development of large scale international ski resort. Instead, it has been determined that this can be resort with maximum 3,000 to 4,000 SCC. International development practices have shown that local and regional markets are essential for that type of the resort. Geographic position of the resort shows that markets of Macedonia, Kosovo, Albania and to a lesser degree Greece make the list of local and immediate regional markets. Although these markets are limited by purchasing power, their market potential for this project will remain stable on the long run, since no major competitive resort is on the way in 150km radius. If the project is delivered according to best international practice in terms of structuring and quality, there is no significant concern that 50,000-60,000 potential annual ski visits from the surrounding area can be threatened. So, final scaling and phasing of the project, and especially its ski operations that require the highest investment, must mostly rely on the local/regional potential since it is the most dependable feeder market.

Governmental support and PPP nature of the project

Government of Macedonia already shows initiatives and takes measures to speed-up tourism development around the country, since it has identified that tourism is one of potentially most competitive economic sectors. On the other hand, both regional and global experiences have shown that mountain development projects inevitably require substantial involvement of public sector. In conditions where limited demography and purchasing power dictate prices that are below international standard, each project like this is considered as public regional development project, rather than opportunity to attract large FDI. This doesn't mean that this project has no possibility for attracting investors and operators for its particular components, but it initially requires investment (general infrastructure, at least initial elements of the ski system) that will have to come from the state or public companies. Apart from the role of initial financial risk taker, public sector must also take role of asset and project manager. However, Government and public companies are here in a way better position compared to greenfield projects set apart from the main tourism centres considering that it has strong potential partners in the existing tourism players in Ohrid. In future, they can be a part of project management structure and future co-investors.

4.2. MARKETING STRATEGY

4.2.1. Market and competitive positioning

Positioning is defined as a process of identifying a market niche for a brand, product or service utilizing traditional marketing placement strategies (i.e. price, promotion, distribution, packaging, and competition). There are different and sometimes conflicting definitions, descriptions and concepts of the positioning process in science and business that includes competitive and market positioning. We will hereby adopt the most common approach that assumes the following definitions:

- Market positioning is the manipulation of a brand (product or service) or family of brands to create a positive perception in the eyes of the customers;
- Competitive positioning is influencing how our product or service is perceived by customers relative to our competitors,

In terms of the process of establishing marketing strategy, decisions related to competitive positioning are the first to be made. Decision makers (planners, developer, owners, etc.) must decide:

- What is the business/product we compete in?
- What is range of ambition in terms of quality and quantity?
- What is our core strength and the element that distinguishes our product/service from the competition?

After these questions are answered, it is possible to form the statement on market positioning that is naturally an extension of the business mission and matches the desired perception in the mind of the customer. It is also a basis for developing tactics and tools of the operational marketing.

We propose the following pillars of the competitive positioning:

- Galičica is an all season mountain resort providing winter and summer recreation activities, versatile and innovative F&B offer and other tourism services;
- Galičica mountain resort is one of the leading mountain resorts of Macedonia and one of the key tourism attractions of Ohrid area. It's offer is balanced and shaped for international guests of middle, and to a lesser degree, upperscale purchasing power;
- Galičica is set in a unique natural surrounding of Natural park in the heart of the lively tourism region. It offers state of the art ski and mountain recreation facilities, bases its offer of food and beverages on mix of traditional Macedonian

cuisine and international dishes and delivers unique experience of unspoilt mountain nature overlooking magnificent Ohrid Riviera and Prespa lake.

In line with the elaborated pillars of competitive positioning, we propose the following market positioning of Galičica mountain resort:

Galičica is an all season mountain resort providing unique ski and mountain recreation experience to visitors from the region and all of the guests of Ohrid region. It offers unique natural ambience, magnificent views and exquisite dining experience to midscale and upperscale guests who visit the resort to ski, recreate, relax, hideaway and have fun.

4.2.2. System of experiences

System of experiences is the list of the key sensations that tourism product or services delivers to its customers. In line with its positioning and key features identified in analytical sections of the document, we believe that the future resort has to deliver the following system of experiences:

Activity, vitality and health

Breath-taking views




Relaxation in an unspoilt nature




Macedonian gastronomy at its best




4.2.3. Elements of differentiation

The next step in formulating basics of marketing strategy is to formulate elements of differentiation, i.e. characteristics of the resort that positively distinguish it from the competitors. These factors are necessary to form USPs (unique selling proposals) to the Client that make the Galičica resort offer better than the competitors'. Following are the key elements of differentiation for Galičica mountain resort:

- *Set in the heart of the lively tourism region*

It was already mentioned that Galičica isn't usual example of a greenfield ski resort. It is set in the National park in the middle of lively tourism region of Ohrid that is already offering wide range of tourism attractions and services, most notably city of Ohrid, an UNESCO heritage site. It enables resort of Galičica to package and offer its customers much wider choice of tourism services and activities than most mountain resorts can.

- *Mountain resort 10 minutes from the beach*

Not only that future Galičica mountain resort will be set in the middle of already established tourism region, but it will have very rare combination of summer sun&beach setup immediately next to the mountain resort. This is very rare combination of tourism products and experiences that is usually very much valued by the customers. So, not only that there is a combination of lake and mountain that together make exquisite tourism value chains in some Alpine destinations (for example Zell am See/Zermatt in Austria), but in this case there is a Mediterranean sun&beach lake destination combined with modern mountain resort set in a National park that is a rare occurrence.

- *"State of the art" ski and mountain recreation system*

Regional ski resorts had different history and conditions of development. First large state development during 70s and 80s were based on plans provided by local planners and architects that weren't specialists in the field. Furthermore, mountain resort planning has continuously advanced since. On the other hand, smaller resorts in the region were planned and delivered organically, since they objectively didn't require thorough planning and couldn't afford expensive equipment. So, most of the regional mountain resorts have structural issues to deliver optimum ski experience. If the resort is delivered to the market by strictly following the latest practices in planning and structuring of ski resorts and implementing innovative technical solutions, Galičica resort will easily differentiate from the regional competitors.

- *Value for money*

It has already been noted that Macedonia has low consumer price index, low average wage (even in Balkan terms) and rather favourable taxation policy. All of these factors enable implementation of lower prices than the international competition with approximately same profit levels. This is a strong and very valuable element of differentiation for both regional market with low purchasing power and international market that is always easier to attract with price competitive offers.

4.2.4. Unique selling proposition (USP)

A unique selling proposition (USP), sometimes called unique selling point, is a description of the qualities that are unique to a particular product or service and that differentiate it in a way which will make customers purchase it rather than its rivals.

In that sense, unique selling proposition is the explication of elements of differentiation through means and procedures of operational marketing. In other words, elements of differentiation are the key elements to have in mind when setting up project development strategy, whereas unique selling proposition is the way they are communicated to the market. Since mountain resort is a complex product incorporating a range of products and services (as all tourist products by definition are) and targeting various markets, it can have more USPs for different market niches that can be developed through the activities of operational marketing. However, they will all more or less steam from the previously identified differentiation elements:

- Set in the heart of the lively tourism region;
- Mountain resort 10 minutes from the beach;
- State of the art of ski and mountain recreation system;
- Value for money.

Further setup of USPs is in fact a formulation of advertising message that includes one or combines more elements, depending on the target niche. Following are some of the possible examples:

Enjoy international class ski facilities for half the price – for local and regional ski market;

Ski while overlooking magnificent Ohrid Riviera – international ski market;

Mountains and Mediterranean you can afford – international vacation market;

Relaxing mountain days and vibrant Mediterranean nights – regional and international summer vacation market.

4.3. PRODUCTS AND MARKETS

4.3.1. Tourism products and product features

Tourism products refer to the groups of activities that consumers purchase that are more or less standardized on the international level. Mountain resort on Galičica will occupy only a slight portion of the mountain and can take responsibility only for the portion of its necessary tourism supply chain. However, we will hereby provide a framework for development of tourism products for the whole mountain and outline possible product links to the other parts of Ohrid region.

Tourism products that should be delivered in Galičica area are the following:

- Summer and winter activities on the mountain;
- Special interests related to nature;
- Rural tourism.

Winter and summer activities

Product description

Winter and summer activities product refer to packages designed for the guests that are primarily motivated by an active vacation during summer and winter. These guests have generally variable lenghth of stay that is mainly grouped in two main categories. First are the same day or weekend guests that come immediate or extended region as same day or short break (most usually weekend guests). The other are people visiting for 7 to 10 days where more international guests are expected.
Besides primary market, some guests whose primary motivation was to visit Ohrid for sun&beach, culture or touring will also be inetersted in the eolements of this poroduct making it's secondary market.




Infrastructure and attractions

- Ski system (alpine skiing, nordic skking, snowboarding)
- Biking and hiking trails
- Ski rentals and ski schools
- Rental of other sport equipment
- F&B objects
- Apres-ski offer and entertainment
- Commercial and shopping spaces
- System of viepoints on the pists
- Platforms for sunbathing

Usual accommodation objects

- Resort hotels
- Little family hotels
- Townhouses / Chalets
- Private accommodation

Rural tourism

Product description

Rural tourism includes wide spectrum of activities, services and facilities that should organize rural population of Galičica with the aim of enriching tourism value chain of the area and colecting more revenue from the tourists. The key success factor is to deliver and present to visitors traditional rural products, values and a way of life. It must be set on the principles of sustainable development and it is commercialized primarily thorugh the offer of F&B services, followed by accommodation and shopping (local crafts). Rural tourism product is usually consumed as the third annual vacation in duration of up to 10 days and most frequently are wekend trips. Product is very seasonal with peaks in mach to may and septmeber to october. It has very high price elasticity. The main motives for rural travel are relaxation in nature and gastronomy, while activities and special ineterststs are of the secondary importance.



Product segments

Rural experience

Eco tourism in rural surrounding

Agrotourism

Possible activities

Experiencing rural scenography

Gastronomy

Sightseeing (history and culture)

Biking, hiking, mountaineering, etc.

Infrastructure and attractions

Displays of local tradition like bazaars, shops, etc.

Rural events

Accommodation capacities

Rual houses

Rural resorts

Rural B&Bs

Special interests (nature based)

Product description

Special interest tourism is one of the fastest growing areas withinthe tourism industry. It comprises a diverse group of specialisttourism activities that are distinct from the traditional masstourism product, suggesting that tourists are beginning to demand more varied and stimulating holiday experiences.
Special interest tourism products can be based on variety tourism resources and with versatile themes like arts, culture, sport and nature. In the case of Galičica that is both a mountain and a National park, the easiest commercialization can be expected in special tourism related to the nature. It refers to a variety of individual and group guests that steam from school children to top professional exploring endemic species on Galičica or geological phenomenons. The other, smaller, portion can be expected from special interest product related to the extreme and rare mountain sports. Although it is very difficult to package each type of these products due to the numerous niches, they all usually have in common some travel affinities like preffered accomodation types (B&Bs are preferred over hotels) and requests for mandatory infrastrcutural requirements on tourist destination (good webpage that allows possibilities for selfplanning and packaging of the trip).

Product segments

Bird watching, wild animals watching, on site research, excursions and expeditions, professional education, adventure products (parachuting, bungee and similar)

Usual accommodation capacities

B&Bs

Private accommodation

Small hotels

4.3.2. Target markets

It is clear that different products target different audience so target markets within such plan have to be specified per product. These projections serve for the tomorrow's planning of operational marketing activities and distribution of marketing budget per market. Estimation of the expected shares is done on the basis of:

- general inclination of each market group for a certain product;
- supply/demand ratio for certain product and geographic market
- current attractiveness and trends of the certain target group in Macedonia nad Ohrid.

Based on the above, following are the expected demographic and lifestyle target markets per product:

Target markets for winter and summer activities product		
	Geographic	Lifestyle
primary markets (70% of all guests)	Macedonia, Albania, Serbia, Netherlands	Families with small children, couples, groups of friends
secondary markets (20% of all guests)	Kosovo, Greece, Turkey, Croatia, Slovenia	Families with big children, DINKS, Empty nesters
tertiary markets (10% of all guests)	Western Europe, Bosnia and Herzegovina, Montenegro	Golden oldies, Individual and group business guests

Target markets for rural tourism product		
	Geographic	Lifestyle
primary markets (70% of all guests)	Netherlands, Greece, Macedonia, Serbia	Empty nesters, DINKS
secondary markets (20% of all guests)	Croatia, Slovenia, Italy, Albania	Families with little children, Golden oldies
tertiary markets (10% of all guests)	All the other markets	Backapackers, Business guests

Target markets for special interest tourism product		
	Geographic	Lifestyle
primary markets (70% of all guests)	Macedonia, Serbia, Westen Europe	Special market niches, groups, schoolgroups
secondary markets (20% of all guests)	Albania, Croatia, Slovenia, Italy	Backpackers, Empty nesters
tertiary markets (10% of all guests)	Other regional markets	All other lifestyle groups

Brief description of the main target groups:

	Description	Preferred products
Families with small children	30-45 years old, different levels of income and education, children are up to 14 years of age. Generally passive customers, safety is very important as is easy road access and value for money	Sun and beach, City breaks, main winter vacation rather than short breaks or summer visits to the mountain
Families with big children	40-55 years old, usually higher level of education and income than the first group. Kids are teenagers. Aim for destinations that can provide full offer that matches both kids and parents.	Sun and beach, Summer and winter activities, City brekas, Touring, Rural and gastro
DINKS	Double Income No Kids, pairs or groups between 25 and 35, highly educated and with high income. Time is very important, they require excitement and unique experiences	Short breaks, Welnness, Rural and gastro, Special interests related to sport and adventure
Empty nesters	50 to 65 year old couples whose nest is empty (children have gone). Higher education and income. They pursue holistic approach to life and are interested in quality of life - gastronomy, health and culture.	Wellness, Short breaks, Events and culture, Rural and Gastro
Golden oldies	Older than 65 but still relatively healthy. Budget limited but require new experiences and especially like to return to the destinations they have visited in the youth.	Toures, Cruises, Health, Culture, Rural and gastro
Business	25 to 65 years of age. Group or individual business guests related to MICE (meetings, incentives, conferences, exhibitions). Easy access is a must. They very much value quality of gastro offer.	Excursions, short activities
Backpackers	25 to 35 years of age. Different social and economical characteristics. Like to visit long haul destinations and always plan their journey themselves. The are heavy Internet users and always choose more affordable means of transportation.	Events, special interests, culture, tourisng

Further to the above specification, we have to have in mind that it is to expect that the ratio of international guests will increase with time and that immediate demand for the resort will most likely come from immediate regional markets. The structure of international markets will to a large degree depend on concrete measures of the government in terms of subsidies for international markets and marketing strategy of tourism management of Ohrid region.

CHAPTER 5

Concept and business model

Hotel, Tourism and Leisure

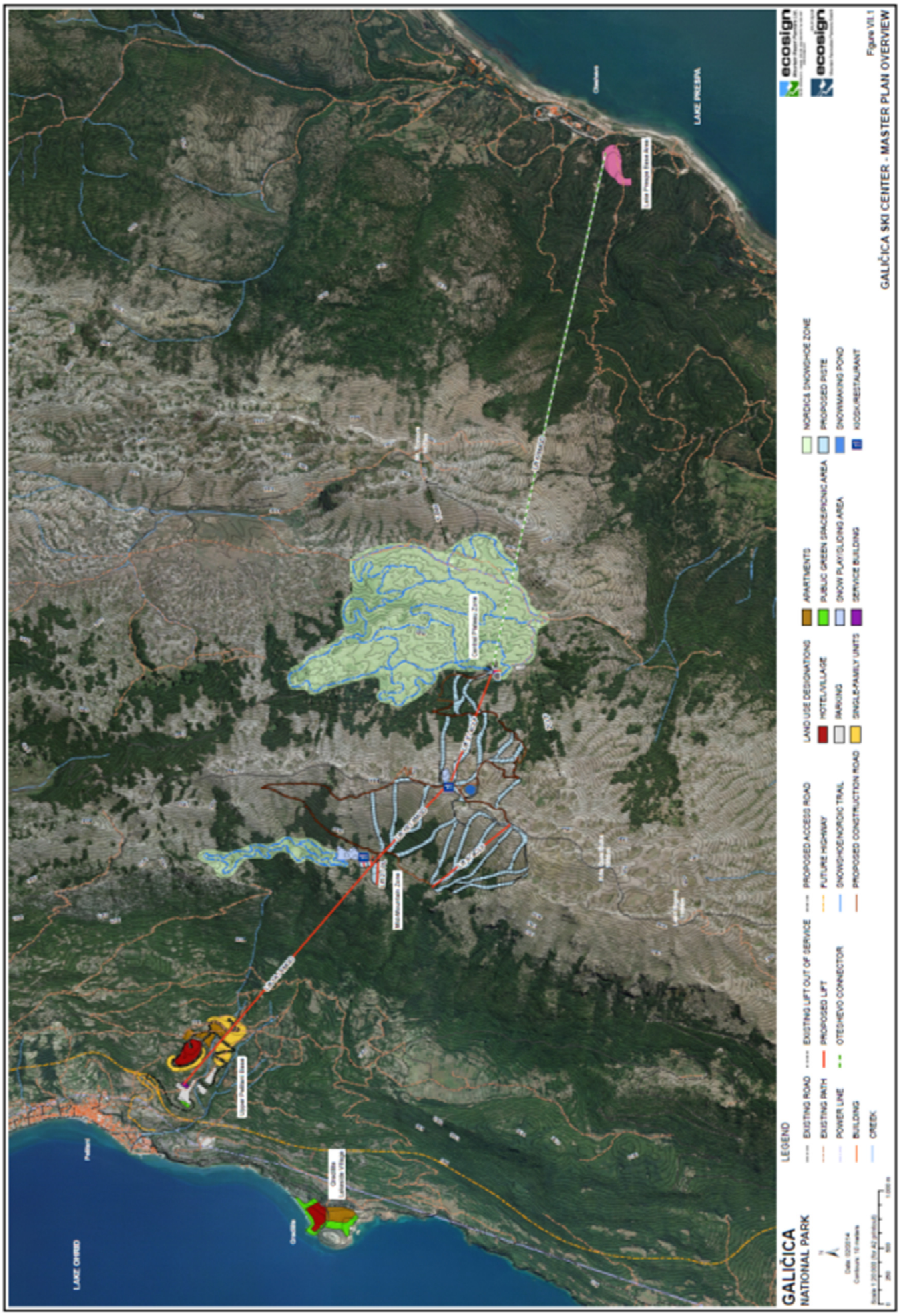
5 CONCEPT AND BUSINESS MODEL

5.1 GALIČICA MOUNTAIN RESORT CONCEPT

Mountain resort Master plan concept has been delivered by Ecosign within the STEP 4 delivery document - Sky centre Master plan presented in the picture on the next page.

The key points of the proposed Concept are the following:

- The overall vision for the Galičica Ski Center is to develop the previously identified "West Zone" and to provide access to the ski center facilities by means of a gondola system from the Lake Ohrid;
- Maximum capacity of the resort in terms of skiing (in line with the technical assessment of the mountain and market potential estimation) is set at approximately 3.000 SCC at buildout, making Galičica a midsize regional ski resort;
- On mountain facilities (within the ski zone) include Mid-Mountain Lodge, Snow Play/Snow Sliding facilities and Nordic & Snowshoe Zone, apart from the typical F&B facilities;
- Ski system phasing as proposed by the Ecosign is the following:
    - Phase 1 should include the access gondola (Lift 1) and the Beginner Zone (Lift 2, MC1, MC2 and MC3);
    - Phase 2 includes Lift 3 in order to expand the ski center to the east.
    - Phase 3 includes installing Lift 4 the ski area will reach the build-out capacity of 3.000 skiers per day.
- Concept anticipates two accommodation development zones:
    - Gradište on the lakeside of Ohrid with total of 1.600 beds;
    - Upper Peštani around the lift 1 (gondola) bottom station with total of 2.306 beds.
- Upper Peštani also includes large surface parking for day skiers as a primary source that will supply the resort with skiers, at least in earlier phases.



Galičica mountain resort Master plan (Source: Ecosign)

As outlined earlier, first development phase of the mountain concept includes construction of the access gondola (Lift 1) from lake Ohrid (Upper Peštani location) and the Beginner zone (Lift2, MC1, MC2 AND MC3). This generally follows market potential recommendations stated at the end of section 3. Accommodation phasing also has to be in line with market potential and phasing of other capacities. However, two accommodation development zones (as proposed by the Client) within the subject project have different characteristics and attractiveness:

- Gradište is a 9,6ha lakeside location, suitable for development for the purpose of sun&beach tourism product that is already dominant business of Ohrid, with the addendum of additional off-season drivers like meeting facilities and wellness on top of accommodation;
- Upper Peštani is location near the Lift 1 bottom station set at elevation of over slightly 800m with nice views, but with limited market attractiveness until ski and recreational facilities within Galičica mountain resort are fully developed.

Following the above, the following accommodation and related phasing is proposed:

PHASE 1

- Total development of Gradište location (parcels 14a – 14c) including:
    - 4/5* 200 rooms hotel;
    - 300 real estate multi family units (apartments).
- Development of parcels 1-4a in the Upper Peštani that correspond to total of 33 single family units / villas;
- Development of the first portion of the parking lot in Upper Peštani area (parcel P1), that comprises more than 50% of total planned parking space (571 parking stalls and 5 buses.

PHASE 2

- Strong development of Upper Peštani zone to follow the extension of the montain facilities:
    - Three hotels (parcel 10 – buildings B, C1 and C2) with the total of 430 units;
    - 78 MFUs (apartments) – parcels 6 and 7;
    - 38 SFUs (villas) – remainder of parcel 4 and full parcel 5.
- Addendum of the parking lot at Upper Peštani (parcel P2).

PHASE 3 (Buildout)

- Remainder development of Upper Peštani
    - Hotel building A with 170 units (parcel 10);
    - 50 MFUs (apartments) – parcels 8 and 9;
    - 28 SFUs (villas) – parcel 11.

- Addendum of the parking lot at Upper Peštani up to full capacity (parcel P3).

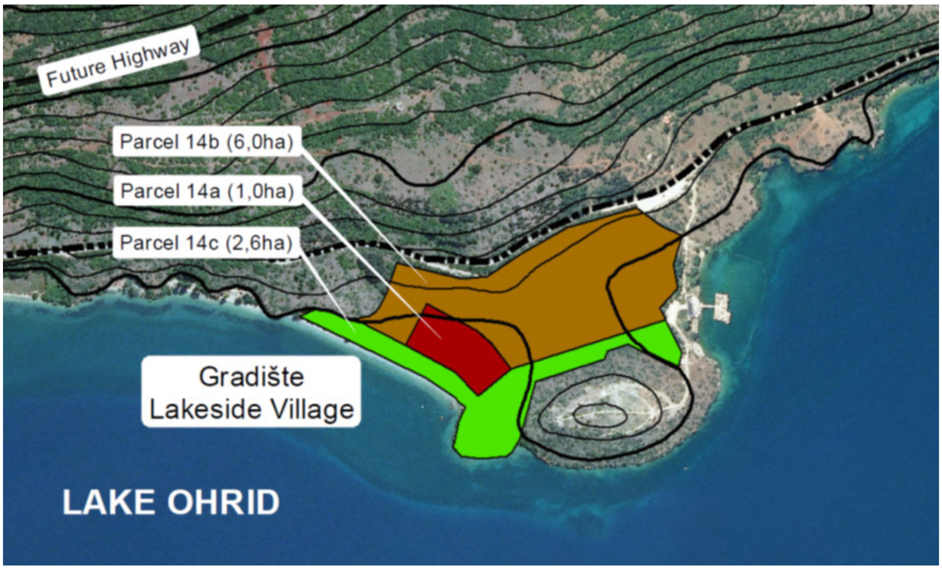
Further to the elaborated concept, Client has requested evaluation of the possibility of instalment of lift 5 that will connect the resort with Oteševo on Prespa lake in terms of estimation of the effects it will bring to resort operations and revenues that will lead toward decision on the feasibility and phasing of this concept addendum.

5.2 CONCEPT AND SPACE ALLOCATION FOR THE FIRST DEVELOPMENT PHASE

This section provides detailed concept and space allocation for the accommodation and related facilities that are planned for the phase 1 of the resort development. Details on the development of ski system and mountain facilities planned for phase 1 can be found in the Ecosign report Ski Area Master Plan – Step 5 – Detailed Design for the First Step of Mountain Development.

5.2.1. Gradište location

Lakeside location at Gradište is the capital part of the accommodation development in phase 1. It is a flat 9,6ha parcel with easy access to both the existing and the future road around along eastern side of lake Ohrid.



Concept footholds

- Market analysis (performance of Ohrid hotels) have identified that despite its attractiveness and reputation, Ohrid area still lacks accommodation capacities positioned at higher international standard with correspondent performance indicators;

- Ohrid tourism is highly seasonal where most of the accommodation objects are open in limited late spring/summer/early autumn season. Although there are facilities and resources that could potentially allow stronger commercialization in off and shoulder season (culture, cuisine), they are not yet developed product wise;
- Similarly, real estate market records rather poor performance that is to a large degree a result of supply quality structure;
- In order to harvest greater value (revenue) that can further be used as a leverage for Galičica mountain resort development, value must be created at Gradište meaning:
    - Development of the best resort at Ohrid to the moment, structured according to the latest international rules of the game for sun&beach resorts;
    - Create product drivers for shoulder and off season – MICE (meetings, incentives, conferences and events) and wellness facilities delivered and operated at international standard;
    - Base the resort development on strong real estate component. Taken in consideration strong existing supply in Ohrid area, it is important to differentiate by quality and application of the real estate management model that will make the real estate more attractive for the foreign market.

Positioning

Mediterranean 4/5* lakeside wellness resort[26].

Products

Sun and beach, touring, culture, events (main season)

MICE, Wellness, touring, events (off and shoulder season)

Target groups

Main season – families, couples, touring groups

---

[26] Physical development elements such as sizes of rooms are delivered at 5* standard, while the equipment and furniture are initially set at 4* standard. This concept is usually applied in the conditions where resort positioning significantly differs from destination positioning since it significantly downsizes initial investment to meet limited market performance. It allows the easy upgrade of the object to 5* (since physical elements are adjusted) as soon as market development of the destination allows it.

Off and shoulder season – couples (wellness), business guests, touring groups, groups of friends (events).

Management model

Hotel is managed either through own or hired management company.

Real estate (apartments) are sold and later leased back to be managed by the same company as the hotel (sell and leaseback model). Owner is allowed to use the apartment for 30 days and in turns gets the share of renting revenues. Detailed terms and assumptions are elaborated in section *6 Financial evaluation*.

