

12th May 2008

SPARTAK doo

Project Skočić Djevojka, Montenegro: Market and Financial Feasibility Study

Final Report

CLIENT:

SPARTAK DOO

Bulevar Svetog Petra Cetinskog 141,
81 000 Podgorica, MONTENEGRO

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SPARTAK d.o.o.

Bulevar Svetog Petra Cetinjskog 141,
81 000 Podgorica
MONTENEGRO

May 12th 2008

Ref: Market and Financial Feasibility Study for Skočić Djevojka Project

Dear Sirs,

Market and Financial Feasibility Study for Skočić Djevojka Project has been prepared pursuant to our contract with "Spartak" d.o.o. signed on February 7th 2008, and pursuant to the Draft Report - Market and Financial Feasibility Study for Skočić Djevojka submitted to the Client on 25th of March 2008.

During the course of producing Draft Report we have developed our own project development assumptions such as land use proposal, investment dynamics, business model, residence sale proposal, which are based on our extensive in-depth experience in producing and developing such a reports. These inputs have been amended according to Client request.

Final Report has been amended compared to the Draft version according to the investor's inputs in following areas:

- Clients inputs related to the investments sum
- Clients inputs related to the investment dynamics
- Clients inputs related to applicable LUF¹ of 1,3 of net sellable area
- Clients inputs related to the sale strategy and pricing of hotel and residences
- Clients inputs related to the financial model
- Clients inputs related to the financing structure
- Client's inputs related to the exit strategy.

This Report includes all the market and financial analyses necessary to evaluate market and business potential, as well as the feasibility of the Project, based on the above inputs.

In order to make the relevant conclusions, in the period February-March 2008 we carried out in-depth analysis of hotel and residential market in Montenegro and in the Adriatic region. Any possible change in market conditions could affect the accuracy of the estimations included in this Report. In accordance with our engagement letter, our report is dated to coincide with the last date of fieldwork. We have no obligation to update our findings and conclusions for changes in market conditions, which occur subsequent to our fieldwork.

¹ LUF - Land use factor

Furthermore, since in accordance with our contract we are not able to make influence on future management effectiveness and management of the entire project development process, we could not be responsible for future sales and marketing efforts and management actions upon which actual results of the project will depend. All projections have been made on basis of internationally normalized management performance of such high-end products and establishment of efficient sales and marketing system.

According to the information provided by Investor, Horwath assumes that there is a full compliance of the Project with all applicable local and national laws and regulations as of the date of the Report, as well as no limitations will occur in future, that could affect the reliability of our projections. Furthermore, you have represented to us that you have provided us with all key information relevant to the project and that you know of no hidden conditions affecting the subject property, which could influence the accuracy of projections and conclusions included in this Report.

This Report is for your internal purposes and for submission to strategic partners and creditors of the project. It is not intended for use in any financing documentation involving a public offering of securities. Any use of the Report or work product 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 Consulting Zagreb. Reproducing or copying of this Report may not be done without our prior consent.

Horwath Consulting Zagreb is only responsible for actual knowledge based on information available during the course of this assignment, and is not responsible for implied knowledge of any type, sort, or thing relative to this project.

It has been pleasure to work with you on this assignment. We hope there will be the opportunity to continuing our working relationship and to be of service to you again in the future.

Best regards,



Ružica Herceg
Project Manager / Partner
Horwath Consulting Zagreb

A member of Horwath HTL



Dr. Sanja Čizmar
Managing Director
Horwath Consulting Zagreb

A member of Horwath HTL

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1. ASSIGNMENT AND PROCEDURES

1.1. Assignment

MENA Investment Holding is the owner of the site located on Budva riviera - Skočidevojka site (6.6 ha). The investor is currently in the process of site development, aiming to develop the international first class mixed-use resort consisting of hotels, villas, condos and other facilities.

MENA Investment Holding, through its SPV Spartak d.o.o. (the Client), an investor and project developer of Skoči Đevojka project, has appointed Horwath Consulting Zagreb, a member of Horwath HTL, to prepare the Market and financial feasibility study for the Skoči Đevojka project.

The purpose of this study is:

- to evaluate supply and demand factors affecting the tourist and upscale hotel and resort market and to assess a future position of the project in the market,
- to evaluate feasibility of the project on the basis of a resort concept and investment cost, by using standard international methodology.

This study addresses investors and creditors of the project.

1.2. Procedures

In order to produce this report Horwath HTL has applied standard international consulting procedures to conduct all relevant steps of researches, analyses and evaluations which are in accordance to the international standard procedures in performing a market and financial pre-feasibility study.

Our approach was as follows:

- Use of extensive intelligence and statistical databases of Horwath HTL / Horwath Consulting Zagreb on the tourism market in Montenegro and Budva Riviera
- Analysis of available statistical data and business information from public sources on economic and market environment in Montenegro and Budva Riviera
- Inspection visit to Budva Riviera and Skoči Đevojka site
- Interviews with management of best hotels on Budva Riviera and in Montenegro
- Interviews with top real-estate agents operating today in Montenegro and Budva Riviera

- The tourism market, both on regional and local level, has been reviewed in order to identify market trends that may have an impact on future demand of residential market in Budva Riviera
- Interviews and workshop with the Client's architects team
- Interview with the Executive Director of Spartak d.o.o. on the investors objectives and vision
- We have performed extensive desk research and conducted a number of interviews about existing and proposed competition as well of benchmark projects in this product category, both in Montenegro and in Adriatic region
- The Client has provided the information on land investment cost, as well as financing model with all the financing terms.
- We have estimated investment volume based on the investment benchmark and site specifics
- Statements of projected profit and loss and financial projections have been prepared and presented in the management-reporting format (Uniform System of Accounts for the Lodging Industry) adjusted to the specific needs and requirements of the subject project
- Financial and economical evaluation of the project is based on standard procedures used in evaluations of hotel investment projects such as the evaluation of liquidity, internal rate of return and return on investment.

The Draft Report has been completed at the end of March 2008, and Final Report has been completed at the beginning of May 2008.

2. EXECUTIVE SUMMARY

LOCATION



Skoči Devojka site is situated in Budvanska Riviera in the picturesque place Reževići. The site contains approximately 66.000 m² divided in two not adjacent plots. The upper site, with 15.000 m², close to the coastal road and lower plot with 51.000 m², next to the sea on top of 40 meters high cliff. Distance between two plots is approximately 100 m. The site section show from flat to light hilly configuration (light elevation) in upper parts and steep cliff at the sea edge. Until recently, the whole area was used by military.

THE PROJECT

According to the Clients inputs, the entire resort will encompass two different products.

- ☞ **The Hotel**, which should be **branded** by an upscale international hotel operator.
- ☞ **Residences** as Holiday resort, which will be sold at the real estate market.

The upper part of the site is going to be developed as a residential area, whilst the lower part of the site will accommodate luxury villas with an exclusive view, five star branded hotel and residences.

Products of Skočić Đevojka resort should follow its market positioning, therefore offering high quality residences in an exceptional location.

The Investors' intention and a strategy are to focus on development of residences, which are going to be sold at the real-estate market and to sell hotel land and a hotel project as at the market.

LAND USE

Physical and functional integration of project components such as interconnections of pathways and roads, pedestrian circulation, positioning of different resort uses is very important element in the resort success. In order to achieve desired synergies resort, master planning is one of the critical elements for successful mixed use project.

In order to evaluate the viability of the project we have used investors inputs related to the possible land uses

<i>Segment</i>	<i>Net Sellable Area m²</i>
Villas	7.000
Apartments	41.500
Commercial	10.192
Hotel Land	12.000
	70.692

**Note: Inputs provided by MENA INVESTMENT, 23 April 2008*

INVESTMENT

INVESTMENT COSTS

SKOČIĐEVOJKA - RESIDENCES AND OTHER

Description	EUR	%	INVESTMENT DYNAMICS			
			2008	2009	2010	2011
Land costs	41.732.460	27,2%	41.732.460			
Construction	86.934.059	56,7%	0	30.426.921	34.773.624	21.733.515
Studies and Supervision	2.503.948	1,6%	1.001.579	500.790	625.987	375.592
Sales & Marketing	13.812.036	9,0%	4.834.213	3.453.009	3.453.009	2.071.805
Interest expense	2.887.500	1,9%				2.887.500
Contingencies	4.971.959	3,2%				4.971.959
Other	400.000	0,3%				400.000
TOTAL INVESTMENT	153.241.962	100%	47.568.252	34.380.719	38.852.620	32.440.371

**Note: Inputs of Investment costs provided by MENA INVESTMENT, 05 May 2008*

Envisaged period of project preparation (master planning, obtaining all permits, construction) is 3 years (mid of 2008 - mid of 2011). Project is scheduled for completion in August 2011.

SOURCES OF FINANCING

PROJECT FINANCING

SKOČIĐEVOJKA - RESIDENCES AND OTHER

	EUR	%
Equity	25.125.000	16,4%
Pre-sale	115.117.000	75,1%
Loan	12.999.962	8,5%
TOTAL INVESTMENT	153.241.962	100,0%