Overall resort concept

Resort is spread over three parcels, with the following designation:

- P14a (red) – hotel building with a foot print of approximately 4.000 m^2 and total of 16.000 m^2 GDA on 1ha parcel;
- P14b (brown) – 300 apartments on 6ha parcel – 75 buildings (4 apartments each) with total of 24,000 m^2 GDA;
- P14c (green) – contact parcel to the lakeside that is to be landscaped with typical Mediterranean horticulture. This parcel contains the beach and additional resort facilities like swimming pools.

Further concept details are important:

- If land configuration allows, wellness facilities have to be set within the hotel building and oriented next to the parcel 14b (apartments) with the separate entry for the apartment zone;
- MICE facilities have to be set and oriented in a way to have daylight as it is one of the crucial preconditions for the attractiveness of MICE product (apart from the state of the art technological equipment);
- Hotel and apartment zones have to have separate accesses that will allow operator to have different operating times for the two types of accommodation and thus decrease operating costs. It is usual that hotel operates all year long, where apartments can be operated 9 months.

Space allocation

Hotel Gradište	Number of Units	Net Surface Area per Unit (in sq.m)	Total NDA (in sq.m)	Total GDA (in sq.m)
ACCOMMODATION				
Room	184	28	5,152.00	
1-bedroom suite	8	40	320.00	
2-bedroom suite	7	55	385.00	
3-bedroom suite (a)	1	80	80.00	
communications			1,484.25	
total	**200**	-	**7,421.25**	**8,534.44**
PUBLIC AND BACK OF THE HOUSE				
Lobby (incl. reception and lobby lounge)	-	-	300.00	
Administration	-	-	100.00	
Back of House/kitchen/other	-	-	2,400.00	
Total Public Spaces	-	-	**2,800.00**	**3,220.00**
Meeting facilities	Number of Seats	Net Surface Area per Seat (in sq.m)	Total NDA (in sq.m)	Total GDA (in sq.m)
Meeting space	300	2.5	750.00	937.50
Service and auxiliary	-	2.5	50.00	62.50
Total Meetings	**350**	-	**800.00**	**1,000.00**
Food and Beverage (F&B)	Number of Seats (Indoor)	Net Surface Area per Seat (in sq.m)	Total NDA (in sq.m)	Total GDA (in sq.m)
Main Restaurant	286	2	572.60	
Bar & Lounge	50	2	100.00	
Gourmet restaurant	82	2	163.60	
communications			209.05	
Total F&B	**418**	-	**1,045.25**	**1,202.04**
Total Retail			**100.00**	**125.00**
Wellness Facilities			Total NDA (in sq.m)	Total GDA (in sq.m)
Gym , saunas, whirlpool, treatment rooms			1,500.00	
Service area and storage			60.00	
Total Wellness Facilities:			**1,560.00**	**2,028.00**
TOTAL HOTEL			**12,926.50**	**16,109.48**
Outdoor hotel area (swimming pools, water sports, beach facilities and F&B)				**4,832.84**
Footprint	**3,580**			
Number of Floors	**4.5**			

Note: NDA - net developed area; GDA - gross developed area

Apartments Gradište					
Accommodation	Number of Units	Number of Beds	Net surface area per unit (sq.m)	Total NDA (sq.m)	Total GDA (sq.m)
studio apartment	75	150	35	2,625	3,750
1-bedroom apartment	135	540	45	6,075	8,679
2-bedroom apartment	60	300	60	3,600	5,143
3-bedroom apartment	30	210	90	2,700	3,857
Total	**300**	**1200**	**50.0**	**15,000**	**21,429**
Reception and Laundry				**150**	**195**
Food and Beverage	Number of Seats (Indoor)	Net Surface Area per Seat (in sq.m)	BOH	Total NDA (in sq.m)	Total GDA (in sq.m)
Bar	30	2	60	60	132
Restaurant 1 - international	150	2	300	300	660
Restaurant 2 - Macedonian cuisine	100	2	200	200	440
Restaurant 3 - fast food	40	1	40	40	88
Total	**320**		**600**	**600**	**1320**
Retail				Total NDA (sq.m)	Total GDA (sq.m)
Newsagents				20	24
Grocery store				350	525
Boutiques				400	480
Total				**770**	**1,029**
Total Commercial				**770**	**1,029**
Back of the house incl. Kitchen					
Total				**16,520**	**23,973**

5.2.2. Upper Peštani location

- Upper Peštani assumes 33 single family objects (220 m² villa) in the first development phase;
- Given their limited number and since they lack economy of scale for the development of supporting facilities (unlike in Gradište) or serious operation considerations, they are sold at freehold model to Macedonian elite;
- The purpose of including this limited lot of high quality accommodation in phase 1 (prior to the remainder of development of Upper Peštani area) is in resort image making, where developer can even decide to give some objects for free for members of Macedonian or international elite and celebrities that is sometimes practice in resort development;
- They can be marketed and sold with the unique selling proposal of the first prime accommodation in Galičica resort with execellent resort access (next to the gondola station) and magnificent lake views for affordable price.

5.2.3. Other concept considerations – Oteševo connection and development

Horwath and Ecosign have been asked by the Client to concept and financial wise evaluate the possibility of providing connection to lake Prespa (Oteševo) from the existing ski centre. Whereas technical solution for physical connection is provided within Ecosign report, here are the findings of Horwath on conceptual value and potential feasibility of this concept addendum:

- Oteševo and its surrounding aren't inhibited and have no tourist facilities in function, meaning that lift connection currently can't create revenues for ski resort by transporting people into ski system from Prespa side (since there are no inhabitants);
- Surrounding of the bottom station at Oteševo, as well as the entire zone of Galičica area toward Prespa, isn't suitable ski terrain meaning that future guests of the ski resort don't have key argument to use the lift 5;
- Furthemore, regardless on the lack of tourism capacities, current condition of Lake Prespa requires significant public investment even for preparation of serious tourism development;
- In that sense, it is impossible to count with any additional revenues for the ski resort if the lift 5 is constructed, meaning that this concept addendum means only more than 16 mio. EUR additional investment that will worsen the financial result of the resort;
- It can be roughly estimated that feasibility of lift 5 can be achieved only by creating tourist destination at Prespa with at least 5.000 beds with the precondition of public sector previously taking care of key barriers in touristification of lake Prespa area;
- Given the size and nature of this project (long term sun and beach destination development plan), it is within the frame of Galičica ski resort development project to assess such a possibility in detail;
- Financial evaluation of the project with lift 5 will be taken in consideration in section 6. However, Client has to be aware that in case that private partner takes over responsibility for resort development, it is very improbable that it will decide to go for the development of lift 5 given the above.

5.3 BUSINESS AND MANAGEMENT MODEL

5.3.1. Introduction

Mountain resort development projects are in essence a long term regional development projects. This has been the case with almost all greenfield mountain resort projects worldwide in the last 50 years, even those set in the most competitive and market attractive environments like USA/Canada. On the other hand, European mountain resort centres (especially the ones in the most renowned mountain resort region in the world – the Alps) had a long organic development process that spanned in most of the cases over more than 100 years.

Greenfield mountain resort development inevitably requires strong involvement of the public sector usually including management of the resort in its initial development stage because of the following reasons:

- Mountain resorts require significant basic infrastructure investments that are usually out of the main infrastructural corridors and in high mountain areas that have poor accessibility making solutions complex, investments high and their implementation span over longer period in time. Infrastructural solutions (not including micro infrastructure on site) is always within the responsibility of the public sector and precondition for making major deals with private partners;
- Mountain resort infrastructure, first of all ski lift system, also requires very high investment and is in its initial development phase also usually within the jurisdiction of public sector;
- Other facilities (accommodation, recreation, F&Bs) are spread over large portion of (usually) publicly owned land. They are in most cases run by single, or more commonly, various private partners.

Apart from the above and despite of valuable natural and cultural resources, subject project is set in the region that has a limited market potential and attractiveness for developing internationally reputable mountain resort, at least for the first phase of its development. This factor also decreases the chances for finding the single development/management partner that would take over total responsibility for implementing Master plan from scratch, even under assumptions that the Government will take responsibility for resolving basic infrastructure and give all the necessary land for free.

5.3.2. Project development – foundation of development company

As stated in annex 1 of this project, Client has shown readiness to give out publicly owned land needed for project implementation for free to interested partner/developer. Furthermore, in order to speed up the expected return (that is in case of such projects long and usually uncompetitive for fund investors in case that they are required to invest in mountain infrastructure as well), Client has included attractive lakeside parcels in Gradište in the project package that can be commercialized quickly to improve ROI of the mountain development.

So, due to the lack of sufficient budgets, Government has made a decision to trade its usual obligation of investing in ski system with attractive lakeside location that can create significant business revenues on the short term. In exchange, investor/developer takes over the responsibility for developing ski system infrastructure, accommodation, on-site infrastructure and other facilities.

This model isn't common in mountain resort development practice, but is legitimate and can be attractive for potential investors. However, the fact that it transfers responsibility for ski system development to private partner, doesn't abolish the public sector of the responsibility for managing the development. These include handling building and all the other permits, necessary infrastructural works other than those on site and providing the future partner with all the necessary services within the jurisdiction of Macedonian public sector that can arise during project development. Due to project size and investment, some of these issues have in practice shown to be complex. Investors/developers are usually limited in resolving them through numerous contacts with all the responsible institutions due to the lack of knowledge of the administration of the subject country. On the other hand, no other public company can take over this development role since it is either of the scope of their competences, their interests, or both. Therefore, there is a need to establish publicly owned development company/agency that will serve as:

- Galičica mountain resort asset/project manager responsible to Macedonian Government;
- Partner to the future developer that will take over all legal obligations (land ownership) and manage all the commitments of the public sector side (infrastructure, permits and other).

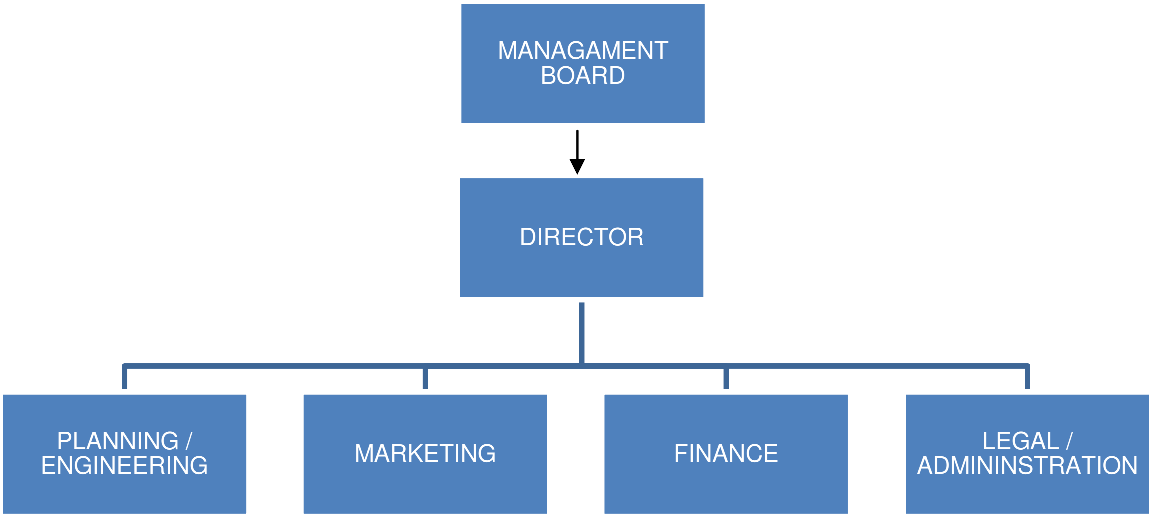
The responsibility and business activity of such agency is high in the initial development stage, decreases in time and diminishes after the resort is in operation that can in this case be considered already after the finish of the phase 2, since it is the time when most of the ski system will be operational.

The key business mission of the future development company is to implement the Master plan what includes at least:

- Ensuring that the project is presented and negotiated to the capital markets and potential partners (investors and operators);
- Being a contracting party with all the investors, developers, operators and smaller entrepreneurs included;
- Managing relations with local authorities;
- Managing and supervising infrastructure projects that don't relate to on site infrastructure and are thus within the jurisdiction of public sector;

- Managing marketing and promotional activities of the project and destination marketing for Galičica.

Typical organisation structure of such a development company is the following:



Planning and engineering department

- Adjusting project components with detailed spatial regulation and communication with relevant public authorities on publishing permits;
- Managing / supervising infrastructure projects within the jurisdiction of public sector.

Marketing department

- National and international marketing of the project for the investment market;
- Tourism marketing of Galičica destination (in order to raise market awareness of the end market that will ensure easier commercialization afterwards).

Finance department

- Updates and fine tuning of Master plan documentation;
- Financial and market analysis/evaluations necessary for supporting negotiations, selection procedures and Contract terms.

Legal / administration department

- Administrating negotiation, selection and contracting procedure;
- Managing and checking all contracts of the Development company.

Development agency as defined above doesn't require more than 8 people at its maximum business load, with redundancy in legal/administrative and planning/engineering department, whereas other departments can consist of only one person with appropriate experience and skills. In time, most of the business mission will diminish, under the assumption of finding appropriate partner/developer. This agency can subsequently be transferred in destination management organisation (DMO) of Galičica/Ohrid area (together with existing forces already participating in destination management of Ohrid area) that can be built up around its prior marketing department. Following the strategic footholds, it would be beneficiary for the wider tourism region of Ohrid if such DMO eventually takes responsibility over the whole region (Galičica, Ohrid, potentially Dorjan and Prespa as well).

5.3.3. Managing resort operations

Operations of mountain resort can be divided in the following groups, taken in consideration the key underlying businesses:

- Accommodation;
- Ski lift and related infrastructure operations;
- Other (F&B, renting, commercial, etc.).

Accommodation operations can be performed in two general ways – through hiring professional operating company or building management through own company. This decision is generally driven by the economy of scale (i.e. number of units that are to be managed) and attractiveness of destination that dictates the potential revenues (meaning that it is again indirectly related to the economy of scale). This is logical since the accommodation management contracts usually stipulate 3-5% on total revenues and 5-10% of total operating profit as a share of operating company. In turn, operating company takes responsibility for total know how, operating procedures in all accommodation departments and education of employees, while their payrolls and other expenses remain a responsibility of the owner. Possible interest of international accommodation operators for Galičica is solid given the fact that many operating companies have entered both Macedonia and the region, including some mountain developments. However, it won't be until the completion of phase 2 when Galičica will have sufficient mountain accommodation capacities that can be a subject of negotiations with the operator. Phase 1 includes only accommodation at Gradište lakeside that can be run by a company founded by the future developer or by another brand specialized for the sun&beach product. There are brands that are specialized both for sun&beach and mountain products (meaning a unique operating solution for all accommodation capacities within the subject project is possible), but orientation to such brands from the start can somewhat limit project implementation possibilities.

Ski lift operations are more complicated part of the development process due to several issues. First of all, different to hotels, cinemas, theme parks or similar objects that are commonly operated by international chains/franchises, ski resorts are not standardized in shape and additionally differ in size and concept. This makes operating solutions for different resorts largely being custom made rather than standardized, what brings additional risk for the operator. Secondly, management models largely differ from case to case preventing standardized revenue share models. For instance, in one case ski operator will be asked to invest in the ski system and allowed to collect total revenues. In another, ski operator will be hired for finished ski system operating only for the margin in revenues. Having in mind all possible options that might occur in resort development structuring and deal making with future partners, it is impossible to predict the model and responsibilities. However, regional practices have shown that it is more effective and convenient to resolve ski lift operations through hiring experienced international professionals and executives in ski lift operations with the mission of building up operating company rather than searching for the international company that will take over management responsibility. This can be proved by the fact that there is still no international company in ski lift operations present in the region, despite of the relatively intensive mountain development process in the last 15 years.

Operations of *other* outlets and facilities such as F&B, recreation, commercial are subleased to SME businesses or little entrepreneurs. The exception are F&Bs and rentals on ski pists that are by definition operated by ski resort operating company (whoever that entity at the end is) and F&Bs in hotels that are operated by the hotel operator.

The above analysis leads us to the following assumptions and additional variants that will be examined in the financial evaluation:

- Ski lifts are operated by the development company (with the assumption of hiring experienced international professionals and executives in the field);
- Accommodation will be operated by the management company set up by the developer, additional evaluation to be provided for the hire of hotel operator with the assumption that will operate both Gradište and Upper Peštani accommodation.

CHAPTER 6

Financial Evaluation

Horwath HTL

Hotel, Tourism and Leisure

6 FINANCIAL EVALUATION

6.1 INVESTMENT VOLUME AND TIME SCHEDULE

The investment volume for the Mountain Resort Galičica Project is based on the development concept and the capital budget prepared by Ecosign. All investment projections are net of tax and based on the international standards for the development of similar properties with some corrections using the local conditions.

The Project will be developed in three phases for which the necessary development costs are calculated. Based on the Project development staging, the majority of the investment activities should be undertaken during the phase 1. It is advisable for two other development stages to finish all the necessary works during the low season of the resort operations. Proposed time schedule for the investment is as follows:

Phase 1: at least 3 years before operations' start;

Phase 2: at least 18 months (during 2nd and 3rd year of operation);

Phase 3: at least 18 months (during years 6 and 7).

The investment volume is calculated based on the estimated capital budget for the necessary developments in the mountain ski area (ski system, parking area, infrastructure and skier service facilities) and in addition, the estimated capital investments in the new accommodation properties proposed by the Master Plan within the Upper Peštani and Gradište area. For each type of new accommodation property we have calculated the capital costs using the international benchmarks of costs per unit or per sq.m of the developed area.

We have provided the financial analysis for two scenarios:

Scenario 1: development of accommodation and ski system capacities as outlined in section *5.1. GALIČICA MOUNTAIN RESORT CONCEPT;*

Scenario 2: As in scenario 1, but without any accommodation capacities in Upper Peštani zone (but including ski system development in Upper Peštani as in Scenario 1).

6.1.1 Scenario 1 - Investments

Based on the market conditions and potential, we have assumed that all accommodation facilities proposed for Gradište area (hotel and apartments) will be built in phase 1. For Upper Peštani area, where the potential demand for tourist accommodation will be higher when the majority of the ski area properties will be in operation, we have assumed that only real estate properties will be built in phase 1. The properties connected with the real estate operation were proposed for all phases of the development (multifamily townhouses with apartments and single family units so-called chalets including villas and private houses). Those units will serve as an attraction for the investors when the market conditions are still limited and to insure lower risk in financing of the investment. It is assumed that all single family units (SFU), built during the phase 1 in Upper Peštani area, will be strictly private houses sold on freehold basis. For SFU's built in other phases we have predicted that 50% of them will be chalets (villas) sold to private owners and leased back in the operation for touristic purposes. We have proposed to implement this business model, so-called sell and lease back (SLB), for all apartments in both areas. The investment in accommodation properties is shown below, for three phases of the development and separately for each accommodation area.

Scenario 1: Including Upper Peštani accommodation

INVESTMENT IN ACCOMMODATION AREA
MOUNTAIN RESORT GALIČICA

	units	beds	total gross area (sq.m)	total investment per gross sq.m (euro)	total investment per unit (euro)	total investment (euro)	structure (%, grandtotal = 100)
PHASE 1							
Upper Peštani							
SFU (private houses)	33	198	10,371	800	251,429	8,297,143	7.8%
Total Upper Peštani	**33**	**198**	**10,371**	**800**	**251,429**	**8,297,143**	7.8%
Gradište							
HOTELS	200	400	20,933	1,008	105,511	21,102,100	19.8%
MFU (apartments)	300	1,200	21,429	830	59,286	17,785,714	16.7%
Total Gradište	**500**	**1,600**	**42,362**	**918**	**77,776**	**38,887,814**	36.5%
Total							
HOTELS	200	400	20,933	1,008	105,511	21,102,100	19.8%
MFU (apartments)	300	1,200	21,429	830	59,286	17,785,714	16.7%
SFU (private houses)	33	198	10,371	800	251,429	8,297,143	7.8%
Total PHASE 1	**533**	**1,798**	**52,733**	**895**	**88,527**	**47,184,957**	44.2%
PHASE 2							
Upper Peštani							
HOTELS	430	859	22,595	1,120	58,852	25,306,400	23.7%
MFU (apartments)	78	312	5,571	850	60,714	4,735,714	4.4%
SFU (villas and houses)	38	228	11,943	800	251,429	9,554,286	9.0%
Total PHASE 2	**546**	**1,399**	**40,109**	**987**	**72,521**	**39,596,400**	37.1%
PHASE 3							
Upper Peštani							
HOTELS	170	340	8,730	1,120	57,515	9,777,600	9.2%
MFU (apartments)	50	200	3,571	850	60,714	3,035,714	2.8%
SFU (villas and houses)	28	168	8,800	800	251,429	7,040,000	6.6%
Total PHASE 3	**248**	**708**	**21,101**	**941**	**80,054**	**19,853,314**	18.6%
TOTAL ALL PHASES							
Upper Peštani							
HOTELS	600	1,199	31,325	1,120	58,473	35,084,000	32.9%
MFU (apartments)	128	512	9,143	850	60,714	7,771,429	7.3%
SFU (villas and houses)	99	594	31,114	800	251,429	24,891,429	23.3%
Total Upper Peštani	**827**	**2,305**	**71,582**	**946**	**81,919**	**67,746,857**	63.5%
Gradište							
HOTELS	200	400	20,933	1,008	105,511	21,102,100	19.8%
MFU (apartments)	300	1,200	21,429	830	59,286	17,785,714	16.7%
Total Gradište	**500**	**1,600**	**42,362**	**918**	**77,776**	**38,887,814**	36.5%
Total							
HOTELS	800	1,599	52,258	1,075	70,233	56,186,100	52.7%
MFU (apartments)	428	1,712	30,571	836	59,713	25,557,143	24.0%
SFU (villas and houses)	99	594	31,114	800	251,429	24,891,429	23.3%
GRANDTOTAL	**1,327**	**3,905**	**113,944**	**936**	**80,358**	**106,634,671**	100.0%

It is assumed that hotels will have 200 units per property, on average, while the number of apartments per one building (one multifamily townhouse) will be 15 to 25, on average.

For Gradište area we have proposed to build one 4****/5***** full service hotel. The hotel operator will be in charge for apartment operations too. Upper Peštani hotels will be built in two phases (2nd and 3rd) together with some townhouses. Hotels in this area will be categorized as 3 or 4 stars. Overall development implies some added value facilities, such as commercial, F&B, recreation and relaxation spaces within the proposed properties. All those facilities will be available to apartment users too.

The construction period for hotels should be 1.5 up to 2 years prior to its opening, while for the apartment buildings, villas and houses one year is enough for their construction.

The investment in ski system is calculated based on the development concept prepared by Ecosign including the planned number of ski paths and their potential carrying capacity as well as on the specifics of mountain infrastructure and the facilities that needs to be build out, comparing those with the similar international existing projects and future development in the region.

Overall investment takes into account also the investment in the resort infrastructure (land/ surface preparation, internal roads development, electricity, gas, telecommunications, water pipeline, sewage and so on, all within the resort area) which is estimated according to the local conditions and international benchmarks.

Investment in the Mountain Resort Galičica development, based on the estimated investment in accommodation properties in both areas and other capital costs needed for the development of ski area operations, is shown in the following table.

Scenario 1: Including Upper Peštani accommodation

INVESTMENT BY PURPOSE AND DEVELOPMENT STAGING

MOUNTAIN RESORT GALIČICA	PHASE 1		*PHASE 2*		PHASES 1 + 2		*PHASE 3*		BUILD-OUT TOTAL PHASES 1+2+3	
current prices in euro thous.	amount	%	*amount*	%	amount	%	*amount*	%	amount	%
Pre-development	568	0.8%	*16*	*0.0%*	**585**	0.5%	*16*	*0.0%*	**600**	0.4%
Construction	*1,645*	*2.3%*	*684*	*1.5%*	***2,328***	*2.0%*	*418*	*1.3%*	***2,746***	*1.9%*
FF&E	*393*	*0.6%*	*162*	*0.4%*	***554***	*0.5%*	*95*	*0.3%*	***649***	*0.4%*
Buildings for ski operations	*2,037*	*2.9%*	*845*	*1.8%*	***2,882***	*2.5%*	*513*	*1.6%*	***3,395***	*2.3%*
Construction	*38,387*	*54.5%*	*31,998*	*69.8%*	***70,386***	*60.6%*	*16,077*	*50.0%*	***86,463***	*58.3%*
FF&E	*8,798*	*12.5%*	*7,598*	*16.6%*	***16,396***	*14.1%*	*3,776*	*11.7%*	***20,172***	*13.6%*
Buildings for accommodation	*47,185*	*67.0%*	*39,596*	*86.4%*	***86,782***	*74.7%*	*19,853*	*61.8%*	***106,635***	*71.9%*
Construction total	40,032	56.9%	*32,682*	*71.3%*	**72,714**	62.6%	*16,495*	*51.3%*	**89,209**	60.1%
FF&E total	9,190	13.1%	*7,760*	*16.9%*	**16,950**	14.6%	*3,871*	*12.0%*	**20,821**	14.0%
Buildings total	49,222	69.9%	*40,441*	*88.3%*	**89,664**	77.2%	*20,366*	*63.4%*	**110,030**	74.2%
Ski lifts	12,191	17.3%	*2,907*	*6.3%*	**15,098**	13.0%	*3,393*	*10.6%*	**18,491**	12.5%
Ski piste	391	0.6%	*541*	*1.2%*	**932**	0.8%	*5,389*	*16.8%*	**6,321**	4.3%
Parking, roads and site work	1,626	2.3%	*177*	*0.4%*	**1,803**	1.6%	*449*	*1.4%*	**2,252**	1.5%
Utilities	3,095	4.4%	*155*	*0.3%*	**3,250**	2.8%	*305*	*0.9%*	**3,555**	2.4%
Vehicles and equipment	1,300	1.8%	*1,046*	*2.3%*	**2,346**	2.0%	*1,166*	*3.6%*	**3,512**	2.4%
Misc. operating	606	0.9%	*159*	*0.3%*	**765**	0.7%	*325*	*1.0%*	**1,090**	0.7%
Legal fees	218	0.3%	*58*	*0.1%*	**276**	0.2%	*116*	*0.4%*	**392**	0.3%
Contingency	1,173	1.7%	*312*	*0.7%*	**1,485**	1.3%	*620*	*1.9%*	**2,105**	1.4%
TOTAL	**70,390**	**100%**	***45,813***	***100%***	**116,204**	**100%**	***32,144***	***100%***	**148,347**	**100%**
Skier carrying capacity (SCC)	880		*1,110*		1,990		*1,010*		3,000	
Accommodation units	533		*546*		1,079		*248*		1,327	
Total investment per SCC (euro)	79,989		*41,273*		58,394		*31,826*		49,449	
Total investment per unit (euro)	132,065		*83,906*		107,696		*129,612*		111,791	
Investment dynamics	47.4%		*30.9%*		78.3%		*21.7%*		100.0%	

We propose for the annual hard construction works in all phases to be performed during spring or autumn so the winter ski season is not much disturbed.