**Note: Inputs of Project financing provided by MENA INVESTMENT, 23 April 2008*

FINANCIAL PROJECTIONS OF THE PROJECT

SALE OF RESIDENCES AND OTHER AREA

SKOČIĐEVOJKA	APARTMENTS	VILLAS	HOTEL LAND	COMMERCIAL	in constant prices
Total sellable area (sq.m)*	41.500	7.000	12.000	10.192	
Net sales price per sq.m. (EUR)	4.300	5.000	850	5.160	
	2008	2009	2010	2011	total
% of sold area in year	15,0%	25,0%	35,0%	25,0%	100,0%
APARTMENTS					
Sold area in year (sq.m.)	6.225	10.375	14.525	10.375	41.500
Revenue from sale of units (EUR)	26.767.500	44.612.500	62.457.500	44.612.500	178.450.000
REVENUES FROM SALE (EUR)	26.767.500	44.612.500	62.457.500	44.612.500	
VILLAS					
Sold area in year (sq.m.)	1.050	1.750	2.450	1.750	7.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	35.000.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	
HOTEL LAND					
Sold area in year (sq.m.)		12.000			12.000
Revenue from sale of units (EUR)	0	10.200.000	0	0	10.200.000
REVENUES FROM SALE (EUR)	0	10.200.000	0	0	
COMMERCIAL					
Sold area in year (sq.m.)	1.529	2.548	3.567	2.548	10.192
Revenue from sale (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	52.590.720
REVENUES FROM SALE (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	
TOTAL					
Sold area in year (sq.m.)	8.804	26.673	20.542	14.673	70.692
Revenue from sale of units (EUR)	39.906.108	76.710.180	93.114.252	66.510.180	276.240.720
REVENUES FROM SALE (EUR)	39.906.108	76.710.180	93.114.252	66.510.180	
Book value of sold areas (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	128.666.519
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	

**Note: Inputs of Net sellable area provided by MENA INVESTMENT, 23 April 2008*

PROFIT AND LOSS PROJECTIONS

SKOČIĐEVOJKA - RESIDENCES AND OTHER

in current prices

EUR	2008	2009	2010	2011
REVENUES FROM SALE (EUR)	39.906.108	76.710.180	93.114.252	66.510.180
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630
Administration payroll and related expenses	108.000	111.240	114.577	118.015
EARNINGS BEFORE INTERESTS AND TAXES				
EBIT	20.498.130	44.432.310	47.966.393	34.225.536
INTERESTS				
Total interests	0	0	0	1.299.996
PROFIT BEFORE PROFIT TAX / LOSS				
Profit before profit tax / Loss	20.498.130	44.432.310	47.966.393	32.925.540
NET PROFIT				
Profit tax	1.844.832	3.998.908	4.316.975	2.963.299
Net profit / Loss	18.653.298	40.433.402	43.649.418	29.962.241

FINANCIAL EVALUATION OF THE PROJECT

Under the analysed assumptions, economic and financial evaluation of the project has pointed out that Skočī Đevojka shows high level of feasibility.

Internal rate of return: 411% (based on the period from 2008-2011)

Return of investment: in 2010

Return of equity: in 2010

CASH FLOW

in current prices

EUR

SKOČIĐEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
Net profit	18.653.298	40.433.402	43.649.418	29.962.241
+ book value of sold assets	19.299.978	32.166.630	45.033.282	32.166.630
+ loan inflows	10.471.419	2.528.543	0	0
+ equity	25.125.000	0	0	0
- capital expenditures	-47.568.252	-34.380.719	-38.852.620	-32.440.371
- principal	0	0	0	-12.999.962
CASH FLOW	25.981.444	40.747.855	49.830.080	16.688.537
CUMULATED CASH FLOW	25.981.444	66.729.299	116.559.379	133.247.917

in current prices

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

SKOČIĐEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
ROI	24,8%	47,4%	57,9%	41,4%
Cumulated ROI	24,8%	72,1%	130,0%	171,4%
ROE	24,8%	47,4%	57,9%	40,5%
Cumulated ROE	24,8%	72,1%	130,0%	170,6%

3. GENERIC ANALYSES - MONTENEGRO

3.1. Republic of Montenegro - General info

	<p>MONTENEGRO</p>	
<p>Official name: Geographic position: Geographic coordinates: Capital: Surface: Population Climate: Seacoast: Currency: Official language: Time Zone: Independence:</p>	<p>Republic of Montenegro South East Europe 42 30 N, 19 18 E Podgorica 13,812 km² 620,145 (census 2003) Mediterranean and continental 293,5 km Euro Serbian (Ijekavian dialect) West European (GMT + 01.00) 3 June 2006 (from Serbia and Montenegro)</p>	

3.1.1. Geography

Republic of Montenegro is situated in the Mediterranean region of the Balkans peninsula, South East Europe, occupying an area of 13,812 square kilometres.

The total length of land boundaries of Montenegro is 614 km. It borders Serbia on the northeast (203 km), Bosnia and Herzegovina on the northwest (225 km), Croatia on the west (14 km), Albania on the southeast (172 km) and has a coast on the Adriatic Sea to the south. The coastline is 293,5 km long.

The area of Montenegro is divided into three regions according to their geographic characteristics: southern, central and northern. The northern and central regions are predominantly covered by hills



and mountains, while southern region is a coastal region with 117 beaches. The total length of beaches is 73 kilometres, out of which 33 kilometres are sand beaches.

Montenegro has four national parks: Durmitor (390 km²), Lovcen (62,2 km²), Biogradska Gora (56,5 km²) and Lake Scutari (400 km²).²

Montenegro is situated in the western European time zone (GMT + 1 hour).

3.1.2. Climate

The climate in Montenegro is Mediterranean and continental.

Southern part of Montenegro and Zetsko - Bjelopavlicka Valley have Mediterranean climate which is characterized by long, hot and dry summers and relatively mild and rainy winters. The town with the highest average monthly temperatures during summer and with largest average number of tropical days is Podgorica.³ At the seaside, duration of insolation is 2,750 hours in average that is 115 days.

Central and Northern part of Montenegro has certain characteristics of mountain climate. The influence of the Mediterranean Sea is significant, which is reflected in precipitation regime and higher average temperature of the coldest month. The lowest average annual temperature is in Zabljak (on Mountain Durmitor, 1,465 meters above sea level). Montenegro's mountainous regions receive some of the highest amounts of rainfall in Europe. Annual precipitation in Crkvice, in the Karst region above the Gulf of Kotor, is 4,928 millimetres. Precipitation occurs principally during periods of cold weather.

The ultimate north of Montenegro has continental climate, characterized by large daily and annual variations in temperature and small annual quantity of precipitation.

The average annual temperature of major towns in Montenegro is presented in the table below:

Temperature, °C	January	July	Average annual temperature
Podgorica	4.8	27.5	15.9
Bar	8.1	25.4	16.6
Herceg Novi	7.8	25.5	16.3
Pljevlja	-2.3	19.2	8.8
Bijelo Polje	-1	19.6	9.7

Source: Monstat, Statistical office of Republic of Montenegro

3.1.3. Environment Issues

With the aim to protect the environment to the highest level, the National Assembly of Montenegro declared it an “ecological state”. Since 1991, the Government adopted a significant number of laws and regulations related to the environment. In 2001, the Government adopted the Development Directions for Montenegro that is giving a long-term strategic direction that considers environmental, economic and social aspects of development.

² The proclamation of the fifth national park, Prokletije region, is expected by the end of 2007.

³ Source: Hydrological and meteorological service of the Montenegro

The Government of Montenegro is aware of the strong connection between environment protection and tourism development. Preserved environment is one of the KSF (Key Success Factors) in achieving long-term sustainability in tourism development. That is why tourism development and environment protection are embedded in the same governmental institution - Ministry of Tourism and Environmental Protection. The Government is currently in the process of establishing EPA, Agency for Environmental Protection, which will be the key executive agency in implementing policies and legislation related to the environment.

3.1.4. Population

Republic of Montenegro is divided into twenty one municipality. The administrative capital is Podgorica (180,000 inhabitants), while historical capital city is Cetinje. The other larger cities are: Niksic (104,706 inhabitants), Pljevlja (44,593 inhabitants), Bijelo Polje (55,628 inhabitants), Herceg Novi (30,593 inhabitants, including Igalo), Berane (49,953 inhabitants), Cetinje, (20,307 inhab.), etc.

According to the last population census in 2003, Montenegro has 620,145 inhabitants which is 44,9 inhabitants per square meter.⁴ Some estimation suggests that the number of inhabitants has increased to 684,736 in 2007.

Ethnic composition is heterogeneous. The majority nation is Montenegrins (43.16%). Other relevant national minorities are Serbs (31.99%), Bosniaks (7.77%), Muslims (3.97%), Croats (1.1%), Roma (0.42%), Yugoslavs (0.3%), Macedonians (0.13%), etc.

The main religions (2003 census) are: Orthodox 74%, Muslim 18%, Roman Catholic 4%, etc.

The official language is Serbian language, of the ijekavian dialect, but there is a political movement toward using Latin alphabet as the formal one and calling Montenegrin language the official language of the country.

MUNICIPALITIES IN MONTENEGRO



3.1.5. History

During the Roman Empire, the territory of Montenegro was known as Duklja. Duklja became one of the first independent states in the Balkans in 1040 and was proclaimed Kingdom. The major periods in Montenegro's history were:

- The period of Duklja (Doclea), under the first Montenegrin dynasty, the Vojislavljevic;
- Zeta (Duklja) under the second Montenegrin dynasty, the Balsic (1356-1427);



Petar II Petrović Njegoš

⁴ Source: Monstat, Statistical office of Montenegro

- Zeta (Montenegro) under the third Montenegrin dynasty, the Crnojević (1427-1516);
- Montenegro under the Vladikas (Bishops), (1516-1697); <http://www.montenet.org/history/njegosbg.gif>
- Montenegro under the Vladikas from the Petrović dynasty (1697-1918): Danilo Petrović, the founder of the Petrović dynasty (1697-1735), Sava Petrović (1735-1782) and Vasilije Petrović (1750-1766) as an associate of Sava Petrović, Petar I Petrović (St. Peter of Cetinje), (1782-1830), Petar II Petrović Njegoš (1830-1851), Prince Danilo (1852-1860), King Nikola I (1860-1918).

In 1918, Montenegro came into union with the Kingdom of Serbia. After World War II, in 1945, Montenegro became a constituent republic of Socialist Federal Republic of Yugoslavia, until the dissolution of Yugoslavia, in 1992.

3.2. Political Background

After dissolution of the Socialist Federal Republic of Yugoslavia in 1992, the Republic of Montenegro remained a constituent part of the Federal Republic of Yugoslavia, along with the Republic of Serbia. The two republics searched for their own way in the transition process and EU integration process, resulting in their different customs policy, legislation and monetary and fiscal systems.