The investment volume does not include any financing costs since those are part of the regular annual statements. Before the official resort opening (at least 6 months prior to its opening) it is necessary to start with the marketing activities, purchase of inventory, training of staff and similar preopening activities. The costs and the working capital for all those activities are incorporated in the contingency line of the investment table. Besides the cost of the preopening activities, the contingency comprise all unforeseen additional expenses of the construction works and purchasing of the equipment.

6.1.2 Scenario 2 – Investments

All previously explained assumptions for the investment volume and dynamics stay in this scenario excluding the development of the accommodation facilities in Upper Peštani area.

The investment in accommodation properties is shown in the following table, for the first phase only, since all the accommodation development within Gradište area is supposed to be developed in one phase.

Scenario 2: Without Upper Peštani accommodation

INVESTMENT IN ACCOMMODATION AREA
MOUNTAIN RESORT GALIČICA

	units	beds	total gross area (sq.m)	total investment per gross sq.m (euro)	total investment per unit (euro)	total investment (euro)	structure (%, grandtotal = 100)
PHASE 1							
Gradište							
HOTELS	200	400	20,933	1,008	105,511	21,102,100	54.3%
MFU (apartments)	300	1,200	21,429	830	59,286	17,785,714	45.7%
Total PHASE 1	**500**	**1,600**	**42,362**	**918**	**77,776**	**38,887,814**	100.0%
TOTAL ALL PHASES							
GRANDTOTAL	**500**	**1,600**	**42,362**	**918**	**77,776**	**38,887,814**	100.0%

For Gradište area we have proposed to build only one 4****/5***** full service hotel as it was mentioned in the first scenario. The hotel operator will be in charge for apartment operations too.

The investments in ski system and other mountain developments are the same as in Scenario 1. Total investment in Mountain Resort Galičica is shown below.

Scenario 2: Without Upper Peštani accommodation

INVESTMENT BY PURPOSE AND DEVELOPMENT STAGING
MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASE 1 amount	PHASE 1 %	*PHASE 2* amount	*PHASE 2* %	PHASES 1 + 2 amount	PHASES 1 + 2 %	*PHASE 3* amount	*PHASE 3* %	BUILD-OUT TOTAL PHASES 1+2+3 amount	BUILD-OUT TOTAL PHASES 1+2+3 %
Pre-development	568	0.9%	*16*	*0.3%*	**585**	0.9%	*16*	*0.1%*	**600**	0.7%
Construction	*1,645*	*2.6%*	*684*	*11.0%*	***2,328***	*3.4%*	*418*	*3.4%*	***2,746***	*3.4%*
FF&E	*393*	*0.6%*	*162*	*2.6%*	***554***	*0.8%*	*95*	*0.8%*	***649***	*0.8%*
Buildings for ski operations	*2,037*	*3.3%*	*845*	*13.6%*	***2,882***	*4.2%*	*513*	*4.2%*	***3,395***	*4.2%*
Construction	*31,646*	*51.0%*	*0*	*0.0%*	***31,646***	*46.3%*	*0*	*0.0%*	***31,646***	*39.3%*
FF&E	*7,242*	*11.7%*	*0*	*0.0%*	***7,242***	*10.6%*	*0*	*0.0%*	***7,242***	*9.0%*
Buildings for accommodation	*38,888*	*62.6%*	*0*	*0.0%*	***38,888***	*56.9%*	*0*	*0.0%*	***38,888***	*48.2%*
Construction total	33,291	53.6%	*684*	*11.0%*	**33,974**	49.7%	*418*	*3.4%*	**34,392**	42.7%
FF&E total	7,634	12.3%	*162*	*2.6%*	**7,796**	11.4%	*95*	*0.8%*	**7,891**	9.8%
Buildings total	40,925	65.9%	*845*	*13.6%*	**41,771**	61.1%	*513*	*4.2%*	**42,283**	52.5%
Ski lifts	12,191	19.6%	*2,907*	*46.8%*	**15,098**	22.1%	*3,393*	*27.6%*	**18,491**	22.9%
Ski piste	391	0.6%	*541*	*8.7%*	**932**	1.4%	*5,389*	*43.8%*	**6,321**	7.8%
Parking, roads and site work	1,626	2.6%	*177*	*2.9%*	**1,803**	2.6%	*449*	*3.6%*	**2,252**	2.8%
Utilities	3,095	5.0%	*155*	*2.5%*	**3,250**	4.8%	*305*	*2.5%*	**3,555**	4.4%
Vehicles and equipment	1,300	2.1%	*1,046*	*16.8%*	**2,346**	3.4%	*1,166*	*9.5%*	**3,512**	4.4%
Misc. operating	606	1.0%	*159*	*2.6%*	**765**	1.1%	*325*	*2.6%*	**1,090**	1.4%
Legal fees	218	0.4%	*58*	*0.9%*	**276**	0.4%	*116*	*0.9%*	**392**	0.5%
Contingency	1,173	1.9%	*312*	*5.0%*	**1,485**	2.2%	*620*	*5.0%*	**2,105**	2.6%
TOTAL	**62,093**	**100%**	***6,216***	***100%***	**68,310**	**100%**	***12,291***	***100%***	**80,600**	**100%**
Skier carrying capacity (SCC)	880		*1,110*		1,990		*1,010*		3,000	
Accommodation units	500		*0*		500		*0*		500	
Total investment per SCC (euro)	70,561		*5,600*		34,327		*12,169*		26,867	
Total investment per unit (euro)	124,187				136,620				161,200	
Investment dynamics	77.0%		*7.7%*		84.8%		*15.2%*		100.0%	

6.2 FINANCING MODEL

Based on the planned investment volume for the development in all phases, we have used standard financing model according to the international practice from similar resorts, with combined financing by equity (investor's capital plus accumulated earnings from resort operations and real estate business) and commercial loans.

As mentioned before, residential properties will be sold out on the real estate market and the pre-sales revenues will be used for project development. It is assumed that up to 20% of newly constructed real estate units will be sold during the construction period and the rest in the following three to five years of their operation. Sales revenues are presented in the next chapter.

6.2.1 Scenario 1 – Financing model

Beside pre-sales revenues and based on the potential performance of the facilities in the Mountain Resort Galičica, we have calculated necessary additional investors' capital for the development of the resort. Depending on the sales dynamics, the additional capital is needed only for the phase 1, when there will be the major development works. Estimated overall debt to equity ratio (47:53 total for all phases) is applicable for negotiations with the financial institutions but an exact financing model should be developed after detail planning for all resort facilities and detail cost estimations. In our calculations, we have used the financing model with 3 commercial loans with the standard loan conditions projected according to the resort liquidity.

LOAN CONDITIONS	COMMERCIAL LOAN 1	COMMERCIAL LOAN 2	COMMERCIAL LOAN 3
Loan amount	**42.23 Euro millions**	**22.91 Euro millions**	**4.02 Euro millions**
Loan start	1.5 years before operation	in operating year 2	in operating year 6
Draw down	1.5 years	2 years (during operating years 2 and 3)	2 years (during operating years 6 and 7)
Initial bank fees	0.8% of loan amount (payable according to draw down dynamics)	0.8% of loan amount (payable according to draw down dynamics)	0.8% of loan amount (payable according to draw down dynamics)
Grace period	1.5 years (when only interests are paid)	2 years (when only interests are paid)	2 years (when only interests are paid)
Repayment period	12 years (operating years 1-12, eleven equal annual	9 years (operating years 4-12, nine equal annual instalments	5 years (operating years 8-12, six equal annual instalments

	instalments and balloon payment in the last year of the repayment period)	and balloon payment in the last year of the repayment period)	and balloon payment in the last year of the repayment period)
Annual interest rate	7%	7%	7%

Projected loan period is until 12th year of the Resort operations according to the loan conditions and predicted debt to equity ratio. In the process of negotiation with the commercial banks it would be possible to negotiate even better conditions but after detailed planning of the development.

Loan repayments are included in the Cash Flow statement presented in the chapter related to the financial evaluation of the Project.

We have presented here detailed financing model used in our projections and debt repayment schedule.

Scenario 1: Including Upper Peštani accommodation

FINANCING BY PHASES MOUNTAIN RESORT GALIČICA	PHASE 1 at least 3 years		PHASE 2 at least 18 months		PHASE 3 at least 18 months		BUILD-OUT TOTAL PHASES 1+2+3	
current prices in euro thous.	amount	%	amount	%	amount	%	amount	%
Total investment	**70,390**		**45,813**		**32,144**		**148,347**	
investors' capital	27,156	38.6%	0	0.0%	0	0.0%	27,156	18.3%
part of presales funds	1,000	1.4%	22,906	50.0%	28,126	87.5%	52,032	35.1%
total capital (equity)	28,156	40.0%	22,906	50.0%	28,126	87.5%	79,188	53.4%
bank loans	42,234	60.0%	22,906	50.0%	4,018	12.5%	69,159	46.6%
TOTAL	**70,390**	100.0%	**45,813**	100.0%	**32,144**	100.0%	**148,347**	100.0%

Scenario 1: Including Upper Peštani accommodation

INVESTMENT AND FINANCING BY YEARS MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST. *at least 3 years*		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*	
current prices in euro thous.		year 1	year 2	year 3	year 4	year 5	year 6	year 7
INVESTMENT	**70,390**		**32,069**	**13,744**			**22,501**	**9,643**
investors' capital	27,156		0	0			0	0
part of presales funds	1,000		16,034	6,872			21,376	6,750
total capital (equity)	28,156		16,034	6,872			21,376	6,750
bank loans	42,234		16,034	6,872			1,125	2,893
TOTAL	**70,390**		**32,069**	**13,744**			**22,501**	**9,643**

Scenario 1: Including Upper Peštani accommodation

DEBT REPAYMENT SCHEDULE MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months								
current prices in euro thous.	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	TOTAL	
COMMERCIAL LOAN 1	***42,234***													*42,234*	
Interests	4,435	2,956	2,720	2,483	2,247	2,010	1,774	1,537	1,301	1,064	828	591	355	7.0%	
Bank charges	338													0.8%	
Principal %		*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*12.0%*		
Principal		3,379	3,379	3,379	3,379	3,379	3,379	3,379	3,379	3,379	3,379	3,379	5,068		12 years
Remaining debt	42,234	38,856	35,477	32,098	28,719	25,341	21,962	18,583	15,204	11,826	8,447	5,068	0		
COMMERCIAL LOAN 2			***16,034***	***6,872***										*22,906*	
Interests			1,122	1,122	1,603	1,475	1,347	1,219	1,090	962	834	706	577	7.0%	
Bank charges			128	55										0.8%	
Principal %					*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*36.0%*		
Principal					1,833	1,833	1,833	1,833	1,833	1,833	1,833	1,833	8,246		9 years
Remaining debt			16,034	22,906	21,074	19,241	17,409	15,576	13,744	11,911	10,079	8,246	0		
COMMERCIAL LOAN 3							***1,125***	***2,893***						*4,018*	
Interests							79	79	281	259	236	214	191	7.0%	
Bank charges							9	23						0.8%	
Principal %									*8.0%*	*8.0%*	*8.0%*	*8.0%*	*68.0%*		
Principal									321	321	321	321	2,732		5 years
Remaining debt							1,125	4,018	3,697	3,375	3,054	2,732	0		
Total															
Interests and bank charges	***4,772***	***2,956***	***3,971***	***3,661***	***3,850***	***3,486***	***3,208***	***2,858***	***2,672***	***2,285***	***1,898***	***1,511***	***1,123***	*38,252*	
Principal	***0***	***3,379***	***3,379***	***3,379***	***5,211***	***5,211***	***5,211***	***5,211***	***5,533***	***5,533***	***5,533***	***5,533***	***16,047***	*69,159*	
Remaining debt	***42,234***	***38,856***	***51,511***	***55,004***	***49,793***	***44,582***	***40,496***	***38,177***	***32,645***	***27,112***	***21,579***	***16,047***	***0***		

6.2.2 Scenario 2 – Financing model

In this scenario there are much less real estate properties for selling but on the other side, the investment in 2nd and 3rd phase relates only to the development of ski system. Beside pre-sales revenues from the sale of apartments within Gradište area, we have calculated necessary additional investors' capital for the development of the resort. This additional capital is needed only for the phase 1, when there will be the major development works. In this scenario, estimated overall debt to equity ratio is 43:57 whereas only one commercial loan is needed for the phase 1 development. It is assumed that the developments in other phases will be financed with equity earned from sale of units and other resort operations.

LOAN CONDITIONS	Scenario 2 COMMERCIAL LOAN
Loan amount	**34.77 Euro millions**
Loan start	1.5 years before operation
Draw down	1.5 years
Initial bank fees	0.8% of loan amount (payable according to draw down dynamics)
Grace period	1.5 years (when only interests are paid)
Repayment period	12 years (operating years 1-12, eleven equal annual instalments and balloon payment in the last year of the repayment period)
Annual interest rate	7%

Projected loan period is until 12th year of the Resort operations according to the loan conditions and predicted debt to equity ratio. In the process of negotiation with the commercial banks it would be possible to negotiate even better conditions but after detailed planning of the development.

Loan repayments are included in the Cash Flow statement presented in the chapter related to the financial evaluation of the Project.

We have presented here detailed financing model used in our projections and debt repayment schedule.

Scenario 2: Without Upper Peštani accommodation

FINANCING BY PHASES MOUNTAIN RESORT GALIČICA	PHASE 1 at least 3 years		PHASE 2 at least 18 months		PHASE 3 at least 18 months		BUILD-OUT TOTAL PHASES 1+2+3	
current prices in euro thous.	amount	%	amount	%	amount	%	amount	%
Total investment	**62,093**		**6,216**		**12,291**		**80,600**	
investors' capital	27,321	44.0%	0	0.0%	0	0.0%	27,321	33.9%
part of presales funds	0	0.0%	6,216	100.0%	12,291	100.0%	18,507	23.0%
total capital (equity)	27,321	44.0%	6,216	100.0%	12,291	100.0%	45,828	56.9%
bank loans	34,772	56.0%	0	0.0%	0	0.0%	34,772	43.1%
TOTAL	**62,093**	100.0%	**6,216**	100.0%	**12,291**	100.0%	**80,600**	100.0%

Scenario 2: Without Upper Peštani accommodation

INVESTMENT AND FINANCING BY YEARS MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months	
current prices in euro thous.	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7
INVESTMENT	**62,093**		**4,351**	**1,865**			**8,603**	**3,687**
investors' capital	27,321		0	0			0	0
part of presales funds			4,351	1,865			8,603	3,687
total capital (equity)	27,321		4,351	1,865			8,603	3,687
bank loans	34,772		0	0			0	0
TOTAL	**62,093**		**4,351**	**1,865**			**8,603**	**3,687**

Scenario 2: Without Upper Peštani accommodation

DEBT REPAYMENT SCHEDULE MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months								
current prices in euro thous.	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	TOTAL	
COMMERCIAL LOAN	*34,772*													*34,772*	
Interests	3,651	2,434	2,239	2,045	1,850	1,655	1,460	1,266	1,071	876	682	487	292	7.0%	
Bank charges	278													0.8%	
Principal %		*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*12.0%*		
Principal		2,782	2,782	2,782	2,782	2,782	2,782	2,782	2,782	2,782	2,782	2,782	4,173		12 years
Remaining debt	***34,772***	***31,990***	***29,209***	***26,427***	***23,645***	***20,863***	***18,082***	***15,300***	***12,518***	***9,736***	***6,954***	***4,173***	***0***		

6.3 OPERATING PROJECTIONS

6.3.1 Methodology

Market and financial projections of the Mountain Resort Galičica for up to 12 year period of its operation have been prepared using the bottom up approach. Based on the presented concept, we have made separate operating projections for ski/mountain operations and for accommodation area, followed by the project profitability and financial calculations for the overall resort.

Market and financial projections exclude from consideration any significant market disturbances i.e. abnormal relationship between supply and demand that may result in unusual revenues or expenses.

All financial projections are based on the existing macroeconomic conditions in Macedonia, which include actual tax rates and other economic conditions.

Business results are presented in accordance to the reporting system „Uniform System of Accounts for Lodging Industry" (USALI), which allocates revenues and expenses according to the place of their origin and identifies profitability on a departmental level.

Revenues and expenses in Profit and Loss Statement are shown in net amounts, which do not include Value Added Tax. Financial amounts are presented in euro in current prices including the estimated average annual euro inflation of 2%.

We have presented the projections for whole development period assuming that all phases will be developed and the financing will be available.

6.3.2 Operational Assumptions and Projections

The main market and financial assumptions for the future operations are as follows:

- It is assumed that the Mountain Resort Galičica will employ professionals to manage everyday operations and to ensure that all international operating standards will be implemented. Some of those operating standards are: effective sales system, international operating standards for mountain resorts and tourist accommodation facilities, management reporting system and strict standards of cost control in all resort departments. Professional resort management will ensure training for employees and the initial marketing and sales activities during the preopening period (at least 6 months prior to opening). The cost for those activities is included in the investment volume.
- Since the development of the Project will be in three phases, the third year of operation after complete build-out, is considered as the stabilized business year, i.e. beginning of the stabilized operating period while the period before that will be the introductory period on the market. We have projected the

operating performance for all operations until the end of loans' repayment period (year 12 in both scenarios).

- The revenues and expenses are projected with bottom-up method, per departments, in accordance with the previously presented approach and concept.
- We have projected separately performance for the ski/mountain operations and two scenarios of the accommodation properties' developments. Consolidated performance of the whole resort is also shown for two scenarios.

6.3.2.1 Scenario 1 – Operations and projections

Ski/mountain operations

Based on the market analysis and the future potential of the ski/mountain facilities within the Mountain Resort Galičica, we have prepared detailed calculations of the possible annual operating period and the number of the visitors during the two annual operating seasons, winter and summer. The differences after each development stage has been considered and the possible revenue generators were determined. We have prepared the ski/mountain operating projections for 12 year period.

Winter period – Revenues

- During the winter period, we have assumed that the main revenues will come from the sold ski passes to skiers. It is assumed that the Resort will operate during the winter period from 100 up to 120 days when the snowmaking system will be implemented. Based on the projected SCC, the average occupancy during the winter in the presented 12 year period will be 36% with an average ticket price of 16 euro raised from 12 euro in the 1st year up to 20.5 euro in year 12.
- We have assumed that the second revenue generator during the skiing season will be food and beverage facilities. Our projections consider the assumption that every skier will consume at least one meal and/or drink with an average daily F&B check of 7.4 euro (raised from 6 euro in the 1st year up to 8.5 euro in year 12).
- In addition and based on the proposed facilities, we have assumed that 40% of skiers will use some other services, like skiing school, equipment rentals, wardrobe, retail, children activities, etc. with an average service net price of 8.6 euro (average for the 12 year period).
- We have projected that some of the commercial areas will be rented out with an average net monthly rent of 12 euro at the beginning of the resort operations. In years after the rent will be increased by euro inflation rate.

Summer period – Revenues

- During the summer period from year 3 onwards, we have assumed that the main revenues will come from the sold tickets for gondola users. It is assumed that the Resort will operate during the summer period up to 150 days. Based on the gondola capacities, the average annual number of visitors during the summer in the presented period will be 118 thousands with an average ticket price of 9 euro raised from 6 euro in the 3rd year of operation up to 11.2 euro in year 12.

- As for the winter period, we have assumed that the second revenue generator during the summer season will be food and beverage facilities. Our projections consider the assumption that 80% of the visitors will consume some kind of food and/or beverage offer with an average daily F&B check of 7.6 euro (raised from 6.6 euro in year 3 up to 8.5 euro in year 12).
- In addition and based on the proposed facilities, we have assumed that up to 20% of the visitors will come by car and pay for the parking (daily price of 2 euros in year 3) and that some of the visitors (30% of them) will use some other services which are mainly recreational and retail services with an average net service price of 8.9 euro (average for the period from year 3 until year 12).
- We have projected that some of the commercial areas will be rented out also during the summer period with an average net monthly rent of 12 euro at the beginning of the resort operations. In years after the rent will be increased by euro inflation rate.

Scenario 1: Including Upper Peštani accommodation

REVENUE PROJECTIONS ski/mountain operations MOUNTAIN RESORT GALIČICA			PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months						
current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
WINTER													
SCC	880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	
operating days	100	100	100	100	100	100	120	120	120	120	120	120	
occupancy in operating period	30.0%	35.0%	30.0%	35.0%	40.0%	40.0%	30.0%	35.0%	38.0%	40.0%	40.0%	40.0%	
ski passes / skiers (visitors)	26,400	30,800	59,700	69,650	79,600	79,600	108,000	126,000	136,800	144,000	144,000	144,000	
average ticket (euro)	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9	17.7	18.6	19.5	20.5	
Ski pass revenue (euro thous.)	**317**	**388**	**790**	**968**	**1,161**	**1,219**	**1,737**	**2,128**	**2,425**	**2,681**	**2,815**	**2,955**	*58.5%*
F&B daily consumptions per skier	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
F&B consumptions	31,680	36,960	71,640	83,580	95,520	95,520	129,600	151,200	164,160	172,800	172,800	172,800	
average F&B check (euro)	6.0	6.3	6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)	**190**	**233**	**474**	**575**	**683**	**704**	**984**	**1,182**	**1,309**	**1,406**	**1,434**	**1,462**	*28.9%*
other service users (% of skiers)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
other service users	10,560	12,320	23,880	27,860	31,840	31,840	43,200	50,400	54,720	57,600	57,600	57,600	
average price (euro)	7.0	7.4	7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)	**74**	**91**	**184**	**224**	**266**	**274**	**383**	**460**	**509**	**547**	**558**	**569**	*11.3%*
rental area (sq.m)	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	
average monthly rent (euro)	12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**44**	**45**	**46**	**47**	**48**	**49**	**59**	**61**	**62**	**63**	**64**	**66**	*1.3%*
WINTER REVENUE (euro thous.)	**625**	**756**	**1,494**	**1,813**	**2,158**	**2,245**	**3,163**	**3,830**	**4,305**	**4,696**	**4,870**	**5,052**	**61.0%**
SUMMER													
operating days			150	150	150	150	150	150	150	150	150	150	
daily visitors			533	667	700	735	772	810	851	893	938	985	
gondola users / visitors			80,000	100,000	105,000	110,250	115,763	121,551	127,628	134,010	140,710	147,746	
average ticket (euro)			6.0	7.8	8.0	8.1	8.3	8.4	10.6	10.8	11.0	11.2	
Gondola ticket revenue (euro thous.)			**480**	**780**	**835**	**895**	**958**	**1,026**	**1,347**	**1,443**	**1,545**	**1,655**	*51.2%*
parking users (% of visitors)			18.8%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
parking users			15,000	20,000	21,000	22,050	23,153	24,310	25,526	26,802	28,142	29,549	
average price (euro)			2.0	2.1	2.2	2.3	2.4	2.6	2.7	2.8	3.0	3.1	
Parking revenue (euro thous.)			**30**	**42**	**46**	**51**	**56**	**62**	**68**	**75**	**83**	**92**	*2.8%*
F&B daily consumptions per visitor			0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
F&B consumptions			64,000	80,000	84,000	88,200	92,610	97,241	102,103	107,208	112,568	118,196	
average F&B check (euro)			6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)			**423**	**550**	**601**	**650**	**703**	**760**	**814**	**872**	**934**	**1,000**	*31.0%*
other service users (% of visitors)			30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
other service users			24,000	30,000	31,500	33,075	34,729	36,465	38,288	40,203	42,213	44,324	
average price (euro)			7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)			**185**	**241**	**263**	**284**	**308**	**333**	**356**	**382**	**409**	**438**	*13.6%*
rental area (sq.m)			400	400	400	400	600	600	600	600	600	600	
average monthly rent (euro)			12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)			**25**	**25**	**26**	**26**	**41**	**41**	**42**	**43**	**44**	**45**	*1.4%*
SUMMER REVENUE (euro thous.)			**1,144**	**1,639**	**1,772**	**1,907**	**2,066**	**2,223**	**2,628**	**2,815**	**3,015**	**3,229**	**39.0%**
TOTAL REVENUE (euro thous.)	**625**	**756**	**2,637**	**3,451**	**3,929**	**4,152**	**5,228**	**6,053**	**6,933**	**7,511**	**7,885**	**8,281**	**100.0%**
total annual visitors	26,400	30,800	139,700	169,650	184,600	189,850	223,763	247,551	264,428	278,010	284,710	291,746	
total revenue per visitor (euro)	23.7	24.6	18.9	20.3	21.3	21.9	23.4	24.4	26.2	27.0	27.7	28.4	

Operating expenses

- In forecasting expenses, we have used a variable and fixed component model. The variable component is directly related with the occupancy and revenue level. The stabilized year in terms of cost efficiency is third year after each development stage, when standard expenses/revenues ratios are achieved and maintained onwards.

- Operational (departmental) costs are projected as standard benchmark shares of costs in revenues of departments which are typical for mountain operations but having in mind the cost efficiency of each type of the facility.

- Undistributed expenses such as administration, maintenance and marketing expenses have been projected as standard shares in the total revenue. The energy expense, out of which a large portion is relatively fixed and other part varies with changes in occupancy, is highly influenced with the facilities that consume more energy like snowmaking system when it will be in function.

- Employment has been projected on bottom-up approach, by each department for the stabilized year having in mind the cost efficiency standard of the service and the international benchmarks. Projected average number of full-time equivalent employees based on the number of work-months for permanent and seasonal employees per SCC is 0.055 including the staff from all types of the mountain facilities and the overhead departments. The calculated average monthly gross payroll per employee for the stabilized year is around 1,040 Euro.
- Fixed charges were calculated by their standard ratio to revenues. Depreciation is calculated based on the depreciation rate of 2.5 per cent for the buildings and 8 per cent for the equipment.

Scenario 1: Including Upper Peštani accommodation

EBIT PROJECTIONS
ski/mountain operations
MOUNTAIN RESORT GALIČICA

		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*							
current prices	**year 1**	**year 2**	**year 3**	**year 4**	**year 5**	**year 6**	**year 7**	**year 8**	**year 9**	**year 10**	**year 11**	**year 12**	***% year 12***
Ski pass revenue	317	388	790	968	1,161	1,219	1,737	2,128	2,425	2,681	2,815	2,955	35.7%
Gondola tickets revenue	0	0	480	780	835	895	958	1,026	1,347	1,443	1,545	1,655	20.0%
Parking revenue	0	0	30	42	46	51	56	62	68	75	83	92	1.1%
F&B total revenue	190	233	897	1,125	1,284	1,354	1,687	1,942	2,123	2,278	2,368	2,463	29.7%
Other service revenue	74	91	370	464	529	558	690	792	865	928	966	1,006	12.2%
Rental revenue	44	45	71	72	74	75	100	102	104	106	108	110	1.3%
TOTAL OPERATING REVENUE	**625**	**756**	**2,637**	**3,451**	**3,929**	**4,152**	**5,228**	**6,053**	**6,933**	**7,511**	**7,885**	**8,281**	100%
Costs of sales	70	86	350	445	506	533	659	756	833	894	931	970	11.7%
Total payroll and related exp.	312	491	1,133	1,156	1,179	1,204	1,851	1,889	1,928	1,967	2,007	2,048	24.7%
Direct charges	82	101	281	357	415	437	578	685	779	851	893	936	11.3%
Undistributed expenses (incl. energy)	77	94	327	428	487	515	753	872	998	1,082	1,135	1,192	14.4%
Total operating expenses	**542**	**771**	**2,090**	**2,385**	**2,587**	**2,689**	**3,841**	**4,202**	**4,539**	**4,793**	**4,966**	**5,147**	62.1%
GROSS OPERATING PROFIT	**83**	**-15**	**547**	**1,066**	**1,342**	**1,463**	**1,387**	**1,850**	**2,395**	**2,717**	**2,919**	**3,135**	37.9%
share of GOP in total rev.	*13.2%*	*-2.0%*	*20.7%*	*30.9%*	*34.2%*	*35.2%*	*26.5%*	*30.6%*	*34.5%*	*36.2%*	*37.0%*	*37.9%*	
Fixed charges (w/o interests and amort.)	5	6	21	28	31	33	42	48	55	60	63	66	0.8%
TOTAL EXPENSES before EBITDA	547	777	2,112	2,413	2,619	2,723	3,883	4,251	4,594	4,853	5,029	5,213	62.9%
EBITDA	**78**	**-21**	**526**	**1,039**	**1,311**	**1,429**	**1,345**	**1,802**	**2,339**	**2,657**	**2,856**	**3,068**	37.1%
share of EBITDA in total revenue	*12.4%*	*-2.8%*	*19.9%*	*30.1%*	*33.4%*	*34.4%*	*25.7%*	*29.8%*	*33.7%*	*35.4%*	*36.2%*	*37.1%*	
depreciation and amortization	707	707	822	937	937	937	1,134	1,332	1,332	1,332	1,332	1,332	16.1%
EBIT	**-629**	**-728**	**-296**	**102**	**374**	**492**	**211**	**470**	**1,008**	**1,326**	**1,524**	**1,737**	21.0%
full equivalent number of employees	31.2	48.1	108.8	108.8	108.8	108.8	164.0	164.0	164.0	164.0	164.0	164.0	
average monthly gross payroll per empl. (euro)	833	850	868	885	903	922	941	960	980	1,000	1,020	1,041	
SCC	880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	

Accommodation area operations

Based on the market analysis, we have prepared detailed calculations of the potential operating performance for each type of the accommodation property and separately for Upper Peštani and Gradište area. The differences after each development stage has been considered and all possible operating revenue generators were determined. Besides operating performance, we have proposed selling dynamics, prices and profit for the planned real estate properties in all development stages.

Sale of units

- During each development stage, the marketing and sales activities for the sale of units (private houses, villas and apartments) need to start immediately. We have calculated 5% of selling net price to be sales commission.

- We have assumed that up to 20% of units will be presold during one year prior to the finalization of their development. The units developed in one stage will be sold in 4 to 5 years period.
- Single family units (SFU) in Upper Peštani area, developed during the phase 1, will be sold on free hold basis as private houses. All other SFU's (villas) will be sold to private owners but 50% of them will be leased back for commercial use (SLB model). All apartments in both areas will be sold on SLB basis so from the beginning of their operations the apartments will be used as condo units.
- The new owners of all SLB units will have at least 30 days annual use while in the other period their units will be available for tourists. The apartment owners and villa owners will get an annual guaranteed profit from the commercial operations of their units.
- Based on the investment structure and volume for the development of real estate units, in the time of their sale we have calculated appropriate write-off expense.

Scenario 1: Including Upper Peštani accommodation

SALE OF UNITS accommodation area MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST.				PHASE 3 INVEST.					
	at least 3		at least 18 months				at least 18 months					
current prices	years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	
Upper Peštani												
APARTMENTS (MFU)												
Phase 2 units selling dynamics				15%	15%	30%	30%	10%				
sold units Phase 2				12	12	23	23	8				
unsold units Phase 2				66	54	31	8	0				
sold area (sq.m) Phase 2				600	600	1,150	1,150	400				
selling net price (€ per sq.m)				1,400	1,428	1,457	1,486	1,515				
Phase 2 sale of units revenue (€)	0	0	0	840,000	856,800	1,675,044	1,708,545	606,162	0	0	0	
Phase 3 units selling dynamics								20%	30%	35%	15%	
sold units Phase 3								10	15	18	7	
unsold units Phase 3								40	25	7	0	
sold area (sq.m) Phase 3								500	750	900	350	
selling net price (€ per sq.m)								1,515	1,546	1,577	1,608	
Phase 3 sale of units revenue (€)	0	0	0	0	0	0	0	757,703	1,159,285	1,418,965	562,856	
MFU sales revenue (euro thous.)	**0**	**0**	**0**	**840**	**857**	**1,675**	**1,709**	**1,364**	**1,159**	**1,419**	**563**	
CHALETS (SFU)												
Phase 1 units selling dynamics	20%	40%	40%									
sold units Phase 1	7	13	13									
unsold units Phase 1	26	13	0									
sold area (sq.m) Phase 1	1,540	2,860	2,860									
selling net price (€ per sq.m)	1,500	1,530	1,561									
Phase 1 sale of units revenue (€)	2,310,000	4,375,800	4,463,316	0	0	0	0	0	0	0	0	
Phase 2 units selling dynamics				20%	30%	30%	20%					
sold units Phase 2				8	11	11	8					
unsold units Phase 2				30	19	8	0					
sold area (sq.m) Phase 2				1,760	2,420	2,420	1,760					
selling net price (€ per sq.m)				1,592	1,624	1,656	1,689					
Phase 2 sale of units revenue (€)	0	0	0	2,801,589	3,929,229	4,007,813	2,973,069	0	0	0	0	
Phase 3 units selling dynamics								20%	30%	40%	10%	
sold units Phase 3								6	8	11	3	
unsold units Phase 3								22	14	3	0	
sold area (sq.m) Phase 3								1,320	1,760	2,420	660	
selling net price (€ per sq.m)								1,723	1,757	1,793	1,828	
Phase 3 sale of units revenue (€)	0	0	0	0	0	0	0	2,274,398	3,093,181	4,338,186	1,206,804	
SFU sales revenue (euro thous.)	**2,310**	**4,376**	**4,463**	**2,802**	**3,929**	**4,008**	**2,973**	**2,274**	**3,093**	**4,338**	**1,207**	
Total sales revenue (euro thous.)	**2,310**	**4,376**	**4,463**	**3,642**	**4,786**	**5,683**	**4,682**	**3,638**	**4,252**	**5,757**	**1,770**	
Gradište												
APARTMENTS (MFU)												
Phase 1 units selling dynamics	20%	25%	30%	20%	5%							
sold units Phase 1	60	75	90	60	15							
unsold units Phase 1	240	165	75	15	0							
sold area (sq.m) Phase 1	3,000	3,750	4,500	3,000	750							
selling net price (€ per sq.m)	1,450	1,479	1,509	1,539	1,570							
Phase 1 sale of units revenue (€)	4,350,000	5,546,250	6,788,610	4,616,255	1,177,145	0	0	0	0	0	0	
Total sales revenue (euro thous.)	**4,350**	**5,546**	**6,789**	**4,616**	**1,177**	**0**	**0**	**0**	**0**	**0**	**0**	
TOTAL												**TOTAL**
MFU sales revenue (euro thous.)	**4,350**	**5,546**	**6,789**	**5,456**	**2,034**	**1,675**	**1,709**	**1,364**	**1,159**	**1,419**	**563**	**32,064**
SFU sales revenue (euro thous.)	**2,310**	**4,376**	**4,463**	**2,802**	**3,929**	**4,008**	**2,973**	**2,274**	**3,093**	**4,338**	**1,207**	**35,773**
Total sales revenue (euro thous.)	**6,660**	**9,922**	**11,252**	**8,258**	**5,963**	**5,683**	**4,682**	**3,638**	**4,252**	**5,757**	**1,770**	**67,837**
sales commission (% of price)	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Sales commission (euro thous.)	**333**	**496**	**563**	**413**	**298**	**284**	**234**	**182**	**213**	**288**	**88**	**3,392**
Write off sold units (euro thous.)	**0**	**13,032**	**8,604**	**3,557**	**7,124**	**4,162**	**3,408**	**486**	**5,038**	**3,859**	**1,179**	**50,449**

Operating revenues

- In our projections we have assumed that international professionals will be employed to manage accommodation properties instead of contracting the management company. We have assumed that the management of the hotels will manage the commercial use of apartments and villas too.
- Based on the development dynamics we have projected potential demand by each type of the property and their available capacities. Projected demand and pricing growth is in accordance with the development dynamics, using the method of reduced prices and occupancy rates for new accommodation units coming on the market.
- For the first 3 to 4 operating years of an accommodation property, the marketing and sales activities need to be intensive to achieve higher and stable demand afterwards. As an average for all properties in Upper Peštani area,

targeted unit occupancy (on an annual basis) after whole development (in the overall stabilized year 9) is 44.3%, which is assumed to be achievable based on the management sales capability, location of the properties, their product and the operating period. For Gradište area, in the stabilized year 5 the targeted annual unit occupancy is 43.2% (average for all properties). For whole resort Galičica the average annual occupancy in the stabilized year 9 is 43.9%. The cumulative growth of the demand in the nine years' period amounts to 21%.

- Having in mind that there will be no major changes in the potential market mix, we have kept stable average double occupancy factor (number of 2.2 guests per unit on average for whole period) for all future projections.
- Based on the international and regional practice in the similar resorts, the projected average daily unit rate (ADR) realized in the overall stabilized 9th year of operation is 116 Euro, calculated as an average for both Upper Peštani and Gradište area.

Scenario 1: Including Upper Peštani accommodation

ROOMS REVENUE
accommodation area
MOUNTAIN RESORT GALIČICA

		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months						
current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Upper Peštani												
HOTELS												
operating capacity (units)				430	430	430	430	600	600	600	600	600
operating capacity (beds)				859	859	859	859	1,199	1,199	1,199	1,199	1,199
annual unit occupancy				**38.0%**	**41.0%**	**43.0%**	**45.0%**	**46.0%**	**47.0%**	**47.0%**	**47.0%**	**47.0%**
average unit rate (ADR, euro)				**85.0**	**88.0**	**91.5**	**95.0**	**96.9**	**98.8**	**100.8**	**102.8**	**104.9**
occupied units				59,641	64,350	67,489	70,628	100,740	102,930	102,930	102,930	102,930
DOF				1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
overnights				113,318	122,264	128,228	134,192	191,406	195,567	195,567	195,567	195,567
daily RevPAR (euro)				32.3	36.1	39.3	42.8	44.6	46.5	47.4	48.3	49.3
Rooms revenue (euro thous.)	**0**	**0**	**0**	**5,069**	**5,663**	**6,175**	**6,710**	**9,762**	**10,173**	**10,377**	**10,584**	**10,796**
APARTMENTS (MFU) - unsold units commercial use												
operating capacity (units)				54	31	8	0	25	7			
operating capacity (beds)				216	124	32	0	100	28			
annual unit occupancy				**35.0%**	**37.0%**	**39.0%**	**39.0%**	**39.0%**	**39.0%**			
average unit rate (ADR, euro)				**105.0**	**110.0**	**112.2**	**114.4**	**116.7**	**119.1**			
occupied units				6,899	4,187	1,139	0	3,559	996			
DOF				2.6	2.6	2.6	2.6	2.6	2.6			
overnights				17,936	10,885	2,961	0	9,253	2,591			
daily RevPAR (euro)				36.8	40.7	43.8	44.6	45.5	46.4			
Rooms revenue (euro thous.)	**0**	**0**	**0**	**724**	**461**	**128**	**0**	**415**	**119**	**0**	**0**	**0**
APARTMENTS (MFU) - sold units commercial use												
operating capacity (units)				24	47	70	78	103	121	128	128	128
operating capacity (beds)				96	188	280	312	412	484	512	512	512
annual unit occupancy				**32.0%**	**34.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**	**36.0%**
average unit rate (ADR, euro)				**105.0**	**110.0**	**112.2**	**114.4**	**116.7**	**119.1**	**121.4**	**123.9**	**126.4**
occupied units				2,803	5,833	9,198	10,249	13,534	15,899	16,819	16,819	16,819
DOF				2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
overnights				7,288	15,165	23,915	26,648	35,189	41,338	43,730	43,730	43,730
daily RevPAR (euro)				33.6	37.4	40.4	41.2	42.0	42.9	43.7	44.6	45.5
Rooms revenue (euro thous.)	**0**	**0**	**0**	**294**	**642**	**1,032**	**1,173**	**1,580**	**1,893**	**2,043**	**2,084**	**2,125**
CHALETS (SFU) - unsold units commercial use												
operating capacity (units)				19	8			14	3			
operating capacity (beds)				114	48			84	18			
annual unit occupancy				**30.0%**	**30.0%**			**30.0%**	**30.0%**			
average unit rate (ADR, euro)				**185.0**	**188.7**			**200.2**	**204.3**			
occupied units				2,081	876			1,533	329			
DOF				4.0	4.0			4.0	4.0			
overnights				8,322	3,504			6,132	1,314			
daily RevPAR (euro)				55.5	56.6			60.1	61.3			
Rooms revenue (euro thous.)	**0**	**0**	**0**	**385**	**165**	**0**	**0**	**307**	**67**	**0**	**0**	**0**
CHALETS (SFU) - sold units commercial use												
operating capacity (units)				10	15	19	19	26	32	33	33	33
operating capacity (beds)				57	90	114	114	156	189	198	198	198
annual unit occupancy				**28.0%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**
average unit rate (ADR, euro)				**185.0**	**188.7**	**192.5**	**196.3**	**200.2**	**204.3**	**208.3**	**212.5**	**216.8**
occupied units				971	1,533	1,942	1,942	2,657	3,219	3,373	3,373	3,373
DOF				4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
overnights				3,884	6,132	7,767	7,767	10,629	12,877	13,490	13,490	13,490
daily RevPAR (euro)				51.8	52.8	53.9	55.0	56.1	57.2	58.3	59.5	60.7
Rooms revenue (euro thous.)	**0**	**0**	**0**	**180**	**289**	**374**	**381**	**532**	**658**	**703**	**717**	**731**
TOTAL Upper Peštani												
operating capacity (units)				537	531	527	527	768	763	761	761	761
operating capacity (beds)				1,342	1,309	1,285	1,285	1,951	1,918	1,909	1,909	1,909
annual unit occupancy				**37.0%**	**39.6%**	**41.5%**	**43.1%**	**43.5%**	**44.3%**	**44.3%**	**44.3%**	**44.3%**
average unit rate (ADR, euro)				**91.9**	**94.0**	**96.6**	**99.8**	**103.2**	**104.6**	**106.6**	**108.7**	**110.9**
occupied units				72,394	76,778	79,767	82,819	122,023	123,374	123,122	123,122	123,122
DOF				2.1	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1
overnights				150,748	157,950	162,871	168,607	252,608	253,687	252,787	252,787	252,787
daily RevPAR (euro)				34.0	37.2	40.1	43.0	44.9	46.4	47.2	48.2	49.2
Total rooms revenue (euro thous.)	**0**	**0**	**0**	**6,653**	**7,219**	**7,709**	**8,264**	**12,596**	**12,910**	**13,122**	**13,385**	**13,652**

Scenario 1: Including Upper Peštani accommodation

ROOMS REVENUE accommodation area MOUNTAIN RESORT GALIČICA		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months						
current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Gradište												
HOTELS												
operating capacity (units)	200	200	200	200	200	200	200	200	200	200	200	200
operating capacity (beds)	400	400	400	400	400	400	400	400	400	400	400	400
annual unit occupancy	**40.0%**	**42.0%**	**44.0%**	**46.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**
average unit rate (ADR, euro)	**100.0**	**103.0**	**105.0**	**107.0**	**109.1**	**111.3**	**113.5**	**115.8**	**118.1**	**120.5**	**122.9**	**125.4**
occupied units	29,200	30,660	32,120	33,580	35,040	35,040	35,040	35,040	35,040	35,040	35,040	35,040
DOF	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
overnights	52,560	55,188	57,816	60,444	63,072	63,072	63,072	63,072	63,072	63,072	63,072	63,072
daily RevPAR (euro)	40.0	43.3	46.2	49.2	52.4	53.4	54.5	55.6	56.7	57.8	59.0	60.2
Rooms revenue (euro thous.)	**2,920**	**3,158**	**3,373**	**3,593**	**3,824**	**3,901**	**3,979**	**4,058**	**4,140**	**4,222**	**4,307**	**4,393**
APARTMENTS (MFU) - unsold units commercial use												
operating capacity (units)	165	75	15									
operating capacity (beds)	660	300	60									
annual unit occupancy	**35.0%**	**37.0%**	**39.0%**									
average unit rate (ADR, euro)	**120.0**	**125.0**	**130.0**									
occupied units	21,079	10,129	2,135									
DOF	2.6	2.6	2.6									
overnights	54,805	26,335	5,552									
daily RevPAR (euro)	42.0	46.3	50.7									
Rooms revenue (euro thous.)	**2,529**	**1,266**	**278**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
APARTMENTS (MFU) - sold units commercial use												
operating capacity (units)	135	225	285	300	300	300	300	300	300	300	300	300
operating capacity (beds)	540	900	1,140	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
annual unit occupancy	**32.0%**	**35.0%**	**38.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**
average unit rate (ADR, euro)	**120.0**	**125.0**	**130.0**	**132.6**	**135.3**	**138.0**	**140.7**	**143.5**	**146.4**	**149.3**	**152.3**	**155.4**
occupied units	15,768	28,744	39,530	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800
DOF	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
overnights	40,997	74,734	102,777	113,880	113,880	113,880	113,880	113,880	113,880	113,880	113,880	113,880
daily RevPAR (euro)	38.4	43.8	49.4	53.0	54.1	55.2	56.3	57.4	58.6	59.7	60.9	62.1
Rooms revenue (euro thous.)	**1,892**	**3,593**	**5,139**	**5,808**	**5,924**	**6,043**	**6,163**	**6,287**	**6,412**	**6,541**	**6,671**	**6,805**
TOTAL Gradište												
operating capacity (units)	500	500	500	500	500	500	500	500	500	500	500	500
operating capacity (beds)	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
annual unit occupancy	**36.2%**	**38.1%**	**40.4%**	**42.4%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**
average unit rate (ADR, euro)	**111.2**	**115.3**	**119.1**	**121.5**	**123.6**	**126.1**	**128.6**	**131.2**	**133.8**	**136.5**	**139.2**	**142.0**
occupied units	66,047	69,533	73,785	77,380	78,840	78,840	78,840	78,840	78,840	78,840	78,840	78,840
DOF	2.2	2.2	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
overnights	148,362	156,257	166,144	174,324	176,952	176,952	176,952	176,952	176,952	176,952	176,952	176,952
daily RevPAR (euro)	40.2	43.9	48.2	51.5	53.4	54.5	55.6	56.7	57.8	59.0	60.2	61.4
Total rooms revenue (euro thous.)	**7,342**	**8,017**	**8,789**	**9,401**	**9,748**	**9,943**	**10,142**	**10,345**	**10,552**	**10,763**	**10,978**	**11,198**

Scenario 1: Including Upper Peštani accommodation

ROOMS REVENUE accommodation area MOUNTAIN RESORT GALIČICA		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months						
current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
TOTAL												
operating capacity (units)	500	500	500	1,037	1,031	1,027	1,027	1,268	1,263	1,261	1,261	1,261
operating capacity (beds)	1,600	1,600	1,600	2,942	2,909	2,885	2,885	3,551	3,518	3,509	3,509	3,509
annual unit occupancy	**36.2%**	**38.1%**	**40.4%**	**39.6%**	**41.4%**	**42.3%**	**43.1%**	**43.4%**	**43.9%**	**43.9%**	**43.9%**	**43.9%**
average unit rate (ADR, euro)	**111.2**	**115.3**	**119.1**	**107.2**	**109.0**	**111.3**	**113.9**	**114.2**	**116.0**	**118.3**	**120.6**	**123.0**
occupied units	66,047	69,533	73,785	149,774	155,618	158,607	161,659	200,863	202,214	201,962	201,962	201,962
DOF	2.2	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
overnights	148,362	156,257	166,144	325,072	334,902	339,823	345,559	429,560	430,639	429,739	429,739	429,739
daily RevPAR (euro)	40.2	43.9	48.2	42.4	45.1	47.1	49.1	49.6	50.9	51.9	52.9	54.0
Total rooms revenue (euro thous.)	**7,342**	**8,017**	**8,789**	**16,054**	**16,968**	**17,652**	**18,406**	**22,941**	**23,462**	**23,885**	**24,363**	**24,850**

- We have projected all other revenues of the accommodation properties based on the demand growth and moderate growth of the prices. Our projections consider the assumption that every guest will consume at least one meal and/or drink with an average daily F&B check of 14.4 euro (average for the period and both areas).
- In addition and based on the proposed facilities, we have assumed that the guests will use some other hotel/s services with an average service net price of 11.2 euro (average for the twelve year period).

- We have projected that some of the commercial areas of the hotels will be rented out with an average net monthly rent of 12 euro at the beginning of the resort operations. In years after, the rent will be increased by euro inflation rate.

Scenario 1: Including Upper Peštani accommodation

REVENUE PROJECTIONS accommodation area MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months							
current prices	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Upper Peštani														
total capacity					537	531	527	527	768	763	761	761	761	
annual unit occupancy					37.0%	39.6%	41.5%	43.1%	43.5%	44.3%	44.3%	44.3%	44.3%	
occupied units					72,394	76,778	79,767	82,819	122,023	123,374	123,122	123,122	123,122	
overnights					150,748	157,950	162,871	168,607	252,608	253,687	252,787	252,787	252,787	
ADR (euro)					91.9	94.0	96.6	99.8	103.2	104.6	106.6	108.7	110.9	
Rooms revenue (euro thous.)	**0**	**0**	**0**	**0**	**6,653**	**7,219**	**7,709**	**8,264**	**12,596**	**12,910**	**13,122**	**13,385**	**13,652**	*73.2%*
average F&B check per overnight (euro)					12.5	13.0	13.4	13.8	14.2	14.5	14.8	15.1	15.4	
F&B revenue (euro thous.)	**0**	**0**	**0**	**0**	**1,884**	**2,053**	**2,181**	**2,325**	**3,588**	**3,676**	**3,736**	**3,811**	**3,887**	*20.8%*
average other revenue per overn. (euro)					3.5	3.6	3.7	3.9	4.0	4.1	4.1	4.2	4.3	
Other operating revenue (euro thous.)	**0**	**0**	**0**	**0**	**528**	**575**	**611**	**651**	**1,005**	**1,029**	**1,046**	**1,067**	**1,088**	*5.8%*
rental area (sq.m)					200	200	200	200	200	200	200	200	200	
average monthly rent (euro)					12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**0**	**0**	**0**	**0**	**20**	**21**	**21**	**22**	**22**	**22**	**23**	**23**	**24**	*0.1%*
OPERATING REVENUE (euro thous.)	**0**	**0**	**0**	**0**	**9,085**	**9,869**	**10,521**	**11,262**	**17,211**	**17,637**	**17,927**	**18,286**	**18,652**	**100.0%**
SALES REVENUE (euro thous.)	**2,310**	**4,376**	**4,463**	**3,642**	**4,786**	**5,683**	**4,682**	**3,638**	**4,252**	**5,757**	**1,770**	**0**	**0**	
TOTAL REVENUE (euro thous.)	**2,310**	**4,376**	**4,463**	**3,642**	**13,871**	**15,551**	**15,203**	**14,900**	**21,464**	**23,394**	**19,697**	**18,286**	**18,652**	
Gradište														
total capacity		500	500	500	500	500	500	500	500	500	500	500	500	
annual unit occupancy		36.2%	38.1%	40.4%	42.4%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	
occupied units		66,047	69,533	73,785	77,380	78,840	78,840	78,840	78,840	78,840	78,840	78,840	78,840	
overnights		148,362	156,257	166,144	174,324	176,952	176,952	176,952	176,952	176,952	176,952	176,952	176,952	
ADR (euro)		111.2	115.3	119.1	121.5	123.6	126.1	128.6	131.2	133.8	136.5	139.2	142.0	
Rooms revenue (euro thous.)	**0**	**7,342**	**8,017**	**8,789**	**9,401**	**9,748**	**9,943**	**10,142**	**10,345**	**10,552**	**10,763**	**10,978**	**11,198**	*62.3%*
average F&B check per overnight (euro)		12.0	12.6	13.2	13.8	14.3	14.7	15.2	15.6	15.9	16.3	16.6	16.9	
F&B revenue (euro thous.)	**0**	**1,780**	**1,969**	**2,198**	**2,399**	**2,532**	**2,608**	**2,686**	**2,767**	**2,822**	**2,879**	**2,936**	**2,995**	*16.7%*
average other revenue per overn. (euro)		15.0	15.8	16.5	17.2	17.9	18.4	19.0	19.5	19.9	20.3	20.7	21.2	
Other operating revenue (euro thous.)	**0**	**2,225**	**2,461**	**2,748**	**2,998**	**3,165**	**3,260**	**3,358**	**3,459**	**3,528**	**3,598**	**3,670**	**3,744**	*20.8%*
rental area (sq.m)		200	200	200	200	200	200	200	200	200	200	200	200	
average monthly rent (euro)		12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**0**	**24**	**24**	**25**	**25**	**26**	**26**	**27**	**28**	**28**	**29**	**29**	**30**	*0.2%*
OPERATING REVENUE (euro thous.)	**0**	**11,371**	**12,471**	**13,760**	**14,823**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	**100.0%**
SALES REVENUE (euro thous.)	**4,350**	**5,546**	**6,789**	**4,616**	**1,177**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
TOTAL REVENUE (euro thous.)	**4,350**	**16,918**	**19,260**	**18,376**	**16,000**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	
TOTAL														
OPERATING REVENUE (euro thous.)	**0**	**11,371**	**12,471**	**13,760**	**23,908**	**25,340**	**26,359**	**27,475**	**33,809**	**34,567**	**35,196**	**35,900**	**36,618**	**100.0%**
SALES REVENUE (euro thous.)	**6,660**	**9,922**	**11,252**	**8,258**	**5,963**	**5,683**	**4,682**	**3,638**	**4,252**	**5,757**	**1,770**	**0**	**0**	
TOTAL REVENUE (euro thous.)	**6,660**	**21,293**	**23,723**	**22,018**	**29,871**	**31,023**	**31,041**	**31,114**	**38,062**	**40,325**	**36,966**	**35,900**	**36,618**	
total units		500	500	500	1,037	1,031	1,027	1,027	1,268	1,263	1,261	1,261	1,261	
annual unit occupancy		36.2%	38.1%	40.4%	39.6%	41.4%	42.3%	43.1%	43.4%	43.9%	43.9%	43.9%	43.9%	
total overnights		148,362	156,257	166,144	325,072	334,902	339,823	345,559	429,560	430,639	429,739	429,739	429,739	
operating revenue per unit (euro)		22,743	24,943	27,519	23,066	24,578	25,666	26,753	26,664	27,380	27,911	28,469	29,039	
operating revenue per overnight (euro)		76.6	79.8	82.8	73.5	75.7	77.6	79.5	78.7	80.3	81.9	83.5	85.2	
operating revenue per day (euro)		31,154	34,168	37,698	65,502	69,425	72,217	75,275	92,629	94,705	96,427	98,356	100,323	

Operating expenses

- In forecasting operational expenses, we have used a variable and fixed component model. The variable component is directly related with the occupancy and revenue level.
- Operational (departmental) costs are projected as standard shares of costs in revenues of departments which are typical in the similar properties.
- Undistributed expenses such as administration and maintenance have been projected as standard shares in the total revenue. We have assumed marketing expenses slightly above standard for the purpose of achieving the projected demand. A large portion of the energy expense is relatively fixed and other part varies with changes in occupancy.