Constitutional transition led to the formation of the State Union of Serbia and Montenegro, in February 2003. The new union shared a common Presidency, Parliament, Council of Ministers, and foreign and defence policies. The union transferred to member states full jurisdiction in economic policy, including currencies, central banking, and tax regimes.

Regarding the EU integration process, European Union approved the twin-track approach for Serbia and Montenegro in 2004, enabling the two republics to fulfil the economic criteria for EU membership independently from one another. This action had a positive practical implication as the two republics could not have to harmonize with each other but directly with the EU standards, speeding up the EU integration process.

State Union of Serbia and Montenegro ceased to exist in May, 2006, when citizens of Montenegro, on the referendum, voted for independence. On 3 June 2006, Parliament of Montenegro adopted the Declaration of Independence, and Montenegro became the "youngest" European state. Disputable issues between Serbia and Montenegro were quickly resolved, followed by establishing of full diplomatic relations.

Montenegro signed the Framework Document of the Partnership for Peace in December 2006, with the final objective to become a member of NATO. Partnership for Peace enables Montenegro to participate in regional organisations such as Adriatic Charter, Southeast Europe Defence Ministerial (SEDM) and South East Europe Cooperation Process (SEECPP).

On June 28, 2006, Montenegro became the member state of the United Nations, and on May 11, 2007, the member state of the Council of Europe. Today, the Republic of Montenegro is an independent democratic state, based on the Montenegrin Constitution of 1992. The current constitution defines Montenegro as democratic, welfare and ecological state. The actual Government of the Republic of Montenegro is composed of the Prime Minister and head of the Government Milo Đukanović, deputy prime ministers and the ministries.

3.3. Infrastructure and Accessibility

Air access - Montenegro has two internationally available airports, in Podgorica and Tivat. The national carrier is Montenegro Airlines.

The airport in Podgorica is located 12 kilometres south from Podgorica and has regular services to/from more than 30 airports in about 30 countries (regular connections with Belgrade, Frankfurt, Moscow, Budapest, Vienna, Rome, Zurich, Ljubljana, Paris, London, etc.)

Traffic at Podgorica airport from 2005 to 2007

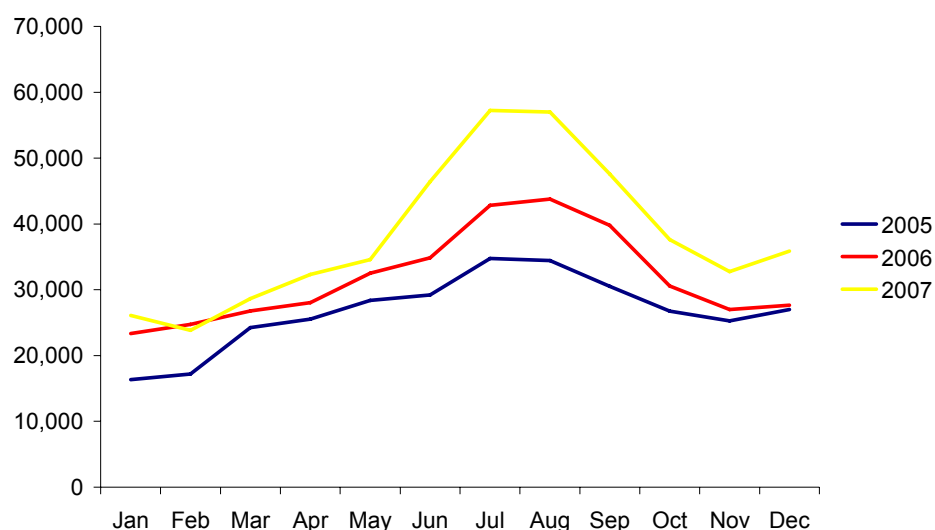
	2005	2006	2007
Aircraft movements	3,298	3,895	4,918
Passengers	319,665	381,847	460,020

Source: Airports of Montenegro, 2008

In 2007, the Podgorica airport served 460 thousand passengers (domestic and international). The number of passengers has showed a high growth rate in last several years. Comparing to previous year, 2006, the number of passengers has notably grown by 20%.

The airport in Podgorica has a runway length of 2,500 meters and a floor area of 5,500 square meters. The total capacity of the airport is one million passengers a year. In June 2007, the airport in Podgorica has been assessed by the Airports Council International as the best airport in Europe in the category under 1 million passengers on a yearly basis.

Passenger traffic at Podgorica airport from 2005. to 2007.



The airport in Tivat is located 3 km from Tivat, 20 km from Budva and 80 km southwest of Podgorica and is mostly used for charter flights. Its runway length is 2,500 meters and the surface of the terminal is 4.057 square meters and its total capacity is 800,000 passengers on a yearly basis.