- Employment has been projected on bottom-up approach, by each department for stabilized year having in mind the standard of service. Projected average full-time equivalent number of employees based on the number of work-months for permanent and seasonal employees per commercial unit is 0.495 including the staff from all types of the accommodation properties and the overhead departments. The calculated average monthly gross payroll per employee for the stabilized year is around 1,030 Euro.
- In villas and apartments we have assumed that new owners will receive annual rent in the amount of 40% of operating revenues less part of the expenses calculated for the maintenance of those units.
- Fixed charges without depreciation, amortization and costs of financing, were calculated by their standard ratio to revenues.
- Amortization is calculated based on the investment amounts by an average annual amortization rate of 6%. We have calculated book value of sold properties according to their investment value and sales dynamics.

Scenario 1: Including Upper Peštani accommodation

EBIT PROJECTIONS accommodation area MOUNTAIN RESORT GALIČICA	PHASE 1 INVEST.		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*							
current prices	*at least 3 years*	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	*% year 12*
Rooms revenue		7,342	8,017	8,789	16,054	16,968	17,652	18,406	22,941	23,462	23,885	24,363	24,850	67.9%
F&B revenue		1,780	1,969	2,198	4,283	4,585	4,789	5,012	6,355	6,498	6,615	6,747	6,882	18.8%
Other operating revenue		2,225	2,461	2,748	3,526	3,740	3,871	4,009	4,463	4,557	4,644	4,737	4,832	13.2%
Rental revenue		24	24	25	46	47	48	49	50	51	52	53	54	0.1%
TOTAL OPERATING REVENUE		**11,371**	**12,471**	**13,760**	**23,908**	**25,340**	**26,359**	**27,475**	**33,809**	**34,567**	**35,196**	**35,900**	**36,618**	100.0%
Costs of sales		958	1,059	1,181	2,023	2,159	2,249	2,347	2,881	2,945	2,999	3,059	3,120	8.5%
Total payroll and related exp.		2,442	2,492	2,543	5,378	5,459	5,549	5,662	7,133	7,247	7,386	7,537	7,691	21.0%
Direct charges		1,229	1,351	1,494	2,455	2,603	2,706	2,817	3,415	3,490	3,554	3,626	3,698	10.1%
Undistributed expenses (incl. energy)		1,592	1,746	1,926	3,347	3,548	3,690	3,847	4,733	4,839	4,927	5,026	5,126	14.0%
Total operating expenses		**6,221**	**6,648**	**7,145**	**13,203**	**13,769**	**14,194**	**14,673**	**18,163**	**18,522**	**18,867**	**19,248**	**19,636**	53.6%
GROSS OPERATING PROFIT		**5,150**	**5,824**	**6,615**	**10,705**	**11,571**	**12,166**	**12,802**	**15,647**	**16,045**	**16,329**	**16,652**	**16,982**	46.4%
share of GOP in total rev.		*45.3%*	*46.7%*	*48.1%*	*44.8%*	*45.7%*	*46.2%*	*46.6%*	*46.3%*	*46.4%*	*46.4%*	*46.4%*	*46.4%*	
Fixed charges (w/o interests and amort.)		91	100	110	191	203	211	220	270	277	282	287	293	0.8%
Guaranteed payment to real estate owners		402	764	1,092	1,333	1,454	1,580	1,637	1,780	1,899	1,967	2,007	2,047	5.6%
TOTAL EXPENSES before operating EBITDA		6,714	7,511	8,347	14,728	15,426	15,984	16,530	20,213	20,698	21,116	21,542	21,975	60.0%
OPERATING EBITDA		**4,657**	**4,961**	**5,413**	**9,180**	**9,915**	**10,375**	**10,946**	**13,596**	**13,869**	**14,080**	**14,358**	**14,642**	40.0%
share of Operating EBITDA in operating revenue		*41.0%*	*39.8%*	*39.3%*	*38.4%*	*39.1%*	*39.4%*	*39.8%*	*40.2%*	*40.1%*	*40.0%*	*40.0%*	*40.0%*	
Sales revenue	6,660	9,922	11,252	8,258	5,963	5,683	4,682	3,638	4,252	5,757	1,770	0	0	0.0%
Sales commission	333	496	563	413	298	284	234	182	213	288	88	0	0	0.0%
TOTAL REVENUE	**6,660**	**21,293**	**23,723**	**22,018**	**29,871**	**31,023**	**31,041**	**31,114**	**38,062**	**40,325**	**36,966**	**35,900**	**36,618**	100.0%
TOTAL EXPENSES before EBITDA	333	7,210	8,073	8,760	15,026	15,710	16,218	16,712	20,426	20,986	21,205	21,542	21,975	60.0%
EBITDA	**6,327**	**14,083**	**15,650**	**13,258**	**14,845**	**15,313**	**14,823**	**14,402**	**17,636**	**19,339**	**15,761**	**14,358**	**14,642**	40.0%
share of EBITDA in total rev.	*95.0%*	*66.1%*	*66.0%*	*60.2%*	*49.7%*	*49.4%*	*47.8%*	*46.3%*	*46.3%*	*48.0%*	*42.6%*	*40.0%*	*40.0%*	
depreciation and amortization		2,512	2,049	1,533	3,531	3,268	3,018	2,814	3,849	3,673	3,442	3,371	3,371	9.2%
write off sold assets		13,032	8,604	3,557	7,124	4,162	3,408	486	5,038	3,859	1,179	0	0	0.0%
EBIT	**6,327**	**-1,461**	**4,996**	**8,168**	**4,191**	**7,883**	**8,397**	**11,103**	**8,749**	**11,807**	**11,140**	**10,987**	**11,271**	30.8%
share of EBIT in total rev.	*95.0%*	*-6.9%*	*21.1%*	*37.1%*	*14.0%*	*25.4%*	*27.0%*	*35.7%*	*23.0%*	*29.3%*	*30.1%*	*30.6%*	*30.8%*	
full equivalent number of employees		247.5	247.5	247.5	513.1	510.3	508.4	508.4	627.7	624.9	624.2	624.2	624.2	
average monthly gross payroll per empl. (euro)		822	839	856	874	891	910	928	947	966	986	1,006	1,027	
units		500	500	500	1,037	1,031	1,027	1,027	1,268	1,263	1,261	1,261	1,261	
average number of employees per unit		0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	

Consolidated Mountain Resort Galičica operations

Based on the projected operating performance of the ski/mountain and accommodation operations and the financing costs that are projected according to the debt repayment schedule presented before, the following tables present key profitability indicators and the consolidated profit and loss projections for the whole Mountain Resort Galičica.

Scenario 1: Including Upper Peštani accommodation

KEY OPERATING INDICATORS

MOUNTAIN RESORT GALIČICA

current prices	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Operating revenue in euro thous.	374,218	PROFIT-ABILITY
GOP share in total operating revenue	44.2%	
Total revenue in euro thous.	442,055	
EBITDA share in total operating revenue	47.2%	
Net profit share in total revenue	14.4%	

Scenario 1: Including Upper Peštani accommodation

PROFIT AND LOSS PROJECTIONS

MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*							
current prices	*at least 3 years*	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	*% year 12*
Ski/Mountain operations		625	756	2,637	3,451	3,929	4,152	5,228	6,053	6,933	7,511	7,885	8,281	18.4%
Accommodation area		11,371	12,471	13,760	23,908	25,340	26,359	27,475	33,809	34,567	35,196	35,900	36,618	81.6%
TOTAL OPERATING REVENUE	**0**	**11,996**	**13,228**	**16,397**	**27,360**	**29,270**	**30,511**	**32,703**	**39,862**	**41,501**	**42,706**	**43,785**	**44,899**	100.0%
Costs of sales		1,028	1,145	1,532	2,467	2,665	2,783	3,006	3,638	3,778	3,893	3,989	4,090	9.1%
Total payroll and related exp.		2,754	2,983	3,675	6,534	6,638	6,752	7,513	9,023	9,175	9,354	9,544	9,739	21.7%
Direct charges		1,311	1,451	1,775	2,812	3,018	3,143	3,395	4,100	4,270	4,405	4,518	4,634	10.3%
Undistributed expenses (incl. energy)		1,669	1,840	2,253	3,775	4,035	4,205	4,599	5,605	5,838	6,009	6,161	6,319	14.1%
Total operating expenses	**0**	**6,764**	**7,419**	**9,235**	**15,588**	**16,356**	**16,883**	**18,514**	**22,365**	**23,061**	**23,660**	**24,213**	**24,782**	55.2%
GROSS OPERATING PROFIT	**0**	**5,233**	**5,809**	**7,162**	**11,771**	**12,914**	**13,628**	**14,189**	**17,497**	**18,440**	**19,046**	**19,571**	**20,117**	44.8%
share of GOP in total rev.	*0.0%*	*43.6%*	*43.9%*	*43.7%*	*43.0%*	*44.1%*	*44.7%*	*43.4%*	*43.9%*	*44.4%*	*44.6%*	*44.7%*	*44.8%*	
Fixed charges (w/o interests and amort.)		96	106	131	219	234	244	262	319	332	342	350	359	0.8%
Guaranted payment to real estate owners		402	764	1,092	1,333	1,454	1,580	1,637	1,780	1,899	1,967	2,007	2,047	4.6%
TOTAL EXPENSES before operating EBITDA		7,262	8,288	10,458	17,141	18,044	18,707	20,412	24,464	25,292	25,969	26,570	27,188	60.6%
OPERATING EBITDA	**0**	**4,735**	**4,940**	**5,939**	**10,219**	**11,225**	**11,804**	**12,291**	**15,398**	**16,209**	**16,737**	**17,214**	**17,711**	39.4%
share of Operating EBITDA in operating rev.	*0.0%*	*39.5%*	*37.3%*	*36.2%*	*37.4%*	*38.4%*	*38.7%*	*37.6%*	*38.6%*	*39.1%*	*39.2%*	*39.3%*	*39.4%*	
Sales revenue	6,660	9,922	11,252	8,258	5,963	5,683	4,682	3,638	4,252	5,757	1,770	0	0	0.0%
Sales commission	333	496	563	413	298	284	234	182	213	288	88	0	0	0.0%
TOTAL REVENUE	**6,660**	**21,918**	**24,480**	**24,655**	**33,323**	**34,952**	**35,193**	**36,342**	**44,114**	**47,258**	**44,476**	**43,785**	**44,899**	100.0%
TOTAL EXPENSES before operating EBITDA	333	7,758	8,851	10,871	17,439	18,328	18,941	20,594	24,677	25,580	26,058	26,570	27,188	60.6%
EBITDA	**6,327**	**14,161**	**15,629**	**13,784**	**15,884**	**16,624**	**16,252**	**15,747**	**19,438**	**21,678**	**18,418**	**17,214**	**17,711**	39.4%
share of EBITDA in total rev.	*95.0%*	*64.6%*	*63.8%*	*55.9%*	*47.7%*	*47.6%*	*46.2%*	*43.3%*	*44.1%*	*45.9%*	*41.4%*	*39.3%*	*39.4%*	
depreciation and amortization	0	3,219	2,756	2,355	4,468	4,205	3,955	3,948	5,180	5,005	4,774	4,703	4,703	10.5%
write off sold assets	0	13,032	8,604	3,557	7,124	4,162	3,408	486	5,038	3,859	1,179	0	0	0.0%
EBIT	**6,327**	**-2,090**	**4,269**	**7,872**	**4,292**	**8,257**	**8,889**	**11,313**	**9,219**	**12,814**	**12,465**	**12,512**	**13,008**	29.0%
share of EBIT in total rev.	*95.0%*	*-9.5%*	*17.4%*	*31.9%*	*12.9%*	*23.6%*	*25.3%*	*31.1%*	*20.9%*	*27.1%*	*28.0%*	*28.6%*	*29.0%*	
interests and bank charges	4,772	2,956	3,971	3,661	3,850	3,486	3,208	2,858	2,672	2,285	1,898	1,511	1,123	2.5%
GROSS PROFIT	**1,555**	**-5,047**	**298**	**4,211**	**442**	**4,771**	**5,680**	**8,456**	**6,547**	**10,529**	**10,568**	**11,001**	**11,885**	26.5%
profit tax	155	0	0	0	0	468	568	846	655	1,053	1,057	1,100	1,188	2.6%
NET PROFIT	**1,399**	**-5,047**	**298**	**4,211**	**442**	**4,304**	**5,112**	**7,610**	**5,892**	**9,476**	**9,511**	**9,901**	**10,696**	23.8%
share of NOP in total rev.	*21.0%*	*-23.0%*	*1.2%*	*17.1%*	*1.3%*	*12.3%*	*14.5%*	*20.9%*	*13.4%*	*20.1%*	*21.4%*	*22.6%*	*23.8%*	
full equivalent number of employees		278.7	295.6	356.3	621.9	619.1	617.2	672.4	791.7	788.9	788.2	788.2	788.2	
average monthly gross payroll per empl. (euro)		823	841	860	876	894	912	931	950	969	989	1,009	1,030	
SCC		880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	
units		500	500	500	1,037	1,031	1,027	1,027	1,268	1,263	1,261	1,261	1,261	

Market and financial projections of the Mountain Resort Galičica show satisfactory level of operating profitability (average GOP share in operating revenue 44%) since it was assumed that the most of the accommodation facilities will be sold to private owners and leased back for tourism business, commercial areas will be rented out and all international management and controlling standards will be implemented.

The level of operating earnings available for financing is very high (average operating EBITDA share in operating revenue 47%). Based on the assumed financing model, the average debt service coverage ratio (DSCR = EBITDA / debt service) for the loan repayment period is satisfactory (2.0).

The resort operations result in the negative accounting result in the first operating years, influenced with the high investments' related expenses like depreciation, amortization and financing costs. From year 2 onwards, the resort will have no problem with overall profitability. We have calculated the loss carry forward until year 5.

6.3.2.2 Scenario 2 – Operations and projections

Ski/mountain operations

The development of the ski/mountain facilities within the Mountain Resort Galičica in this scenario is the same but since there will be less accommodation properties in the area the future potential of ski/mountain operations will be lower. We have prepared detailed calculations of the possible number of the visitors during the two annual operating seasons, winter and summer. The differences after each development stage has been considered and the possible revenue generators were determined. We have prepared the ski/mountain operating projections for 12 year period.

Winter period – Revenues

- During the winter period, we have assumed the same operating period as in the first scenario. Based on the available SCC, the average occupancy during the winter in the presented 12 year period will be 23%.
- We have assumed that the pricing strategy for all ski/mountain operations will be the same as in Scenario 1.
- The revenue changes will be connected with the demand growth.

Summer period – Revenues

- Similar to winter operations, the potential demand in this scenario will be lower than in the Scenario 1. Based on the gondola capacities, the average annual number of visitors during the summer in the presented period will be 82 thousands with the same ticket pricing as in the first scenario.
- For all other revenues we have applied the same assumptions as in the Scenario 1 (the same pricing connected with the demand growth).

Scenario 2: Without Upper Peštani accommodation

REVENUE PROJECTIONS
ski/mountain operations
MOUNTAIN RESORT GALIČICA

current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months							
WINTER													
SCC	880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	
operating days	100	100	100	100	100	100	120	120	120	120	120	120	
occupancy in operating period	15.0%	20.0%	25.0%	25.0%	25.0%	25.0%	20.0%	22.0%	25.0%	25.0%	25.0%	25.0%	
ski passes / skiers (visitors)	13,200	17,600	49,750	49,750	49,750	49,750	72,000	79,200	90,000	90,000	90,000	90,000	
average ticket (euro)	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9	17.7	18.6	19.5	20.5	
Ski pass revenue (euro thous.)	**158**	**222**	**658**	**691**	**726**	**762**	**1,158**	**1,337**	**1,596**	**1,675**	**1,759**	**1,847**	*58.3%*
F&B daily consumptions per skier	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
F&B consumptions	15,840	21,120	59,700	59,700	59,700	59,700	86,400	95,040	108,000	108,000	108,000	108,000	
average F&B check (euro)	6.0	6.3	6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)	**95**	**133**	**395**	**411**	**427**	**440**	**656**	**743**	**861**	**878**	**896**	**914**	*28.8%*
other service users (% of skiers)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
other service users	5,280	7,040	19,900	19,900	19,900	19,900	28,800	31,680	36,000	36,000	36,000	36,000	
average price (euro)	7.0	7.4	7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)	**37**	**52**	**154**	**160**	**166**	**171**	**255**	**289**	**335**	**342**	**348**	**355**	*11.2%*
rental area (sq.m)	1,100	1,100	1,100	1,100	1,100	900	900	900	900	900	900	900	
average monthly rent (euro)	12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**44**	**45**	**46**	**47**	**48**	**40**	**49**	**50**	**51**	**52**	**53**	**54**	*1.7%*
WINTER REVENUE (euro thous.)	**334**	**451**	**1,252**	**1,308**	**1,367**	**1,413**	**2,117**	**2,419**	**2,842**	**2,947**	**3,056**	**3,170**	57.9%
SUMMER													
operating days			150	150	150	150	150	150	150	150	150	150	
daily visitors			333	467	490	515	540	567	596	625	657	689	
gondola users / visitors			50,000	70,000	73,500	77,175	81,034	85,085	89,340	93,807	98,497	103,422	
average ticket (euro)			6.0	7.8	8.0	8.1	8.3	8.4	10.6	10.8	11.0	11.2	
Gondola ticket revenue (euro thous.)			**300**	**546**	**585**	**626**	**671**	**718**	**943**	**1,010**	**1,082**	**1,158**	*50.3%*
parking users (% of visitors)			30.0%	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%	
parking users			15,000	20,000	21,000	22,050	23,153	24,310	25,526	26,802	28,142	29,549	
average price (euro)			2.0	2.1	2.2	2.3	2.4	2.6	2.7	2.8	3.0	3.1	
Parking revenue (euro thous.)			**30**	**42**	**46**	**51**	**56**	**62**	**68**	**75**	**83**	**92**	*4.0%*
F&B daily consumptions per visitor			0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
F&B consumptions			40,000	56,000	58,800	61,740	64,827	68,068	71,472	75,045	78,798	82,738	
average F&B check (euro)			6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)			**265**	**385**	**421**	**455**	**492**	**532**	**570**	**610**	**654**	**700**	*30.4%*
other service users (% of visitors)			30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
other service users			15,000	21,000	22,050	23,153	24,310	25,526	26,802	28,142	29,549	31,027	
average price (euro)			7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)			**116**	**169**	**184**	**199**	**215**	**233**	**249**	**267**	**286**	**306**	*13.3%*
rental area (sq.m)			400	400	400	400	600	600	600	600	600	600	
average monthly rent (euro)			12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)			**25**	**25**	**26**	**26**	**41**	**41**	**42**	**43**	**44**	**45**	*1.9%*
SUMMER REVENUE (euro thous.)			**735**	**1,167**	**1,262**	**1,358**	**1,475**	**1,587**	**1,873**	**2,006**	**2,148**	**2,301**	42.1%
TOTAL REVENUE (euro thous.)	**334**	**451**	**1,988**	**2,476**	**2,628**	**2,771**	**3,592**	**4,006**	**4,715**	**4,953**	**5,205**	**5,472**	100.0%
total annual visitors	13,200	17,600	99,750	119,750	123,250	126,925	153,034	164,285	179,340	183,807	188,497	193,422	
total revenue per visitor (euro)	25.3	25.7	19.9	20.7	21.3	21.8	23.5	24.4	26.3	26.9	27.6	28.3	

Operating expenses

- In forecasting expenses, we have used the variable and fixed component model as well as the standard benchmark shares of costs in revenues of departments applied in the Scenario 1.
- Based on the projected demand, the employment has been projected on the lower level than in the Scenario 1. Projected average number of full-time equivalent employees based on the number of work-months for permanent and seasonal employees per SCC is 0.042 including the staff from all types of the mountain facilities and the overhead departments. The calculated average monthly gross payroll per employee for the stabilized year is the same as in it was projected for the first scenario.
- Fixed charges and depreciation were calculated based by the same method as in Scenario 1.

Scenario 2: Without Upper Peštani accommodation

EBIT PROJECTIONS
ski/mountain operations
MOUNTAIN RESORT GALIČICA

current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*							
Ski pass revenue	158	222	658	691	726	762	1,158	1,337	1,596	1,675	1,759	1,847	33.8%
Gondola tickets revenue	0	0	300	546	585	626	671	718	943	1,010	1,082	1,158	21.2%
Parking revenue	0	0	30	42	46	51	56	62	68	75	83	92	1.7%
F&B total revenue	95	133	660	796	848	895	1,148	1,275	1,431	1,489	1,550	1,614	29.5%
Other service revenue	37	52	269	328	350	370	470	522	584	609	634	662	12.1%
Rental revenue	44	45	71	72	74	66	89	91	93	95	97	98	1.8%
TOTAL OPERATING REVENUE	**334**	**451**	**1,988**	**2,476**	**2,628**	**2,771**	**3,592**	**4,006**	**4,715**	**4,953**	**5,205**	**5,472**	100.0%
Costs of sales	35	49	255	314	335	354	449	498	563	587	612	638	11.7%
Total payroll and related exp.	238	379	875	892	911	929	1,430	1,459	1,488	1,519	1,550	1,581	28.9%
Direct charges	41	57	219	254	269	284	391	442	521	546	574	602	11.0%
Undistributed expenses (incl. energy)	41	56	246	307	326	344	517	577	679	713	749	788	14.4%
Total operating expenses	**355**	**542**	**1,595**	**1,768**	**1,840**	**1,910**	**2,786**	**2,976**	**3,251**	**3,365**	**3,484**	**3,610**	66.0%
GROSS OPERATING PROFIT	**-21**	**-90**	**393**	**708**	**788**	**860**	**806**	**1,030**	**1,464**	**1,588**	**1,720**	**1,862**	34.0%
share of GOP in total rev.	*-6.2%*	*-20.0%*	*19.8%*	*28.6%*	*30.0%*	*31.1%*	*22.4%*	*25.7%*	*31.1%*	*32.1%*	*33.1%*	*34.0%*	
Fixed charges (w/o interests and amort.)	3	4	16	20	21	22	29	32	38	40	42	44	0.8%
TOTAL EXPENSES before EBITDA	358	545	1,611	1,787	1,861	1,932	2,815	3,008	3,289	3,405	3,526	3,653	66.8%
EBITDA	**-23**	**-94**	**377**	**688**	**767**	**838**	**777**	**998**	**1,426**	**1,548**	**1,679**	**1,818**	33.2%
share of EBITDA in total revenue	*-7.0%*	*-20.8%*	*19.0%*	*27.8%*	*29.2%*	*30.3%*	*21.6%*	*24.9%*	*30.3%*	*31.3%*	*32.3%*	*33.2%*	
depreciation and amortization	707	707	822	937	937	937	1,134	1,332	1,332	1,332	1,332	1,332	24.3%
EBIT	**-730**	**-800**	**-445**	**-249**	**-170**	**-99**	**-357**	**-334**	**95**	**217**	**347**	**487**	8.9%
full equivalent number of employees	23.7	37.1	83.8	83.8	83.8	83.8	126.4	126.4	126.4	126.4	126.4	126.4	
average monthly gross payroll per empl. (euro)	835	852	870	887	905	924	943	962	982	1,002	1,022	1,043	
SCC	880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	

Accommodation area operations

Based on the previously explained operating assumptions for Scenario 1, we have prepared detailed calculations of the potential operating performance and selling dynamics, prices and profit for the planned real estate properties in the first development stage (only in Gradište area).

Sale of units

From the projected real estate operations in Scenario 1 we have excluded all the properties from Upper Peštani accommodation area. All other assumptions from the first scenario are applicable for this scenario too.

Scenario 2: Without Upper Peštani accommodation

SALE OF UNITS
accommodation area
MOUNTAIN RESORT GALIČICA

current prices	PHASE 1 INVEST. *at least 3 years*	year 1	year 2	year 3	year 4	TOTAL
			PHASE 2 INVEST. *at least 18 months*			
Gradište						
APARTMENTS (MFU)						
Phase 1 units selling dynamics	20%	25%	30%	20%	5%	
sold units Phase 1	60	75	90	60	15	
unsold units Phase 1	240	165	75	15	0	
sold area (sq.m) Phase 1	3,000	3,750	4,500	3,000	750	
selling net price (€ per sq.m)	1,450	1,479	1,509	1,539	1,570	
Phase 1 sale of units revenue (€)	4,350,000	5,546,250	6,788,610	4,616,255	1,177,145	
MFU sales revenue (euro thous.)	**4,350**	**5,546**	**6,789**	**4,616**	**1,177**	
TOTAL						**TOTAL**
Total sales revenue (euro thous.)	**4,350**	**5,546**	**6,789**	**4,616**	**1,177**	**22,478**
sales commission (% of price)	5%	5%	5%	5%	5%	
Sales commission (euro thous.)	**218**	**277**	**339**	**231**	**59**	**1,124**
Write off sold units (euro thous.)	**0**	**8,004**	**5,336**	**3,557**	**889**	**17,786**

Operating revenues and expenses

As for the real estate operations, the operating performance of the Gradište properties is the same as in the first scenario. Only the total performance within the accommodation area is different since the operations from Upper Peštani were excluded.

Scenario 2: Without Upper Peštani accommodation

ROOMS REVENUE **accommodation area** MOUNTAIN RESORT GALIČICA		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*						
current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Gradište												
HOTELS												
operating capacity (units)	200	200	200	200	200	200	200	200	200	200	200	200
operating capacity (beds)	400	400	400	400	400	400	400	400	400	400	400	400
annual unit occupancy	**40.0%**	**42.0%**	**44.0%**	**46.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**	**48.0%**
average unit rate (ADR, euro)	**100.0**	**103.0**	**105.0**	**107.0**	**109.1**	**111.3**	**113.5**	**115.8**	**118.1**	**120.5**	**122.9**	**125.4**
occupied units	29,200	30,660	32,120	33,580	35,040	35,040	35,040	35,040	35,040	35,040	35,040	35,040
DOF	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
overnights	52,560	55,188	57,816	60,444	63,072	63,072	63,072	63,072	63,072	63,072	63,072	63,072
daily RevPAR (euro)	40.0	43.3	46.2	49.2	52.4	53.4	54.5	55.6	56.7	57.8	59.0	60.2
Rooms revenue (euro thous.)	**2,920**	**3,158**	**3,373**	**3,593**	**3,824**	**3,901**	**3,979**	**4,058**	**4,140**	**4,222**	**4,307**	**4,393**
APARTMENTS (MFU) - unsold units commercial use												
operating capacity (units)	165	75	15									
operating capacity (beds)	660	300	60									
annual unit occupancy	**35.0%**	**37.0%**	**39.0%**									
average unit rate (ADR, euro)	**120.0**	**125.0**	**130.0**									
occupied units	21,079	10,129	2,135									
DOF	2.6	2.6	2.6									
overnights	54,805	26,335	5,552									
daily RevPAR (euro)	42.0	46.3	50.7									
Rooms revenue (euro thous.)	**2,529**	**1,266**	**278**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
APARTMENTS (MFU) - sold units commercial use												
operating capacity (units)	135	225	285	300	300	300	300	300	300	300	300	300
operating capacity (beds)	540	900	1,140	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
annual unit occupancy	**32.0%**	**35.0%**	**38.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**	**40.0%**
average unit rate (ADR, euro)	**120.0**	**125.0**	**130.0**	**132.6**	**135.3**	**138.0**	**140.7**	**143.5**	**146.4**	**149.3**	**152.3**	**155.4**
occupied units	15,768	28,744	39,530	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800
DOF	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
overnights	40,997	74,734	102,777	113,880	113,880	113,880	113,880	113,880	113,880	113,880	113,880	113,880
daily RevPAR (euro)	38.4	43.8	49.4	53.0	54.1	55.2	56.3	57.4	58.6	59.7	60.9	62.1
Rooms revenue (euro thous.)	**1,892**	**3,593**	**5,139**	**5,808**	**5,924**	**6,043**	**6,163**	**6,287**	**6,412**	**6,541**	**6,671**	**6,805**
TOTAL												
operating capacity (units)	500	500	500	500	500	500	500	500	500	500	500	500
operating capacity (beds)	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
annual unit occupancy	**36.2%**	**38.1%**	**40.4%**	**42.4%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**	**43.2%**
average unit rate (ADR, euro)	**111.2**	**115.3**	**119.1**	**121.5**	**123.6**	**126.1**	**128.6**	**131.2**	**133.8**	**136.5**	**139.2**	**142.0**
occupied units	66,047	69,533	73,785	77,380	78,840	78,840	78,840	78,840	78,840	78,840	78,840	78,840
DOF	2.2	2.2	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
overnights	148,362	156,257	166,144	174,324	176,952	176,952	176,952	176,952	176,952	176,952	176,952	176,952
daily RevPAR (euro)	40.2	43.9	48.2	51.5	53.4	54.5	55.6	56.7	57.8	59.0	60.2	61.4
Total rooms revenue (euro thous.)	**7,342**	**8,017**	**8,789**	**9,401**	**9,748**	**9,943**	**10,142**	**10,345**	**10,552**	**10,763**	**10,978**	**11,198**

Scenario 2: Without Upper Peštani accommodation

REVENUE PROJECTIONS
accommodation area
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months							
current prices	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Gradište														
total capacity		500	500	500	500	500	500	500	500	500	500	500	500	
annual unit occupancy		36.2%	38.1%	40.4%	42.4%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	
occupied units		66,047	69,533	73,785	77,380	78,840	78,840	78,840	78,840	78,840	78,840	78,840	78,840	
overnights		148,362	156,257	166,144	174,324	176,952	176,952	176,952	176,952	176,952	176,952	176,952	176,952	
ADR (euro)		111.2	115.3	119.1	121.5	123.6	126.1	128.6	131.2	133.8	136.5	139.2	142.0	
Rooms revenue (euro thous.)	**0**	**7,342**	**8,017**	**8,789**	**9,401**	**9,748**	**9,943**	**10,142**	**10,345**	**10,552**	**10,763**	**10,978**	**11,198**	*62.3%*
average F&B check per overnight (euro)		12.0	12.6	13.2	13.8	14.3	14.7	15.2	15.6	15.9	16.3	16.6	16.9	
F&B revenue (euro thous.)	**0**	**1,780**	**1,969**	**2,198**	**2,399**	**2,532**	**2,608**	**2,686**	**2,767**	**2,822**	**2,879**	**2,936**	**2,995**	*16.7%*
average other revenue per overn. (euro)		15.0	15.8	16.5	17.2	17.9	18.4	19.0	19.5	19.9	20.3	20.7	21.2	
Other operating revenue (euro thous.)	**0**	**2,225**	**2,461**	**2,748**	**2,998**	**3,165**	**3,260**	**3,358**	**3,459**	**3,528**	**3,598**	**3,670**	**3,744**	*20.8%*
rental area (sq.m)		200	200	200	200	200	200	200	200	200	200	200	200	
average monthly rent (euro)		12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**0**	**24**	**24**	**25**	**25**	**26**	**26**	**27**	**28**	**28**	**29**	**29**	**30**	*0.2%*
OPERATING REVENUE (euro thous.)	**0**	**11,371**	**12,471**	**13,760**	**14,823**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	**100.0%**
SALES REVENUE (euro thous.)	**4,350**	**5,546**	**6,789**	**4,616**	**1,177**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
TOTAL														
TOTAL REVENUE (euro thous.)	**4,350**	**16,918**	**19,260**	**18,376**	**16,000**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	
total units		500	500	500	500	500	500	500	500	500	500	500	500	
annual unit occupancy		36.2%	38.1%	40.4%	42.4%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%	
total overnights		148,362	156,257	166,144	174,324	176,952	176,952	176,952	176,952	176,952	176,952	176,952	176,952	
operating revenue per unit (euro)		22,743	24,943	27,519	29,646	30,943	31,676	32,427	33,196	33,860	34,537	35,228	35,933	
operating revenue per overnight (euro)		76.6	79.8	82.8	85.0	87.4	89.5	91.6	93.8	95.7	97.6	99.5	101.5	
operating revenue per day (euro)		31,154	34,168	37,698	40,611	42,388	43,392	44,420	45,474	46,384	47,311	48,258	49,223	

Scenario 2: Without Upper Peštani accommodation

EBIT PROJECTIONS
accommodation area
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months							
current prices	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Rooms revenue		7,342	8,017	8,789	9,401	9,748	9,943	10,142	10,345	10,552	10,763	10,978	11,198	62.3%
F&B revenue		1,780	1,969	2,198	2,399	2,532	2,608	2,686	2,767	2,822	2,879	2,936	2,995	16.7%
Other operating revenue		2,225	2,461	2,748	2,998	3,165	3,260	3,358	3,459	3,528	3,598	3,670	3,744	20.8%
Rental revenue		24	24	25	25	26	26	27	28	28	29	29	30	0.2%
TOTAL OPERATING REVENUE		**11,371**	**12,471**	**13,760**	**14,823**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	100.0%
Costs of sales		958	1,059	1,181	1,288	1,359	1,399	1,441	1,484	1,513	1,544	1,574	1,606	8.9%
Total payroll and related exp.		2,878	2,937	2,997	3,058	3,120	3,184	3,249	3,315	3,383	3,452	3,522	3,594	20.0%
Direct charges		1,312	1,442	1,596	1,724	1,804	1,849	1,896	1,944	1,983	2,022	2,063	2,104	11.7%
Undistributed expenses (incl. energy)		1,592	1,746	1,926	2,075	2,166	2,217	2,270	2,324	2,370	2,418	2,466	2,515	14.0%
Total operating expenses		**6,740**	**7,184**	**7,700**	**8,145**	**8,449**	**8,650**	**8,855**	**9,066**	**9,249**	**9,435**	**9,625**	**9,819**	54.7%
GROSS OPERATING PROFIT		**4,631**	**5,288**	**6,060**	**6,678**	**7,022**	**7,188**	**7,358**	**7,532**	**7,681**	**7,834**	**7,989**	**8,147**	45.3%
share of GOP in total rev.		*40.7%*	*42.4%*	*44.0%*	*45.1%*	*45.4%*	*45.4%*	*45.4%*	*45.4%*	*45.4%*	*45.4%*	*45.4%*	*45.3%*	
Fixed charges (w/o interests and amort.)		91	100	110	119	124	127	130	133	135	138	141	144	0.8%
Guaranted payment to real estate owners		402	764	1,092	1,234	1,259	1,284	1,310	1,336	1,363	1,390	1,418	1,446	8.0%
TOTAL EXPENSES before operating EBITDA		7,233	8,047	8,902	9,498	9,832	10,061	10,295	10,535	10,747	10,963	11,184	11,409	63.5%
OPERATING EBITDA		**4,138**	**4,424**	**4,858**	**5,325**	**5,640**	**5,777**	**5,918**	**6,063**	**6,183**	**6,305**	**6,430**	**6,557**	36.5%
share of Operating EBITDA in operating revenue		*36.4%*	*35.5%*	*35.3%*	*35.9%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	
Sales revenue	4,350	5,546	6,789	4,616	1,177	0	0	0	0	0	0	0	0	0.0%
Sales commission	218	277	339	231	59	0	0	0	0	0	0	0	0	0.0%
TOTAL REVENUE	**4,350**	**16,918**	**19,260**	**18,376**	**16,000**	**15,472**	**15,838**	**16,213**	**16,598**	**16,930**	**17,269**	**17,614**	**17,966**	100.0%
TOTAL EXPENSES before EBITDA	218	7,511	8,386	9,133	9,557	9,832	10,061	10,295	10,535	10,747	10,963	11,184	11,409	63.5%
EBITDA	**4,133**	**9,407**	**10,874**	**9,243**	**6,444**	**5,640**	**5,777**	**5,918**	**6,063**	**6,183**	**6,305**	**6,430**	**6,557**	36.5%
share of EBITDA in total rev.	*95.0%*	*55.6%*	*56.5%*	*50.3%*	*40.3%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	
depreciation and amortization		2,120	1,853	1,533	1,319	1,266	1,266	1,266	1,266	1,266	1,266	1,266	1,266	7.0%
write off sold assets		8,004	5,336	3,557	889									0.0%
EBIT	**4,133**	**-716**	**3,685**	**4,153**	**4,235**	**4,373**	**4,511**	**4,652**	**4,797**	**4,917**	**5,039**	**5,164**	**5,291**	29.5%
share of EBIT in total rev.	*95.0%*	*-4.2%*	*19.1%*	*22.6%*	*26.5%*	*28.3%*	*28.5%*	*28.7%*	*28.9%*	*29.0%*	*29.2%*	*29.3%*	*29.5%*	
full equivalent number of employees		284.0	284.0	284.0	284.0	284.0	284.0	284.0	284.0	284.0	284.0	284.0	284.0	
average monthly gross payroll per empl. (euro)		844	862	879	897	916	934	953	973	993	1,013	1,033	1,055	
units		500	500	500	500	500	500	500	500	500	500	500	500	
average number of employees per unit		0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	

Consolidated Mountain Resort Galičica operations

Following tables present key profitability indicators and the consolidated profit and loss projections for the whole Mountain Resort Galičica without Upper Peštani accommodation properties.

Scenario 2: Without Upper Peštani accommodation

KEY OPERATING INDICATORS

MOUNTAIN RESORT GALIČICA

current prices	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Operating revenue in euro thous.	224,916	PROFIT-ABILITY
GOP share in total operating revenue	42.0%	
Total revenue in euro thous.	247,394	
EBITDA share in total operating revenue	40.3%	
Net profit share in total revenue	11.6%	

Scenario 2: Without Upper Peštani accommodation

PROFIT AND LOSS PROJECTIONS

MOUNTAIN RESORT GALIČICA

current prices	PHASE 1 INVEST. at least 3 years	year 1	PHASE 2 INVEST. at least 18 months year 2	year 3	year 4	year 5	PHASE 3 INVEST. at least 18 months year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Ski/Mountain operations		334	451	1,988	2,476	2,628	2,771	3,592	4,006	4,715	4,953	5,205	5,472	23.3%
Accommodation area		11,371	12,471	13,760	14,823	15,472	15,838	16,213	16,598	16,930	17,269	17,614	17,966	76.7%
TOTAL OPERATING REVENUE	**0**	**11,706**	**12,923**	**15,747**	**17,299**	**18,100**	**18,609**	**19,806**	**20,604**	**21,645**	**22,222**	**22,819**	**23,438**	100.0%
Costs of sales		993	1,108	1,437	1,603	1,694	1,753	1,890	1,982	2,076	2,130	2,186	2,244	9.6%
Total payroll and related exp.		3,115	3,316	3,871	3,950	4,031	4,113	4,678	4,774	4,871	4,971	5,072	5,175	22.1%
Direct charges		1,353	1,500	1,814	1,978	2,073	2,133	2,286	2,386	2,503	2,569	2,636	2,706	11.5%
Undistributed expenses (incl. energy)		1,633	1,802	2,173	2,382	2,492	2,561	2,787	2,901	3,049	3,131	3,215	3,303	14.1%
Total operating expenses	**0**	**7,095**	**7,725**	**9,295**	**9,913**	**10,290**	**10,560**	**11,642**	**12,042**	**12,500**	**12,800**	**13,110**	**13,429**	57.3%
GROSS OPERATING PROFIT	**0**	**4,610**	**5,197**	**6,453**	**7,386**	**7,810**	**8,048**	**8,164**	**8,562**	**9,145**	**9,421**	**9,709**	**10,009**	42.7%
share of GOP in total rev.	*0.0%*	*39.4%*	*40.2%*	*41.0%*	*42.7%*	*43.2%*	*43.3%*	*41.2%*	*41.6%*	*42.3%*	*42.4%*	*42.5%*	*42.7%*	
Fixed charges (w/o interests and amort.)		94	103	126	138	145	149	158	165	173	178	183	188	0.8%
Guaranted payment to real estate owners		402	764	1,092	1,234	1,259	1,284	1,310	1,336	1,363	1,390	1,418	1,446	6.2%
TOTAL EXPENSES before operating EBITDA		7,591	8,592	10,513	11,285	11,693	11,993	13,110	13,542	14,036	14,368	14,710	15,062	64.3%
OPERATING EBITDA	**0**	**4,115**	**4,331**	**5,235**	**6,013**	**6,407**	**6,615**	**6,696**	**7,061**	**7,610**	**7,854**	**8,109**	**8,376**	35.7%
share of Operating EBITDA in operating rev.	*0.0%*	*35.2%*	*33.5%*	*33.2%*	*34.8%*	*35.4%*	*35.6%*	*33.8%*	*34.3%*	*35.2%*	*35.3%*	*35.5%*	*35.7%*	
Sales revenue	4,350	5,546	6,789	4,616	1,177	0	0	0	0	0	0	0	0	0.0%
Sales commission	218	277	339	231	59	0	0	0	0	0	0	0	0	0.0%
TOTAL REVENUE	**4,350**	**17,252**	**19,711**	**20,364**	**18,476**	**18,100**	**18,609**	**19,806**	**20,604**	**21,645**	**22,222**	**22,819**	**23,438**	100.0%
TOTAL EXPENSES before operating EBITDA	218	7,868	8,932	10,744	11,344	11,693	11,993	13,110	13,542	14,036	14,368	14,710	15,062	64.3%
EBITDA	**4,133**	**9,384**	**10,780**	**9,620**	**7,132**	**6,407**	**6,615**	**6,696**	**7,061**	**7,610**	**7,854**	**8,109**	**8,376**	35.7%
share of EBITDA in total rev.	*95.0%*	*54.4%*	*54.7%*	*47.2%*	*38.6%*	*35.4%*	*35.6%*	*33.8%*	*34.3%*	*35.2%*	*35.3%*	*35.5%*	*35.7%*	
depreciation and amortization	0	2,826	2,560	2,355	2,257	2,203	2,203	2,400	2,598	2,598	2,598	2,598	2,598	11.1%
write off sold assets	0	8,004	5,336	3,557	889	0	0	0	0	0	0	0	0	0.0%
EBIT	**4,133**	**-1,446**	**2,884**	**3,708**	**3,986**	**4,203**	**4,412**	**4,295**	**4,464**	**5,012**	**5,256**	**5,511**	**5,778**	24.7%
share of EBIT in total rev.	*95.0%*	*-8.4%*	*14.6%*	*18.2%*	*21.6%*	*23.2%*	*23.7%*	*21.7%*	*21.7%*	*23.2%*	*23.7%*	*24.2%*	*24.7%*	
interests and bank charges	3,929	2,434	2,239	2,045	1,850	1,655	1,460	1,266	1,071	876	682	487	292	1.2%
GROSS PROFIT	**203**	**-3,880**	**645**	**1,664**	**2,136**	**2,548**	**2,952**	**3,029**	**3,393**	**4,136**	**4,574**	**5,024**	**5,486**	23.4%
profit tax	20	0	0	0	56	255	295	303	339	414	457	502	549	2.3%
NET PROFIT	**183**	**-3,880**	**645**	**1,664**	**2,079**	**2,293**	**2,657**	**2,726**	**3,053**	**3,722**	**4,117**	**4,522**	**4,937**	21.1%
share of NOP in total rev.	*4.2%*	*-22.5%*	*3.3%*	*8.2%*	*11.3%*	*12.7%*	*14.3%*	*13.8%*	*14.8%*	*17.2%*	*18.5%*	*19.8%*	*21.1%*	
full equivalent number of employees		307.7	321.1	367.8	367.8	367.8	367.8	410.4	410.4	410.4	410.4	410.4	410.4	
average monthly gross payroll per empl. (euro)		844	861	877	895	913	932	950	969	989	1,009	1,030	1,051	
SCC		880	880	1,990	1,990	1,990	1,990	3,000	3,000	3,000	3,000	3,000	3,000	
units		500	500	500	500	500	500	500	500	500	500	500	500	

Similar to the Scenario 1, market and financial projections of the Mountain Resort Galičica show satisfactory level of operating profitability (average GOP share in operating revenue 42%) since it was assumed that all apartments will be sold to private owners and leased back for tourism business, commercial areas will be rented out and all international management and controlling standards will be implemented.

The level of operating earnings available for financing is lower than in the Scenario 1 (average operating EBITDA share in operating revenue 40.3%). Based on the assumed financing model, the average debt service coverage ratio (DSCR = EBITDA / debt service) for the loan repayment period is satisfactory (1.8).

The resort operations result in the negative accounting result in the first operating year, influenced with the high investments' related expenses like depreciation, amortization and financing costs. From year 2 onwards, the resort will have no problem with overall profitability. We have calculated the loss carry forward until year 4.

6.4 FINANCIAL EVALUATION

For the economic and financial evaluation of the development of the Mountain Resort Galičica we have projected standard measures:

- internal rate of return (IRR) as the average percentage rate of annual return of investment based on the operating results during whole loan period and the residual value of the project after that period. The residual value of the project is calculated using the perpetuity formula with the capitalization rate calculated as WACC (we have used 10.5% which represents the minimum standard ratio for the tourism market in the region since the calculated WACC for this project is below 10%) minus 2% market growth rate in the further period;
- return on investment (ROI) ratio that gives number of years in which the project, out of its operation, could return all development costs;
- return on equity (ROE) ratio that gives number of years in which the project, out of its operation after financing costs, could return investors' additional capital;
- cash flows that reflect liquidity of the project, meaning its possibility to cover all financial obligations. It is calculated as the net profit plus non-cash charges (depreciation and amortization) plus cash inflows from equity and loan and minus investments' and debt repayment' cash outflows.

6.4.1 Scenario 1 – Financial evaluation

From the projected operating result of the Mountain Resort Galičica, the investment viability ratios are:

Scenario 1: Including Upper Peštani accommodation

KEY FINANCIAL INDICATORS
MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Total investment	148.347	INVESTMENT VIABILITY
Total investment per SCC	49.449	
Total equity amount	79.188	
out of which:		
investors' capital	27.156	
part of presales funds	52.032	
Loan amounts	69.159	
IRR	16,8%	
Return on investment	in 9th year	
Return on equity	in 12th year	
current prices	**PHASES 1 + 2 + 3 total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	42.334	LIQUIDITY

Project gives the satisfactory level of all financial indicators (IRR, ROI, ROE) with the assumed investment and sales dynamics as well as the financing pre-conditions.

Project will not have any problems with liquidity since the cash flow is positive in the whole period until the end of loan period (12th year of operation).

Detailed financial evaluation tables are shown below.

Scenario 1: Including Upper Peštani accommodation

CASH FLOW PROJECTION
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*						
current prices in euro thous.	*at least 3 years*	**year 1**	**year 2**	**year 3**	**year 4**	**year 5**	**year 6**	**year 7**	**year 8**	**year 9**	**year 10**	**year 11**	**year 12**
EBITDA	6,327	14,161	15,629	13,784	15,884	16,624	16,252	15,747	19,438	21,678	18,418	17,214	17,711
- profit tax	-155	0	0	0	0	-468	-568	-846	-655	-1,053	-1,057	-1,100	-1,188
- investments	-70,390	0	-32,069	-13,744	0	0	-22,501	-9,643	0	0	0	0	0
Annual cash flow before financing activities	**-64,219**	**14,161**	**-16,440**	**40**	**15,884**	**16,156**	**-6,817**	**5,258**	**18,783**	**20,625**	**17,361**	**16,114**	**16,522**
+ investor's capital	27,156	0	0	0	0	0	0	0	0	0	0	0	0
+ loan inflows	42,234	0	16,034	6,872	0	0	1,125	2,893	0	0	0	0	0
- interests and bank charges	-4,772	-2,956	-3,971	-3,661	-3,850	-3,486	-3,208	-2,858	-2,672	-2,285	-1,898	-1,511	-1,123
- principal	0	-3,379	-3,379	-3,379	-5,211	-5,211	-5,211	-5,211	-5,533	-5,533	-5,533	-5,533	-16,047
CASH FLOW	**399**	**7,825**	**-7,755**	**-128**	**6,823**	**7,460**	**-14,111**	**82**	**10,578**	**12,807**	**9,931**	**9,071**	**-648**
CUMULATED CASH FLOW	**399**	**8,224**	**470**	**342**	**7,164**	**14,624**	**513**	**595**	**11,173**	**23,980**	**33,911**	**42,982**	**42,334**

Scenario 1: Including Upper Peštani accommodation

IRR CALCULATION **IRR = 16,8%**
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*						
current prices in euro thous.	*at least 3 years*	**year 1**	**year 2**	**year 3**	**year 4**	**year 5**	**year 6**	**year 7**	**year 8**	**year 9**	**year 10**	**year 11**	**year 12**
NOPLAT	5.694	-2.090	4.269	7.872	4.292	7.431	8.000	10.182	8.298	11.533	11.219	11.260	11.707
+ depreciation and amortizatior	0	3.219	2.756	2.355	4.468	4.205	3.955	3.948	5.180	5.005	4.774	4.703	4.703
+ write off sold assets	0	13.032	8.604	3.557	7.124	4.162	3.408	486	5.038	3.859	1.179	0	0
GROSS CASH FLOW	**5.694**	**14.161**	**15.629**	**13.784**	**15.884**	**15.798**	**15.363**	**14.616**	**18.516**	**20.396**	**17.172**	**15.963**	**16.410**
- investments	-70.390	0	-32.069	-13.744	0	0	-22.501	-9.643	0	0	0	0	0
OPERATING FREE CASH FLOW	**-64.696**	**14.161**	**-16.440**	**40**	**15.884**	**15.798**	**-7.138**	**4.973**	**18.516**	**20.396**	**17.172**	**15.963**	**16.410**
residual value													196.874
TOTAL	**-64.696**	**14.161**	**-16.440**	**40**	**15.884**	**15.798**	**-7.138**	**4.973**	**18.516**	**20.396**	**17.172**	**15.963**	**213.284**

Scenario 1: Including Upper Peštani accommodation

RETURN ON INVESTMENT (ROI) AND RETURN ON EQUITY (ROE)
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. *at least 18 months*				PHASE 3 INVEST. *at least 18 months*						
current prices	*at least 3 years*	**year 1**	**year 2**	**year 3**	**year 4**	**year 5**	**year 6**	**year 7**	**year 8**	**year 9**	**year 10**	**year 11**	**year 12**
ROI	4.2%	9.5%	10.5%	9.3%	10.7%	10.9%	10.6%	10.0%	12.7%	13.9%	11.7%	10.9%	11.1%
Cumulated ROI	**4.2%**	**13.7%**	**24.2%**	**33.5%**	**44.2%**	**55.1%**	**65.7%**	**75.7%**	**88.4%**	**102.3%**	**114.0%**	**124.9%**	**136.0%**
annual ROI amount (thous. euro)	6,172	14,161	15,629	13,784	15,884	16,156	15,684	14,902	18,783	20,625	17,361	16,114	16,522
cumulated ROI amount (thous. euro	6,172	20,332	35,961	49,744	65,629	81,785	97,469	112,370	131,153	151,778	169,140	185,254	201,776
ROE	0.9%	7.6%	7.9%	6.8%	8.1%	8.5%	8.4%	8.1%	10.9%	12.4%	10.4%	9.8%	10.4%
Cumulated ROE	**0.9%**	**8.5%**	**16.4%**	**23.2%**	**31.3%**	**39.8%**	**48.2%**	**56.4%**	**67.2%**	**79.6%**	**90.0%**	**99.9%**	**110.2%**
annual ROE amount (thous. euro)	256	2,051	2,134	1,853	2,203	2,320	2,284	2,205	2,949	3,357	2,831	2,673	2,819
cumulated ROE amount (thous. eurc	256	2,307	4,441	6,294	8,497	10,817	13,100	15,305	18,254	21,612	24,442	27,116	29,935

6.4.2 Scenario 2 – Financial evaluation

From the projected operating result of the Mountain Resort Galičica without development of the accommodation properties in Upper Peštani area, the investment viability ratios are:

Scenario 2: Without Upper Peštani accommodation

KEY FINANCIAL INDICATORS
MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Total investment	80.600	INVESTMENT VIABILITY
Total investment per SCC	26.867	
Total equity amount	45.828	
out of which:		
investors' capital	27.321	
part of presales funds	18.507	
Loan amounts	34.772	
IRR	13,0%	
Return on investment	in 10th year	
Return on equity	in 13th year	
current prices	**PHASES 1 + 2 + 3 total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	23.018	LIQUIDITY

As in the Scenario 1, all financial indicators (IRR, ROI, ROE) are satisfactory but on the lower level than in the Scenario 1. This is influenced with the smaller number of accommodation capacities from where the potential demand for ski/mountain operations is created and from where the major part of the sales profit is generated. Project will not have any problems with liquidity since the cash flow is positive in the whole period until the end of loan period (12th year of operation). Cash available at the end of the loan period (in year 12) in Scenario 2 is lesser than in the Scenario 1 for almost 50%.