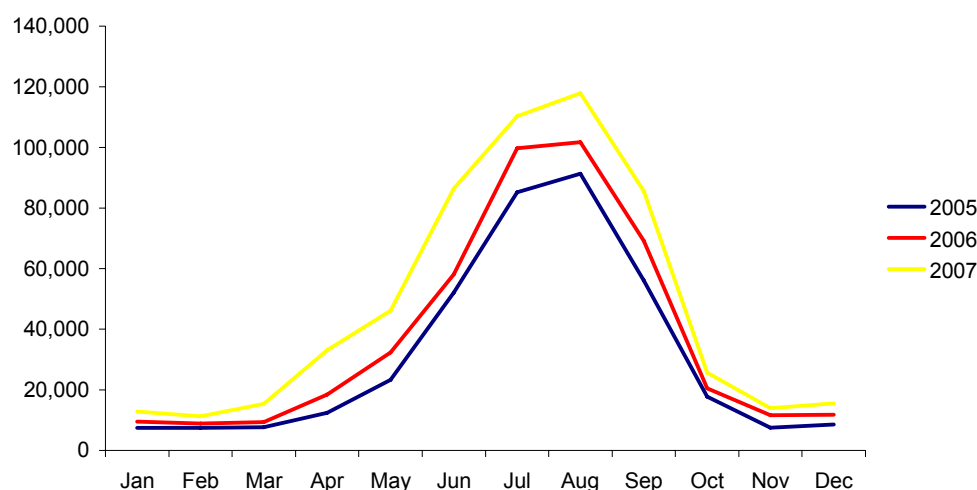
Traffic at Tivat airport from 2005. to 2007.

	2005	2006	2007
Aircraft movements	2,522	3,261	4,079
Passengers	377,013	451,289	574,011

Source: Airports of Montenegro, 2008

The airport in Tivat recorded a higher number of passengers (574 thousand in 2007) comparing to the airport in Podgorica due to the higher share of holiday travel. The number of passengers has achieved a significant growth in last few years. Comparing to year 2006, the 2007 number of passengers has strongly grown by 27%.

Passenger traffic at Tivat airport from 2005. to 2007.



Since 2004, around 30 mil. EUR has been invested in the airports in Podgorica and Tivat, out of which 23 mil. EUR came from EIB (European Investment Bank) and EBRD (European Bank for Reconstruction and Development) and 7 mil. EUR was invested by the Montenegrin Government. 22 mil. EUR was invested in Podgorica airport and 8 mil. EUR in Tivat airport.

Currently, there are no low-cost carriers flying to/from Montenegro but the Government is strongly interested in attracting low-cost carriers and has been negotiating with Air Berlin, Easy Jet, Ryanair and German Wings.

Although the air access has recently been improved, it is expected that the total capacity of airports will become insufficient due to the projected growth in tourism demand. The Government has realized the possible future bottlenecks in the air transport and is currently assessing the possibility of commercializing other airports.

Road infrastructure - The total road network of the Republic of Montenegro is 5.174 km long, out of which 850 kilometres are main roads and 950 kilometres are regional roads. The two major roadways in Montenegro are the Adriatic motorway from Igalo to Ulcinj and the motorway that links the south and the north, from Petrovac, across Podgorica and Kolasin to Bijelo Polje.

Currently, several projects of road network reconstruction are underway. The most important is the construction of highway from Podgorica to Belgrade (partly funded by EBRD).

Railroad infrastructure - The total line length of railroad in Montenegro is 248.6 kilometers of open track, which is 327.6 kilometres including station tracks. Railway network is mostly electrified, single track and with normal gauge. The most important railroad links are: Port of Bar - Podgorica - Bjelo Polje and Niksic - Podgorica - Albania. The Podgorica – Niksic railway is used for cargo transportation, but is currently under reconstruction and electrification in order to be used also for passenger traffic. There are also plans for the railway Podgorica – Albania to be reconstructed and used for passenger traffic as well.

Sea access - Montenegro has five ports for passenger and freight transport. These are: Bar, Herceg Novi, Tivat, Kotor and Zelenika. There are regular ferries on routes: Bar - Bari and Bar - Ancona. The major port is the Port of Bar, covering 95% of total passenger and freight transport. The total transport capacity of the port is 5 million tons of cargo on a yearly basis. The port of Bar is located in the southern part of the Adriatic Sea, having a favorable geographical position.



Fixed telephone infrastructure - The total number of fixed telephony lines installed is more than 244,000. Matav from Hungary, part of Deutsche Telecom, is the only fixed phone telephony provider in Montenegro. The network is over 98% digitized, with a fiber-optic base.

Mobile telephony infrastructure – The total number of users of mobile telephony is approximately 735,000. There are two mobile operators, ProMonte, which is 100% owned by Telenor from Norway, and T-Mobile Montenegro, which is majority owned by Matav and Deutsche Telecom. More than 97% of the territory of Montenegro is covered by their signal.

Infrastructure in the coastal destinations - Due to the sharp increase of international tourist demand in last several years, which has been focused mainly to the Montenegro's coastal destinations, the tourism infrastructure has been overly stretched and has created problems in the coastal zone during the peak summer season. Most problems are connected with the electricity and water supply, as well as the liquid and solid waste disposal.

3.4. Economy

3.4.1. Macroeconomic Indicators

In recent years, Republic of Montenegro made significant progress in transition process and achieving positive economic performances. Its macroeconomic indicators are showing stable economic growth.