Detailed financial evaluation tables are shown below.

Scenario 2: Without Upper Peštani accommodation

CASH FLOW PROJECTION
MOUNTAIN RESORT GALIČICA

	PHASE 1 INVEST.		PHASE 2 INVEST. at least 18 months				PHASE 3 INVEST. at least 18 months						
current prices in euro thous.	at least 3 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
EBITDA	4,133	9,384	10,780	9,620	7,132	6,407	6,615	6,696	7,061	7,610	7,854	8,109	8,376
- profit tax	-20	0	0	0	-56	-255	-295	-303	-339	-414	-457	-502	-549
- investments	-62,093	0	-4,351	-1,865	0	0	-8,603	-3,687	0	0	0	0	0
Annual cash flow before financing activities	**-57,981**	**9,384**	**6,429**	**7,755**	**7,075**	**6,152**	**-2,283**	**2,705**	**6,722**	**7,196**	**7,396**	**7,606**	**7,827**
+ investor's capital	27,321	0	0	0	0	0	0	0	0	0	0	0	0
+ loan inflows	34,772	0	0	0	0	0	0	0	0	0	0	0	0
- interests and bank charges	-3,929	-2,434	-2,239	-2,045	-1,850	-1,655	-1,460	-1,266	-1,071	-876	-682	-487	-292
- principal	0	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-2,782	-4,173
CASH FLOW	**183**	**4,168**	**1,407**	**2,929**	**2,444**	**1,715**	**-6,525**	**-1,342**	**2,869**	**3,538**	**3,933**	**4,338**	**3,362**
CUMULATED CASH FLOW	**183**	**4,351**	**5,758**	**8,687**	**11,130**	**12,845**	**6,320**	**4,978**	**7,847**	**11,385**	**15,318**	**19,656**	**23,018**

Scenario 2: Without Upper Peštani accommodation

IRR CALCULATION IRR = 13,0%

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASE 1 INVEST. at least 3 years	year 1	PHASE 2 INVEST. at least 18 months year 2	year 3	year 4	year 5	PHASE 3 INVEST. at least 18 months year 6	year 7	year 8	year 9	year 10	year 11	year 12
NOPLAT	3.719	-1.446	2.884	3.708	3.587	3.783	3.971	3.866	4.017	4.511	4.730	4.960	5.200
+ depreciation and amortizatior	0	2.826	2.560	2.355	2.257	2.203	2.203	2.400	2.598	2.598	2.598	2.598	2.598
+ write off sold assets	0	8.004	5.336	3.557	889	0	0	0	0	0	0	0	0
GROSS CASH FLOW	**3.719**	**9.384**	**10.780**	**9.620**	**6.733**	**5.986**	**6.174**	**6.266**	**6.615**	**7.108**	**7.328**	**7.558**	**7.798**
- investments	-62.093	0	-4.351	-1.865	0	0	-8.603	-3.687	0	0	0	0	0
OPERATING FREE CASH FLOW	**-58.374**	**9.384**	**6.429**	**7.755**	**6.733**	**5.986**	**-2.429**	**2.579**	**6.615**	**7.108**	**7.328**	**7.558**	**7.798**
residual value													93.559
TOTAL	**-58.374**	**9.384**	**6.429**	**7.755**	**6.733**	**5.986**	**-2.429**	**2.579**	**6.615**	**7.108**	**7.328**	**7.558**	**101.357**

Scenario 2: Without Upper Peštani accommodation

RETURN ON INVESTMENT (ROI) AND RETURN ON EQUITY (ROE)

MOUNTAIN RESORT GALIČICA

current prices	PHASE 1 INVEST. at least 3 years	year 1	PHASE 2 INVEST. at least 18 months year 2	year 3	year 4	year 5	PHASE 3 INVEST. at least 18 months year 6	year 7	year 8	year 9	year 10	year 11	year 12
ROI	5.1%	11.6%	13.4%	11.9%	8.8%	7.6%	7.8%	7.9%	8.3%	8.9%	9.2%	9.4%	9.7%
Cumulated ROI	**5.1%**	**16.7%**	**30.1%**	**42.1%**	**50.8%**	**58.5%**	**66.3%**	**74.2%**	**82.6%**	**91.5%**	**100.7%**	**110.1%**	**119.8%**
annual ROI amount (thous. euro)	4,112	9,384	10,780	9,620	7,075	6,152	6,320	6,393	6,722	7,196	7,396	7,606	7,827
cumulated ROI amount (thous. euro	4,112	13,496	24,276	33,896	40,971	47,123	53,443	59,836	66,558	73,754	81,150	88,756	96,583
ROE	0.2%	8.6%	10.6%	9.4%	6.5%	5.6%	6.0%	6.4%	7.0%	7.8%	8.3%	8.8%	9.3%
Cumulated ROE	**0.2%**	**8.8%**	**19.4%**	**28.8%**	**35.3%**	**40.9%**	**46.9%**	**53.3%**	**60.3%**	**68.1%**	**76.5%**	**85.3%**	**94.7%**
annual ROE amount (thous. euro)	62	2,356	2,895	2,568	1,771	1,524	1,647	1,738	1,916	2,142	2,276	2,413	2,554
cumulated ROE amount (thous. eurc	62	2,418	5,313	7,881	9,652	11,176	12,823	14,561	16,477	18,619	20,895	23,308	25,863

6.4.3 Scenario 3 –Only phase 1 development – Financial evaluation

Scenario 3 is developed upon Client's request for a separate financial evaluation of only phase 1 development. Therefore, it contains only phase 1 of both ski system and accommodation development as specified in section *5.1. GALIČICA MOUNTAIN RESORT CONCEPT.*

Key financial indicators of Scenario 3 are the following:

Scenario 3: Including Upper Peštani accommodation but without development in phases 2 and 3

KEY FINANCIAL INDICATORS

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Total investment	70.390	INVESTMENT VIABILITY
Total investment per SCC	79.989	
Total equity amount	28.156	
out of which:		
investors' capital	27.156	
part of presales funds	1.000	
Loan amounts	42.234	
IRR	15,9%	
Return on investment	in 7th year	
Return on equity	in 11th year	
current prices	**PHASES 1 + 2 + 3 total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	39.681	LIQUIDITY

6.4.4 Scenario 4 – Only phase 1 development without any accommodation in Upper Peštani – Financial evaluation

Scenario 4 is similar to scenario 3 with the only difference that Scenario 4 doesn't include Upper Peštani accommodation development (33 SFUs in phase 1). Key financial indicators of Scenario 4 are the following:

Scenario 4: Without Upper Peštani accommodation but without development in phases 2 and 3

KEY FINANCIAL INDICATORS

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Total investment	62.093	INVESTMENT VIABILITY
Total investment per SCC	70.561	
Total equity amount	27.942	
out of which:		
investors' capital	27.942	
part of presales funds	0	
Loan amounts	34.151	
IRR	15,2%	
Return on investment	in 8th year	
Return on equity	in 11th year	
current prices	**PHASES 1 + 2 + 3 total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	39.294	LIQUIDITY

6.4.5 Scenario 5 – As in Scenario 1 with hotel management companies – Financial evaluation

Scenario 5 is the same as Scenario 1 in terms of all developments (ski system and accommodation) and phasing, but in this scenario we have included hotel management company/ies for all proposed hotels. We have assumed standard model for calculation of the management fees:

- base management fee = 4% of total operating revenue of accommodation properties
- incentive management fee = 10% of gross operating profit of accommodation properties.

In this scenario we have also decreased marketing expenses in accommodation properties since the majority of those activities will be in charge of the management company.

The investment viability ratios for Scenario 5 are:

Scenario 5: Including Upper Peštani accommodation with management company in accommodation

KEY FINANCIAL INDICATORS

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	PHASES 1 + 2 + 3 total/average for 12 years operating period	
Total investment	148.347	INVESTMENT VIABILITY
Total investment per SCC	49.449	
Total equity amount	65.650	
out of which:		
investors' capital	27.156	
part of presales funds	38.493	
Loan amounts	82.697	
IRR	14,1%	
Return on investment	in 10th year	
Return on equity	in 13th year	
current prices	**PHASES 1 + 2 + 3 total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	13.094	LIQUIDITY

6.4.6 Scenario 6 – Calculation of the extension to Prespansko lake area

In addition to the presented scenarios of the development on the Ohrid side of the Mountain Resort Galičica and based on the development plan prepared by Ecosign, we have separately calculated the financial performance and evaluation for the extension to the Prespansko lake area.

INVESTMENT

On the investment amount proposed by Ecosign for the development related to the ski operations we have added the necessary investment in the accommodation properties planned for the Oteševo base. Total investment in the extension of the resort to the Prespansko lake area is 46.13 million €. The proposed timing of the development is after the finalization of the whole development on the Ohrid side and after its performance stabilization. It is assumed that the overall development of this extension will last up to 2 years.

Scenario 6: Separate calculation of the extension to Prespansko lake area

INVESTMENT BY PURPOSE

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	amount	%
Pre-development	150	0.3%
Buildings for ski operations	*0*	*0.0%*
Construction	*21,864*	*47.4%*
FF&E	*8,455*	*18.3%*
Buildings for accommodation	*30,319*	*65.7%*
Construction total	21,864	47.4%
FF&E total	8,455	18.3%
Buildings total	30,319	65.7%
Ski lifts	13,573	29.4%
Ski piste	1	0.0%
Parking, roads and site work	366	0.8%
Utilities	243	0.5%
Vehicles and equipment	97	0.2%
Misc. operating	428	0.9%
Legal fees	149	0.3%
Contingency	802	1.7%
TOTAL	**46,126**	**100%**

Proposed accommodation facilities in Oteševo are: four 3-4* hotels with total of 337 units, 45 apartments in several buildings (MFU's) and 19 villas or private houses (SFU's). Detailed calculation of the investment needed for the development of accommodation properties is given in the following table.

Scenario 6: Separate calculation of the extension to Prespansko lake area

INVESTMENT IN ACCOMMODATION AREA
MOUNTAIN RESORT GALIČICA

	units	beds	total gross area (sq.m)	total investment per gross sq.m (euro)	total investment per unit (euro)	total investment (euro)	structure (%, grandtotal = 100)
Oteševo							
HOTELS	337	674	18,848	1,252	70,000	23,590,000	77.8%
MFU (apartments)	45	180	3,214	700	50,000	2,250,000	7.4%
SFU (villas and houses)	19	114	5,971	750	235,714	4,478,571	14.8%
GRANDTOTAL	**401**	**968**	**28,034**	**1,082**	**75,607**	**30,318,571**	100.0%

FINANCING MODEL

In this case there are MFU's and SFU's related to the real estate operations. We have assumed that all villas/private houses will be sold on free hold basis and the apartments will be sold and then leased back for the commercial operations. Since this extended part of the resort will be developed after the first three phases of the development will be already well known on the market, we have assumed that it would be necessary, with the intensive marketing and sales activities, to presell at least 40% of all real estate units.

Based on this and the proposed investment, during the development period it would still be necessary to find additional equity to cover financing costs. In this case we have assumed that the overall financing ratio between equity and commercial loan would be 62:38. Project loan period is until 12th year of the Prespansko extended operations[27]. Average DSCR ratio for the loan repayment period is satisfactory (1.2).

Scenario 6: Separate calculation of the extension to Prespansko lake area

FINANCING MODEL

MOUNTAIN RESORT GALIČICA	at least 2 years	
current prices in euro thous.	amount	%
Total investment	**46,126**	
investors' capital	28,598	62.0%
part of presales funds	0	0.0%
total capital (equity)	28,598	62.0%
bank loans	17,528	38.0%
TOTAL	**46,126**	100.0%

LOAN CONDITIONS	Scenario 6 COMMERCIAL LOAN
Loan amount	**17.5 Euro millions**

[27] Year 1 in this section of the report relates to the first operating year only for this extended part of the Mountain Resort Galičica and it is not the same as the year 1 in the previous sections.

Loan start	1.5 years before operation
Draw down	1.5 years
Initial bank fees	0.8% of loan amount (payable according to draw down dynamics)
Grace period	1.5 years (when only interests are paid)
Repayment period	12 years (operating years 1-12, eleven equal annual instalments and balloon payment in the last year of the repayment period)
Annual interest rate	7%

Scenario 6: Separate calculation of the extension to Prespansko lake area

DEBT REPAYMENT SCHEDULE

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	INVEST. *at least 2 years*	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	TOTAL
COMMERCIAL LOAN 1	*17,528*													*17,528*
Interests	1,840	1,227	1,129	1,031	932	834	736	638	540	442	344	245	147	7.0%
Bank charges	140													0.8%
Principal %		*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*12.0%*	
Principal		1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	2,103	12
Remaining debt	***17,528***	***16,126***	***14,723***	***13,321***	***11,919***	***10,517***	***9,115***	***7,712***	***6,310***	***4,908***	***3,506***	***2,103***	***0***	

OPERATIONS AND PROJECTIONS

For the ski/mountain operations related to the new gondola on this side of the mountain we have projected operating performance in winter and summer period. Similar to the previously presented assumptions of the revenue generation and operating expenses, we have calculated the predicted number of visitors out of the developed accommodation properties and their average spending for passes/tickets, additional F&B consumptions and other revenues related to the services already existing on the Mountain Resort Galičica that were developed during the first three phases. We have assumed that 25% of all accommodated people will be skiers during 100 days of the winter period and additional 20% visitors will come during the summer period. The pricing strategy for this extension is the same as in the base scenario as well as the assumptions related to the operating expenses of the ski/mountain operations.

Scenario 6: Separate calculation of the extension to Prespansko lake area

REVENUE PROJECTIONS **ski/mountain operations** **MOUNTAIN RESORT GALIČICA**

current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
WINTER													
skiers from accommodation	242	242	242	242	242	242	242	242	242	242	242	242	
operating days	100	100	100	100	100	100	100	100	100	100	100	100	
occupancy in operating period	60.0%	80.0%	90.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	
ski passes / skiers (visitors)	14,520	19,360	21,780	22,990	22,990	22,990	22,990	22,990	22,990	22,990	22,990	22,990	
average ticket (euro)	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9	17.7	18.6	19.5	20.5	
Ski pass revenue (euro thous.)	**174**	**244**	**288**	**319**	**335**	**352**	**370**	**388**	**408**	**428**	**449**	**472**	***59.3%***
F&B daily consumptions per skier	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
F&B consumptions	17,424	23,232	26,136	27,588	27,588	27,588	27,588	27,588	27,588	27,588	27,588	27,588	
average F&B check (euro)	6.0	6.3	6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)	**105**	**146**	**173**	**190**	**197**	**203**	**209**	**216**	**220**	**224**	**229**	**233**	***29.3%***
other service users (% of skiers)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
other service users	5,808	7,744	8,712	9,196	9,196	9,196	9,196	9,196	9,196	9,196	9,196	9,196	
average price (euro)	7.0	7.4	7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)	**41**	**57**	**67**	**74**	**77**	**79**	**81**	**84**	**86**	**87**	**89**	**91**	***11.4%***
WINTER REVENUE (euro thous.)	**319**	**447**	**528**	**583**	**609**	**634**	**661**	**688**	**713**	**740**	**767**	**796**	**89.3%**
SUMMER													
operating days	150	150	150	150	150	150	150	150	150	150	150	150	
daily visitors	19	26	29	31	31	31	31	31	31	31	31	31	
gondola users / visitors	2,904	3,872	4,356	4,598	4,598	4,598	4,598	4,598	4,598	4,598	4,598	4,598	
average ticket (euro)	6.0	6.3	6.6	6.9	7.3	7.4	7.6	7.7	9.7	9.9	10.1	10.3	
Gondola ticket revenue (euro thous.	**17**	**24**	**29**	**32**	**34**	**34**	**35**	**36**	**44**	**45**	**46**	**47**	***49.6%***
parking users (% of visitors)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
parking users	581	774	871	920	920	920	920	920	920	920	920	920	
average price (euro)	2.0	2.1	2.2	2.3	2.4	2.6	2.7	2.8	3.0	3.1	3.3	3.4	
Parking revenue (euro thous.)	**1**	**2**	**2**	**2**	**2**	**2**	**2**	**3**	**3**	**3**	**3**	**3**	***3.3%***
F&B daily consumptions per visitor	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
F&B consumptions	2,323	3,098	3,485	3,678	3,678	3,678	3,678	3,678	3,678	3,678	3,678	3,678	
average F&B check (euro)	6.0	6.3	6.6	6.9	7.2	7.4	7.6	7.8	8.0	8.1	8.3	8.5	
F&B revenue (euro thous.)	**14**	**20**	**23**	**25**	**26**	**27**	**28**	**29**	**29**	**30**	**31**	**31**	***32.7%***
other service users (% of visitors)	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
other service users	871	1,162	1,307	1,379	1,379	1,379	1,379	1,379	1,379	1,379	1,379	1,379	
average price (euro)	7.0	7.4	7.7	8.0	8.3	8.6	8.9	9.1	9.3	9.5	9.7	9.9	
Other service revenue (euro thous.)	**6**	**9**	**10**	**11**	**12**	**12**	**12**	**13**	**13**	**13**	**13**	**14**	***14.3%***
SUMMER REVENUE (euro thous.)			**64**	**70**	**74**	**76**	**77**	**80**	**89**	**91**	**93**	**95**	**10.7%**
TOTAL REVENUE (euro thous.)	**319**	**447**	**592**	**653**	**683**	**710**	**738**	**767**	**803**	**831**	**860**	**891**	**100.0%**
total annual visitors	17,424	23,232	26,136	27,588	27,588	27,588	27,588	27,588	27,588	27,588	27,588	27,588	
total revenue per visitor (euro)	18.3	19.3	22.7	23.7	24.8	25.7	26.8	27.8	29.1	30.1	31.2	32.3	

Scenario 6: Separate calculation of the extension to Prespansko lake area

EBIT PROJECTIONS **ski/mountain operations** **MOUNTAIN RESORT GALIČICA**

current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Ski pass revenue	174	244	288	319	335	352	370	388	408	428	449	472	52.9%
Gondola tickets revenue	17	24	29	32	34	34	35	36	44	45	46	47	5.3%
Parking revenue	1	2	2	2	2	2	2	3	3	3	3	3	0.4%
F&B total revenue	118	166	196	215	224	230	237	244	249	254	259	265	29.7%
Other service revenue	47	65	77	85	88	91	94	96	98	100	102	104	11.7%
Rental revenue	0	0	0	0	0	0	0	0	0	0	0	0	0.0%
TOTAL OPERATING REVENUE	**358**	**501**	**592**	**653**	**683**	**710**	**738**	**767**	**803**	**831**	**860**	**891**	100%
Costs of sales	44	62	74	81	84	87	89	92	94	96	98	100	11.2%
Total payroll and related exp.	129	192	196	200	204	208	213	217	221	226	231	235	26.4%
Direct charges	48	67	79	87	91	95	100	104	109	113	118	123	13.8%
Undistributed expenses (incl. energy)	44	62	73	81	85	88	106	110	116	120	124	128	14.4%
Total operating expenses	**266**	**383**	**422**	**449**	**464**	**478**	**508**	**523**	**539**	**554**	**570**	**586**	65.7%
GROSS OPERATING PROFIT	**92**	**118**	**170**	**204**	**219**	**232**	**231**	**244**	**263**	**277**	**291**	**305**	34.3%
share of GOP in total rev.	*25.7%*	*23.5%*	*28.7%*	*31.3%*	*32.0%*	*32.6%*	*31.2%*	*31.8%*	*32.8%*	*33.3%*	*33.8%*	*34.3%*	
Fixed charges (w/o interests and amort.)	3	4	5	5	5	6	6	6	6	7	7	7	0.8%
TOTAL EXPENSES before EBITDA	269	387	427	454	470	484	513	529	546	561	577	593	66.5%
EBITDA	**89**	**114**	**165**	**199**	**213**	**226**	**225**	**238**	**257**	**270**	**284**	**298**	33.5%
share of EBITDA in total revenue	*24.9%*	*22.7%*	*27.9%*	*30.5%*	*31.2%*	*31.8%*	*30.4%*	*31.0%*	*32.0%*	*32.5%*	*33.0%*	*33.5%*	
depreciation and amortization	424	424	424	424	424	424	424	424	424	424	424	424	47.6%
EBIT	**-335**	**-310**	**-259**	**-225**	**-211**	**-198**	**-199**	**-186**	**-167**	**-154**	**-140**	**-126**	-14.1%
full equivalent number of employees	13.8	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	
average monthly gross payroll per empl. (euro)	781	797	814	830	847	864	882	900	918	937	956	976	

Similar to the operating projections related to the accommodation properties explained in the previous sections of this document, we have calculated the sale of real estate units (3 years sales period) with the pricing strategy slightly lower than in the Ohrid area. Revenue and expense projections for the operations of hotels and apartments are standardized for the 3-4* accommodation properties.

Scenario 6: Separate calculation of the extension to Prespansko lake area

SALE OF UNITS

accommodation area

MOUNTAIN RESORT GALIČICA

current prices	INVEST *at least 2 years*	year 1	year 2	
Oteševo				
APARTMENTS (MFU)				
Phase 1 units selling dynamics	40%	35%	25%	
sold units Phase 1	18	16	11	
unsold units Phase 1	27	11	0	
sold area (sq.m) Phase 1	900	800	550	
selling net price (€ per sq.m)	1,150	1,173	1,196	
Phase 1 sale of units revenue (€)	1,035,000	938,400	658,053	
MFU sales revenue (euro thous.)	**1,035**	**938**	**658**	
VILLAS (SFU)				
Phase 1 units selling dynamics	40%	35%	25%	
sold units Phase 1	8	7	4	
unsold units Phase 1	11	4	0	
sold area (sq.m) Phase 1	1,760	1,540	880	
selling net price (€ per sq.m)	1,200	1,224	1,248	
Phase 1 sale of units revenue (€)	2,112,000	1,884,960	1,098,662	
SFU sales revenue (euro thous.)	**2,112**	**1,885**	**1,099**	
Total sales revenue (euro thous.)	**3,147**	**2,823**	**1,757**	
TOTAL				**TOTAL**
MFU sales revenue (euro thous.)	**1,035**	**938**	**658**	**2,631**
SFU sales revenue (euro thous.)	**2,112**	**1,885**	**1,099**	**5,096**
Total sales revenue (euro thous.)	**3,147**	**2,823**	**1,757**	**7,727**
sales commission (% of price)	5%	5%	5%	
Sales commission (euro thous.)	**157**	**141**	**88**	**386**
Write off sold units (euro thous.)	**0**	**5,236**	**1,493**	**6,729**

Scenario 6: Separate calculation of the extension to Prespansko lake area

ROOMS REVENUE

accommodation area

MOUNTAIN RESORT GALIČICA

current prices	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Oteševo												
HOTELS												
operating capacity (units)	337	337	337	337	337	337	337	337	337	337	337	337
operating capacity (beds)	674	674	674	674	674	674	674	674	674	674	674	674
annual unit occupancy	**22.8%**	**30.4%**	**34.2%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**	**38.0%**
average unit rate (ADR, euro)	**55.0**	**57.8**	**60.6**	**63.7**	**64.9**	**66.2**	**67.6**	**68.9**	**70.3**	**71.7**	**73.1**	**74.6**
occupied units	28,045	37,394	42,068	46,742	46,742	46,742	46,742	46,742	46,742	46,742	46,742	46,742
DOF	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
overnights	50,481	67,308	75,722	84,135	84,135	84,135	84,135	84,135	84,135	84,135	84,135	84,135
daily RevPAR (euro)	12.5	17.6	20.7	24.2	24.7	25.2	25.7	26.2	26.7	27.2	27.8	28.3
Rooms revenue (euro thous.)	**1,542**	**2,159**	**2,551**	**2,976**	**3,036**	**3,096**	**3,158**	**3,221**	**3,286**	**3,351**	**3,419**	**3,487**
APARTMENTS (MFU) - unsold units commercial use												
operating capacity (units)	11	0	0									
operating capacity (beds)	44	0	0									
annual unit occupancy	**23.0%**	**25.0%**	**27.0%**									
average unit rate (ADR, euro)	**95.0**	**99.8**	**104.7**									
occupied units	923	0	0									
DOF	2.6	2.6	2.6									
overnights	2,401	0	0									
daily RevPAR (euro)	21.9	24.9	28.3									
Rooms revenue (euro thous.)	**88**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
APARTMENTS (MFU) - sold units commercial use												
operating capacity (units)	34	45	45	45	45	45	45	45	45	45	45	45
operating capacity (beds)	136	180	180	180	180	180	180	180	180	180	180	180
annual unit occupancy	**22.0%**	**24.0%**	**26.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**	**27.0%**
average unit rate (ADR, euro)	**95.0**	**99.8**	**104.7**	**110.0**	**112.2**	**114.4**	**116.7**	**119.0**	**121.4**	**123.8**	**126.3**	**128.9**
occupied units	2,730	3,942	4,271	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435
DOF	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
overnights	7,099	10,249	11,103	11,530	11,530	11,530	11,530	11,530	11,530	11,530	11,530	11,530
daily RevPAR (euro)	20.9	23.9	27.2	29.7	30.3	30.9	31.5	32.1	32.8	33.4	34.1	34.8
Rooms revenue (euro thous.)	**259**	**393**	**447**	**488**	**497**	**507**	**518**	**528**	**538**	**549**	**560**	**571**
TOTAL												
operating capacity (units)	382	382	382	382	382	382	382	382	382	382	382	382
operating capacity (beds)	854	854	854	854	854	854	854	854	854	854	854	854
annual unit occupancy	**22.7%**	**29.6%**	**33.2%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**	**36.7%**
average unit rate (ADR, euro)	**59.6**	**61.8**	**64.7**	**67.7**	**69.0**	**70.4**	**71.8**	**73.3**	**74.7**	**76.2**	**77.7**	**79.3**
occupied units	31,699	41,336	46,338	51,177	51,177	51,177	51,177	51,177	51,177	51,177	51,177	51,177
DOF	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
overnights	59,981	77,558	86,825	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666
daily RevPAR (euro)	13.6	18.3	21.5	24.8	25.3	25.8	26.4	26.9	27.4	28.0	28.5	29.1
Total rooms revenue (euro thous.)	**1,890**	**2,553**	**2,998**	**3,464**	**3,533**	**3,604**	**3,676**	**3,749**	**3,824**	**3,901**	**3,979**	**4,058**

Scenario 6: Separate calculation of the extension to Prespansko lake area

REVENUE PROJECTIONS

accommodation area

MOUNTAIN RESORT GALIČICA

current prices	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Oteševo														
total capacity		382	382	382	382	382	382	382	382	382	382	382	382	
annual unit occupancy		22.7%	29.6%	33.2%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	
occupied units		31,699	41,336	46,338	51,177	51,177	51,177	51,177	51,177	51,177	51,177	51,177	51,177	
overnights		59,981	77,558	86,825	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666	
ADR (euro)		59.6	61.8	64.7	67.7	69.0	70.4	71.8	73.3	74.7	76.2	77.7	79.3	
Rooms revenue (euro thous.)	**0**	**1,890**	**2,553**	**2,998**	**3,464**	**3,533**	**3,604**	**3,676**	**3,749**	**3,824**	**3,901**	**3,979**	**4,058**	*63.1%*
average F&B check per overnight (euro)		12.0	12.6	13.2	13.8	14.3	14.7	15.2	15.6	15.9	16.3	16.6	16.9	
F&B revenue (euro thous.)	**0**	**720**	**977**	**1,149**	**1,316**	**1,369**	**1,410**	**1,452**	**1,496**	**1,526**	**1,556**	**1,587**	**1,619**	*25.2%*
average other revenue per overn. (euro)		5.0	5.3	5.5	5.7	6.0	6.1	6.3	6.5	6.6	6.8	6.9	7.1	
Other operating revenue (euro thous.)	**0**	**300**	**407**	**479**	**548**	**570**	**588**	**605**	**623**	**636**	**648**	**661**	**675**	*10.5%*
rental area (sq.m)		500	500	500	500	500	500	500	500	500	500	500	500	
average monthly rent (euro)		12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.1	14.3	14.6	14.9	
Rental revenue (euro thous.)	**0**	**60**	**61**	**62**	**64**	**65**	**66**	**68**	**69**	**70**	**72**	**73**	**75**	*1.2%*
OPERATING REVENUE (euro thous.)	**0**	**2,969**	**3,998**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	**100.0%**
SALES REVENUE (euro thous.)	**3,147**	**2,823**	**1,757**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
TOTAL REVENUE (euro thous.)	**3,147**	**5,793**	**5,755**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	
TOTAL														
OPERATING REVENUE (euro thous.)	**0**	**2,969**	**3,998**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	**100.0%**
SALES REVENUE (euro thous.)	**3,147**	**2,823**	**1,757**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
TOTAL REVENUE (euro thous.)	**3,147**	**5,793**	**5,755**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	
total units		382	382	382	382	382	382	382	382	382	382	382	382	
annual unit occupancy		22.7%	29.6%	33.2%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	
total overnights		59,981	77,558	86,825	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666	95,666	
operating revenue per unit (euro)		7,773	10,467	12,272	14,116	14,496	14,836	15,185	15,543	15,854	16,171	16,494	16,824	
operating revenue per overnight (euro)		49.5	51.6	54.0	56.4	57.9	59.2	60.6	62.1	63.3	64.6	65.9	67.2	
operating revenue per day (euro)		8,135	10,954	12,844	14,773	15,171	15,527	15,892	16,267	16,592	16,924	17,262	17,608	

Scenario 6: Separate calculation of the extension to Prespansko lake area

EBIT PROJECTIONS

accommodation area

MOUNTAIN RESORT GALIČICA

current prices	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Rooms revenue		1,890	2,553	2,998	3,464	3,533	3,604	3,676	3,749	3,824	3,901	3,979	4,058	63.1%
F&B revenue		720	977	1,149	1,316	1,369	1,410	1,452	1,496	1,526	1,556	1,587	1,619	25.2%
Other operating revenue		300	407	479	548	570	588	605	623	636	648	661	675	10.5%
Rental revenue		60	61	62	64	65	66	68	69	70	72	73	75	1.2%
TOTAL OPERATING REVENUE		**2,969**	**3,998**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	100.0%
Costs of sales		292	396	466	534	555	571	588	606	618	630	643	656	10.2%
Total payroll and related exp.		1,469	1,499	1,529	1,560	1,592	1,625	1,658	1,692	1,726	1,761	1,797	1,834	28.5%
Direct charges		285	386	454	523	538	551	564	578	590	601	613	626	9.7%
Undistributed expenses (incl. energy)		416	560	656	755	775	793	812	831	848	865	882	900	14.0%
Total operating expenses		**2,462**	**2,841**	**3,105**	**3,372**	**3,460**	**3,540**	**3,623**	**3,707**	**3,782**	**3,858**	**3,936**	**4,015**	62.5%
GROSS OPERATING PROFIT		**508**	**1,157**	**1,583**	**2,020**	**2,077**	**2,127**	**2,178**	**2,231**	**2,274**	**2,319**	**2,365**	**2,411**	37.5%
share of GOP in total rev.		*17.1%*	*28.9%*	*33.8%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.6%*	*37.6%*	*37.5%*	*37.5%*	*37.5%*	
Fixed charges (w/o interests and amort.)		24	32	38	43	44	45	46	47	48	49	50	51	0.8%
Guaranted payment to real estate owners		55	84	95	104	106	108	110	112	114	117	119	121	1.9%
TOTAL EXPENSES before operating EBITDA		2,541	2,957	3,238	3,519	3,610	3,693	3,779	3,866	3,945	4,024	4,105	4,188	65.2%
OPERATING EBITDA		**429**	**1,042**	**1,450**	**1,874**	**1,927**	**1,974**	**2,022**	**2,071**	**2,112**	**2,153**	**2,195**	**2,239**	34.8%
share of Operating EBITDA in operating revenue		*14.4%*	*26.1%*	*30.9%*	*34.7%*	*34.8%*	*34.8%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.8%*	*34.8%*	
Sales revenue	3,147	2,823	1,757	0	0	0	0	0	0	0	0	0	0	0.0%
Sales commission	157	141	88	0	0	0	0	0	0	0	0	0	0	0.0%
TOTAL REVENUE	**3,147**	**5,793**	**5,755**	**4,688**	**5,392**	**5,537**	**5,667**	**5,801**	**5,937**	**6,056**	**6,177**	**6,301**	**6,427**	100.0%
TOTAL EXPENSES before EBITDA	157	2,682	3,044	3,238	3,519	3,610	3,693	3,779	3,866	3,945	4,024	4,105	4,188	65.2%
EBITDA	**2,990**	**3,111**	**2,711**	**1,450**	**1,874**	**1,927**	**1,974**	**2,022**	**2,071**	**2,112**	**2,153**	**2,195**	**2,239**	34.8%
share of EBITDA in total rev.	*95.0%*	*53.7%*	*47.1%*	*30.9%*	*34.7%*	*34.8%*	*34.8%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.8%*	*34.8%*	
depreciation and amortization		1,652	1,505	1,415	1,415	1,415	1,415	1,415	1,415	1,415	1,415	1,415	1,415	22.0%
write off sold assets		5,236	1,493	0	0	0	0	0	0	0	0	0	0	0.0%
EBIT	**2,990**	**-3,777**	**-287**	**35**	**458**	**512**	**559**	**606**	**655**	**696**	**738**	**780**	**823**	12.8%
share of EBIT in total rev.	*95.0%*	*-65.2%*	*-5.0%*	*0.7%*	*8.5%*	*9.2%*	*9.9%*	*10.5%*	*11.0%*	*11.5%*	*11.9%*	*12.4%*	*12.8%*	
full equivalent number of employees		152.8	152.8	152.8	152.8	152.8	152.8	152.8	152.8	152.8	152.8	152.8	152.8	
average monthly gross payroll per empl. (euro)		801	817	834	851	868	886	904	923	941	961	980	1,000	
units		382	382	382	382	382	382	382	382	382	382	382	382	
average number of employees per unit		0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	

Consolidated ski/mountain and accommodation operating performance of the extension to the Prespansko lake area is given in the following tables.

Scenario 6: Separate calculation of the extension to Prespansko lake area

PROFIT AND LOSS PROJECTIONS

MOUNTAIN RESORT GALIČICA

current prices	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12	% year 12
Ski/Mountain operations		358	501	592	653	683	710	738	767	803	831	860	891	12.2%
Accommodation area		2,969	3,998	4,688	5,392	5,537	5,667	5,801	5,937	6,056	6,177	6,301	6,427	87.8%
TOTAL OPERATING REVENUE	**0**	**3,327**	**4,500**	**5,280**	**6,046**	**6,220**	**6,377**	**6,539**	**6,705**	**6,859**	**7,008**	**7,161**	**7,318**	100.0%
Costs of sales		336	459	539	615	639	658	678	698	712	726	741	755	10.3%
Total payroll and related exp.		1,598	1,691	1,725	1,761	1,796	1,833	1,871	1,909	1,948	1,987	2,028	2,069	28.3%
Direct charges		333	453	533	610	629	646	664	682	698	714	731	748	10.2%
Undistributed expenses (incl. energy)		460	622	730	836	860	881	918	942	963	984	1,006	1,028	14.0%
Total operating expenses	**0**	**2,728**	**3,224**	**3,527**	**3,821**	**3,924**	**4,019**	**4,130**	**4,230**	**4,321**	**4,412**	**4,506**	**4,601**	62.9%
GROSS OPERATING PROFIT	**0**	**600**	**1,275**	**1,753**	**2,225**	**2,296**	**2,359**	**2,409**	**2,475**	**2,538**	**2,596**	**2,655**	**2,717**	37.1%
share of GOP in total rev.	*0.0%*	*18.0%*	*28.3%*	*33.2%*	*36.8%*	*36.9%*	*37.0%*	*36.8%*	*36.9%*	*37.0%*	*37.0%*	*37.1%*	*37.1%*	
Fixed charges (w/o interests and amort.)		27	36	42	48	50	51	52	54	55	56	57	59	0.8%
Guaranted payment to real estate owners		55	84	95	104	106	108	110	112	114	117	119	121	1.7%
TOTAL EXPENSES before operating EBITDA		2,809	3,344	3,665	3,973	4,080	4,177	4,292	4,396	4,490	4,585	4,682	4,781	65.3%
OPERATING EBITDA	**0**	**518**	**1,156**	**1,615**	**2,073**	**2,141**	**2,200**	**2,246**	**2,309**	**2,368**	**2,423**	**2,479**	**2,537**	34.7%
share of Operating EBITDA in operating rev.	*0.0%*	*15.6%*	*25.7%*	*30.6%*	*34.3%*	*34.4%*	*34.5%*	*34.4%*	*34.4%*	*34.5%*	*34.6%*	*34.6%*	*34.7%*	
Sales revenue	3,147	2,823	1,757	0	0	0	0	0	0	0	0	0	0	0.0%
Sales commission	157	141	88	0	0	0	0	0	0	0	0	0	0	0.0%
TOTAL REVENUE	**3,147**	**6,151**	**6,256**	**5,280**	**6,046**	**6,220**	**6,377**	**6,539**	**6,705**	**6,859**	**7,008**	**7,161**	**7,318**	100.0%
TOTAL EXPENSES before operating EBITDA	157	2,951	3,432	3,665	3,973	4,080	4,177	4,292	4,396	4,490	4,585	4,682	4,781	65.3%
EBITDA	**2,990**	**3,200**	**2,824**	**1,615**	**2,073**	**2,141**	**2,200**	**2,246**	**2,309**	**2,368**	**2,423**	**2,479**	**2,537**	34.7%
share of EBITDA in total rev.	*95.0%*	*52.0%*	*45.1%*	*30.6%*	*34.3%*	*34.4%*	*34.5%*	*34.4%*	*34.4%*	*34.5%*	*34.6%*	*34.6%*	*34.7%*	
depreciation and amortization	0	2,076	1,929	1,839	1,839	1,839	1,839	1,839	1,839	1,839	1,839	1,839	1,839	25.1%
write off sold assets	0	5,236	1,493	0	0	0	0	0	0	0	0	0	0	0.0%
EBIT	**2,990**	**-4,112**	**-597**	**-224**	**233**	**301**	**361**	**407**	**469**	**529**	**584**	**640**	**697**	9.5%
share of EBIT in total rev.	*95.0%*	*-66.8%*	*-9.5%*	*-4.2%*	*3.9%*	*4.8%*	*5.7%*	*6.2%*	*7.0%*	*7.7%*	*8.3%*	*8.9%*	*9.5%*	
interests and bank charges	1,981	1,227	1,129	1,031	932	834	736	638	540	442	344	245	147	2.0%
GROSS PROFIT	**1,009**	**-5,339**	**-1,726**	**-1,255**	**-699**	**-533**	**-376**	**-231**	**-70**	**87**	**240**	**394**	**550**	7.5%
profit tax	101	0	0	0	0	0	0	0	0	0	0	42	55	0.8%
NET PROFIT	**908**	**-5,339**	**-1,726**	**-1,255**	**-699**	**-533**	**-376**	**-231**	**-70**	**87**	**240**	**352**	**495**	6.8%
share of NOP in total rev.	*28.9%*	*-86.8%*	*-27.6%*	*-23.8%*	*-11.6%*	*-8.6%*	*-5.9%*	*-3.5%*	*-1.1%*	*1.3%*	*3.4%*	*4.9%*	*6.8%*	

Scenario 6: Separate calculation of the extension to Prespansko lake area

KEY OPERATING INDICATORS
MOUNTAIN RESORT GALIČICA

current prices	total/average for 12 years operating period	
Operating revenue in euro thous.	73,340	PROFIT-ABILITY
GOP share in total operating revenue	35.3%	
Total revenue in euro thous.	81,067	
EBITDA share in total operating revenue	38.7%	
Net profit share in total revenue	-10.0%	

From the presented operating performance it is visible that the profitability level of this part of the resort is satisfactory (35% of GOP in revenue and 39% of EBITDA in revenue). Because of the high investment and related financing obligations, the Prespansko development creates negative accounting results (losses) in the first 8 years of operation. We have calculated the loss carry forward until year 11.

FINANCIAL EVALUATION

For the projected operating result of the Prespansko extension, the investment viability ratios are:

Scenario 6: Separate calculation of the extension to Prespansko lake area

KEY FINANCIAL INDICATORS
MOUNTAIN RESORT GALIČICA

current prices in euro thous.	total/average for 12 years operating period	
Total investment	46.126	INVESTMENT VIABILITY
Total equity amount	28.598	
out of which:		
investors' capital	28.598	
part of presales funds	0	
Loan amounts	17.528	
IRR	3,2%	
Return on investment	in 18th year	
Return on equity	in 23rd year	
current prices	**total/average for 12 years operating period**	
Cumulated cash flow in euro thous. at the end of period	3.454	LIQUIDITY

This part of the Project, when looking as the separate one, gives very low financial indicators. It will not have any problems with the liquidity under the assumed preconditions. This gives the conclusion that, by itself, the development of the extension to the Prespansko lake area is not feasible.

Detailed financial evaluation tables are given below.

Scenario 6: Separate calculation of the extension to Prespansko lake area

CASH FLOW PROJECTION

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
EBITDA	2,990	3,200	2,824	1,615	2,073	2,141	2,200	2,246	2,309	2,368	2,423	2,479	2,537
- profit tax	-101	0	0	0	0	0	0	0	0	0	0	-42	-55
- investments	-46,126	0	0	0	0	0	0	0	0	0	0	0	0
Annual cash flow before financing activities	**-43,237**	**3,200**	**2,824**	**1,615**	**2,073**	**2,141**	**2,200**	**2,246**	**2,309**	**2,368**	**2,423**	**2,437**	**2,482**
+ investor's capital	28,598	0	0	0	0	0	0	0	0	0	0	0	0
+ loan inflows	17,528	0	0	0	0	0	0	0	0	0	0	0	0
- interests and bank charges	-1,981	-1,227	-1,129	-1,031	-932	-834	-736	-638	-540	-442	-344	-245	-147
- principal	0	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-1,402	-2,103
CASH FLOW	**908**	**571**	**293**	**-817**	**-262**	**-96**	**62**	**206**	**367**	**524**	**677**	**790**	**231**
CUMULATED CASH FLOW	**908**	**1,479**	**1,772**	**955**	**693**	**597**	**659**	**865**	**1,231**	**1,756**	**2,433**	**3,222**	**3,454**

Scenario 6: Separate calculation of the extension to Prespansko lake area

IRR CALCULATION

IRR = 3,2%

MOUNTAIN RESORT GALIČICA

current prices in euro thous.	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
NOPLAT	2.691	-4.112	-597	-224	233	301	361	407	469	529	584	576	628
+ depreciation and amortizatior	0	2.076	1.929	1.839	1.839	1.839	1.839	1.839	1.839	1.839	1.839	1.839	1.839
+ write off sold assets	0	5.236	1.493	0	0	0	0	0	0	0	0	0	0
GROSS CASH FLOW	**2.691**	**3.200**	**2.824**	**1.615**	**2.073**	**2.141**	**2.200**	**2.246**	**2.309**	**2.368**	**2.423**	**2.415**	**2.467**
- investments	-46.126	0	0	0	0	0	0	0	0	0	0	0	0
OPERATING FREE CASH FLOW	**-43.435**	**3.200**	**2.824**	**1.615**	**2.073**	**2.141**	**2.200**	**2.246**	**2.309**	**2.368**	**2.423**	**2.415**	**2.467**
residual value													29.562
TOTAL	**-43.435**	**3.200**	**2.824**	**1.615**	**2.073**	**2.141**	**2.200**	**2.246**	**2.309**	**2.368**	**2.423**	**2.415**	**32.029**

Scenario 6: Separate calculation of the extension to Prespansko lake area

RETURN ON INVESTMENT (ROI) AND RETURN ON EQUITY (ROE)

MOUNTAIN RESORT GALIČICA

current prices	INVEST. at least 2 years	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
ROI	6.3%	6.9%	6.1%	3.5%	4.5%	4.6%	4.8%	4.9%	5.0%	5.1%	5.3%	5.3%	5.4%
Cumulated ROI	**6.3%**	**13.2%**	**19.3%**	**22.8%**	**27.3%**	**32.0%**	**36.7%**	**41.6%**	**46.6%**	**51.7%**	**57.0%**	**62.3%**	**67.7%**
annual ROI amount (thous. euro)	2,889	3,200	2,824	1,615	2,073	2,141	2,200	2,246	2,309	2,368	2,423	2,437	2,482
cumulated ROI amount (thous. euro	2,889	6,089	8,913	10,529	12,601	14,742	16,942	19,188	21,497	23,866	26,288	28,726	31,207
ROE	2.0%	4.3%	3.7%	1.3%	2.5%	2.8%	3.2%	3.5%	3.8%	4.2%	4.5%	4.8%	5.1%
Cumulated ROE	**2.0%**	**6.2%**	**9.9%**	**11.2%**	**13.7%**	**16.5%**	**19.7%**	**23.2%**	**27.0%**	**31.2%**	**35.7%**	**40.4%**	**45.5%**
annual ROE amount (thous. euro)	563	1,223	1,051	363	707	810	908	997	1,097	1,194	1,289	1,359	1,447
cumulated ROE amount (thous. eurc	563	1,786	2,838	3,200	3,907	4,717	5,625	6,622	7,719	8,913	10,202	11,561	13,009

6.5 ECONOMY EFFECTS

Based on our experience, the Mountain Resort Galičica will create more effects on the economy of the region. Since it relies also on the existing accommodation properties in Ohrid area, it will create additional tourism overnights and related to that more tourist expenditures than today. Besides the created tourism revenues, it will have economic and social impact related to the new additional employment in the area as well as creating economic added value through payroll and profit generation.

These economic effects mostly rely on the existing tourism businesses in the area that are currently performing on very low levels (if are opened at all) during winter season. Primarily we have in mind accommodation capacities that include more than 5,000 beds in Ohrid area. It has to be understood that even if only each hotel bed would get 10 days of operation (on average) on the account of this project, it would amount to 50-60 thousand additional overnights. With current level of prices it would yield 1 to 1.5 million euro additional revenue. However, it is our estimation that these effects can be substantially higher.

In the table below we have presented the potential side economy effects of the Galičica Mountain Resort on the surrounding area in the expected period of its creation (as of the second year of the resort operation). The table does not include the properties within the Galičica Mountain Resort.

ECONOMY EFFECTS
MOUNTAIN RESORT GALIČICA

current prices	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
EXISTING HOTELS											
Additional employment	38	64	96	128	141	155	170	179	188	197	207
Additional overnights	60,000	100,000	150,000	200,000	220,000	242,000	266,200	279,510	293,486	308,160	323,568
Direct expenditures per overnight (€)	39	40	42	45	47	49	52	54	57	60	63
Direct revenue (euro thous.)	2,310	4,043	6,367	8,914	10,295	11,891	13,734	15,142	16,694	18,405	20,292
Payroll (euro thous.)	508	889	1,401	1,961	2,265	2,616	3,022	3,331	3,673	4,049	4,464
GOP (euro thous.)	809	1,415	2,228	3,120	3,603	4,162	4,807	5,300	5,843	6,442	7,102
EXTRA SERVICES											
Additional employment	12	20	30	40	44	48	53	56	59	62	65
Additional expenditures per overn. (€)	21	22	23	24	26	27	28	30	31	33	34
Additional revenue (euro thous.)	1,260	2,205	3,473	4,862	5,616	6,486	7,491	8,259	9,106	10,039	11,068
Payroll (euro thous.)	189	331	521	729	842	973	1,124	1,239	1,366	1,506	1,660
GOP (euro thous.)	378	662	1,042	1,459	1,685	1,946	2,247	2,478	2,732	3,012	3,320
TOTAL											
Total additional employment	50	84	126	168	185	203	224	235	247	259	272
Total revenue (euro thous.)	3,570	6,248	9,840	13,776	15,911	18,377	21,226	23,401	25,800	28,444	31,360
Payroll (euro thous.)	697	1,220	1,922	2,690	3,107	3,589	4,145	4,570	5,039	5,555	6,124
GOP (euro thous.)	1,187	2,076	3,270	4,578	5,288	6,108	7,054	7,777	8,575	9,454	10,423

CHAPTER 7

Conclusion and recommendations

Horwath HTL

Hotel, Tourism and Leisure

7 CONCLUSION AND RECOMMENDATIONS

Galičica mountain resort is a project that has the following main goals:

- Develop valuable national park area and provide mountain resort facilities, primarily for local and regional market (SW of Macedonia), but also with international attractiveness in a long term;
- Enhance tourism value chain of wider Ohrid area and enable existing tourist capacities better performance in terms of seasonality and price.

Resort Master plan includes construction of the following key components:

- Sky system with approximate capacity of 3.000 SCC on 49ha of ski pistes, serviced by an access gondola, 2 chair lifts and 3 moving carpets;
- Main access to ski resort via gondola (Lift 1) from Ohrid lakeside;
- 3.906 accommodation beds in hotels, apartments and villas in lakeside Gradište and mountain Upper Peštani locations;
- Parking structure for approximately 1.000 vehicles in Upper Peštani;
- Optional addendum of the ski system to Oteševo (Prespa lake side of the national park) serviced by additional access gondola (lift 5) and 968 beds on 5ha base area, dominantly in hotels;
- Additional F&B outlets, commercial space, mountain lodge and other facilities.

First phase of the resort development that could potentially be finished within three years of the project implementation start includes:

- Lifts 1 and 2 and three magic carpets with initial SCC of 860;
- Full development of Gradište lakeside location with 500 accommodation units (resort hotel of 200 keys and 300 apartments);
- Initial 33 single family units (villas) in Upper Peštani, serving as a resort image maker.

Managing resort development and operations is one of the key issues to be resolved within the initial phase of Master plan implementation with the following key conclusions and recommendations:

- Project's attractiveness is seriously enhanced by the readiness of the Client and Macedonian government to provide all of the land needed for development for free;

- However, due to the complex nature of mountain resort development, it is inevitable for Macedonian public sector to act as a project manager, not only until a deal with investor/developer is done, but during the initial construction as well, due to infrastructural and administration issues;
- It is advised to found a public company with the role of being a responsible development company towards Macedonian Government and in the same time a partner for future investor/developer.
- Regarding management of operations, basic options for the investor/developer are to build own management company, or to hire international operator for each or both;
- Current practices in region show that finding accommodation operator will be far more probable, whereas ski operations could be resolved by building own management company through hiring international professionals.

Financial evaluation of the first development phase and total master plan development shows that:

- Project has a solid ROI in approximately 9-10 years with IRR exceeding 15% in most of the examined scenarios;
- Such a performance makes it very attractive for the investment market;
- However, project is complex and deal structuring and negotiating process will be serious work with lots of professional expertise required, making additional point in founding Development company in charge to implement a Master plan;
- Investor's preference or the structure of consortium will have large impact on the management model that can thus vary significantly on the future partner, while this can also affect Master plan content and phasing.

Evaluation of the Client's suggestion to connect ski area with Prespansko lake side has shown the following:

- There are no grounds that this rather expensive addendum (more than 16 mio. EUR only for the gondola) can make any significant positive effect on the resort revenues;
- With the addendum of full development of parcel 23 in Oteševo (5ha) with nearly 1,000 accommodation beds, total investment increases to 46 mio. EUR, but IRR can hardly exceed 3% that makes this project addendum unattractive for the investment market;
- Even in case that gondola is built for the purpose of development of the subject area (lake Prespa), current condition of lake Prespa shore is such that this project addendum alone will not be sufficient to underpin development;

- If considered as a standalone project, such a gondola would be capacity wise sensible in case when lake Prespa would be a destination with at least 5.000 beds, and development plan for such a destination is too comprehensive and thus out of the scope of this project;
- Therefore, we don't advise the construction of such gondola (lift 5) within the project, but the same can be considered if and when other development initiatives appear on the Prespa lakeside ensuring meeting the above criteria on economy of scale.