Gross Domestic Product (GDP) has grown considerably in the period from 2001 to 2006. According to MIPA, Montenegrin Agency for Investment Promotion, GDP has reached level of 1,778.81 or 2,790.5 EUR per capita, representing a real GDP growth of 6.5% comparing to year 2005.

	2001	2002	2003	2004	2005	2006
GDP in current prices (mil. EUR)	1,244.80	1,301.50	1,433.00	1,535.00	1,644.00	1,778.81
GDP per capita in current prices (in EUR)	2,023.46	2,107.26	2,310.75	2,465.43	2,638.00	2,790.50
Real GDP growth (in %)	-0.20	1.70	2.30	3.70	4.10	6.50

Source: MIPA, Montenegrin Investment Promotion Agency

The structure of GDP in Montenegro shows that key economic activities are: real estate (approx. 12% of total GDP), wholesale and retail trade (approx. 11%), transport, storage and communication (approx. 10%), manufacturing (approx. 8%) and agriculture, hunting and forestry (approx. 8%).

MONTENEGRO'S STRUCTURE OF GDP BY ACTIVITIES

	2004	2005
Agriculture, hunting and forestry	9.2%	8.3%
Fishing	0.0%	0.0%
Mining and quarrying	1.6%	1.5%
Manufacturing	8.8%	8.3%
Electricity, gas and water supply	5.8%	4.8%
Construction	2.8%	3.0%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	10.3%	10.7%
Hotels and restaurants	2.7%	2.9%
Transport, storage and communication	9.9%	9.6%
Financial intermediation	1.9%	1.7%
Real estate, renting and business activities	12.8%	12.2%
Public administration and defence; compulsory social security	8.0%	9.3%
Education	4.3%	4.2%
Health and social work	4.2%	4.4%
Other community, social and personal activities	2.9%	3.0%

Source: www.monstat.cg.yu, September 2007

Montenegro GDP structure in 2006	
Agriculture	13.2%
Industry	26.2%
of which Manufacturing	12.6%
Services	60.6%

Source: Worldbank, www.worldbank.org

According to the estimations, Montenegro's grey market accounts for a large part of Montenegro's economy, but its share is decreasing over the past several years (from 30% in 2002 to 11% in 2006).⁵

	2001	2002	2003	2004	2005	2006
Inflation CPI (in %)	28	9.5	6.3	4.3	1.8	2.5

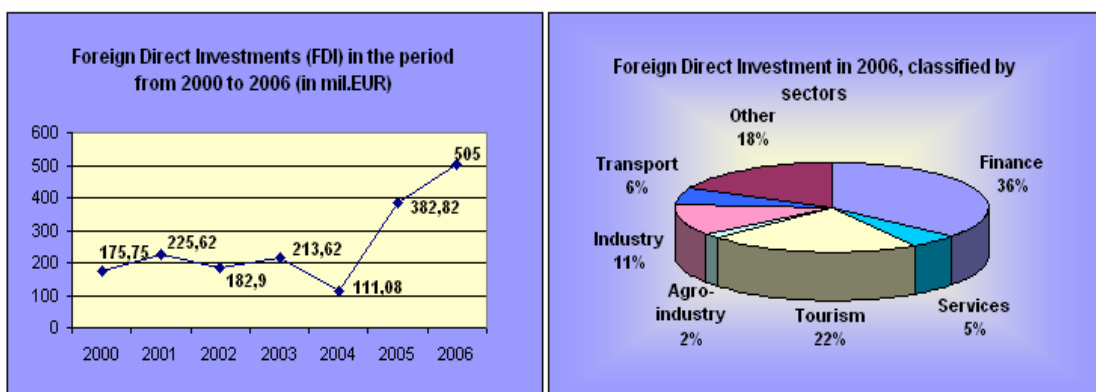
Source: ISSP, Institute for Studies and Prognoses

Inflation in Montenegro has fallen from double-digit level in 2001 to single digit level in 2002 and after is showing a decreasing trend. In 2005, the inflation rate was 1.8%, falling from 6.3% in 2003 and 4.3% in 2004. The low inflation has been achieved on the basis of the strict monetary policy from 1999, when Montenegro adopted parallel currency, the Deutschmark, and later, in 2002, the Euro. Although Montenegro is not a formal member of the Euro zone <http://en.wikipedia.org/wiki/Eurozone>, the Government is not planning to introduce domestic currency but to continue using the Euro. According to the Monstat, the Montenegro inflation rate in 2007 is estimated at 3.5%.

Business confidence has also been boosted by the appreciation of real-estate values in Montenegro since the country's independence from Serbia. The Country is now rated as one of the most attractive destinations in Europe in terms of return on foreign direct investments (FDI).⁶

3.4.2. Foreign Direct Investments

According to the MIPA, Montenegrin Investment Promotion Agency, total foreign direct investments in the period from 1997 to 2004 were approximately 420 mil. EUR. In 2005, the total investments were 382.8 mil. EUR and in 2006, total foreign direct investments registered significant increase, amounting to 502 mil. EUR. The major investments were made in the sectors of finance (36%) and tourism (22%). The major investors were: Hellenic Petroleum (petroleum, oil and derivatives), Interbrew (beer), Daido Metal (producing), Matav (telecommunications), Telenor (telecommunications), Nova Ljubljanska Banka (financial services), Oportunity Bank (financial services), HIT Nova Gorica (catering), Siemens (electromechanical components), etc.



Source: MIPA, Montenegrin Investment Promotion Agency

⁵ Government of Republic of Montenegro: Montenegro - Investment Challenge

⁶ WTTC, Montenegro Travel & Tourism: Unlocking the Potential for Growth, 2007

According to Montenegro Central Bank, the 2007 foreign investment in Montenegro raised by 55% comparing to the previous year.

FDI in Montenegro	
2006.	644 mil. €
2007.	1 bil. €

Source: Montenegro central bank,
cited in Montenegro times

In the report carried out by WTTC it is stated that Montenegro is rated as one of the most attractive destinations in the world, in terms of return on foreign direct investment. (Montenegro is among the top three countries in Europe in FDI per capita).

3.4.3. Employment

Period from 2003 to 2006 shows an improving situation on the labor market. The number of employed has increased from 190,417 in 2003 to 203,546 in 2006, representing the increase of 4.7% comparing to previous year, 2005. The unemployment rate is showing a decreasing trend, falling from 21.6% in 2003 to 15.5% in 2006. The unemployment rate is varying throughout the year due to the seasonal character of employment (tourist season).

According to CIA world factbook, the unemployment rate in Montenegro in 2007 was 14.7%.

	2001	2002	2003	2004	2005	2006
Employed	197,388	192,901	190,417	192,501	194,426	203,546
Unemployed rate		21.6	22.9	22.4	17.0	15.5
Unemployed	79,960	76,293	68,625	59,002	48,845	43,125

Source: MIPA, Montenegrin Investment Promotion Agency

The service sector employs a significant share of the population in Montenegro (around 20%). The number of persons employed in the hotel and restaurant industry represents a share of around 7%.

3.4.4. Tourism

The total 2007 tourism receipts of Montenegro are estimated at 480 million Euros, which represents the 39% increase compared to 2006. The forecast for 2008 predicts 14.5% growth of total tourism receipts compared to 2007, and realization of 549.6 million of Euros receipts. According to the same forecast, the employment in tourism in 2008 will increase at the 8% growth rate compared to 2007, and total number of employees in tourism will be 16,200.⁷

The latest (2007) Travel and Tourism indicators for Montenegro are as follows:

⁷ Source: Ministry for tourism and environmental protection of Montenegro, www.minturizma.cg.yu, March 2008

Travel & Tourism indicators

T&T Industry, 2007 estimates

		Percent of total	2008–2017 annual growth (% forecast)
GDP (US\$ millions)	252	10.2	9.1
Employment (1,000 jobs)	16	11.0	5.8

T&T economy, 2007 estimates

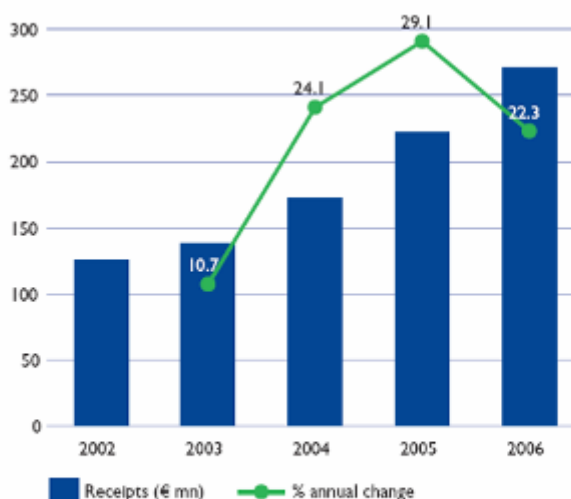
GDP (US\$ millions)	408	16.6	8.2
Employment (1,000 jobs)	27	17.7	5.0

Source: World Travel & Tourism Council, TSA Research 2007

According to WTTC report, international tourism receipts⁸ increased by 22% in 2006, to 271 million Eur, thereby exceeding the previous record achieved as long ago as 1990, i.e. before the outbreak of the Balkan conflict. The annual increase in international tourism earnings has averaged 21% over the four years to 2006, and 26% over the past two years.

Average spending per arrival for international tourists is estimated at some 715 Eur, and the average per night is just over 120 Eur, with about two thirds going on accommodation and, in the case of tourists on package tours, all the different elements offered in the package (i.e. meals and drinks for all-inclusive guests).

Montenegro's international tourism receipts^a, 2002-07



^a Based on the no. of tourist overnights determined by MONSTAT and estimated average daily spending.

Source: Central Bank of Montenegro

Source: Montenegro Travel & Tourism: Unlocking the Potential for Growth, WTTC, 2007

The tourism is strategic sector of Montenegro's economy, which currently achieves significant shares in Country's GDP, employment and investments, as follows:

- Share of total travel and tourism economy in the GDP is 16.6% and share of travel and tourism industry is 10.2%⁹

⁸ Excluding spending on international transport

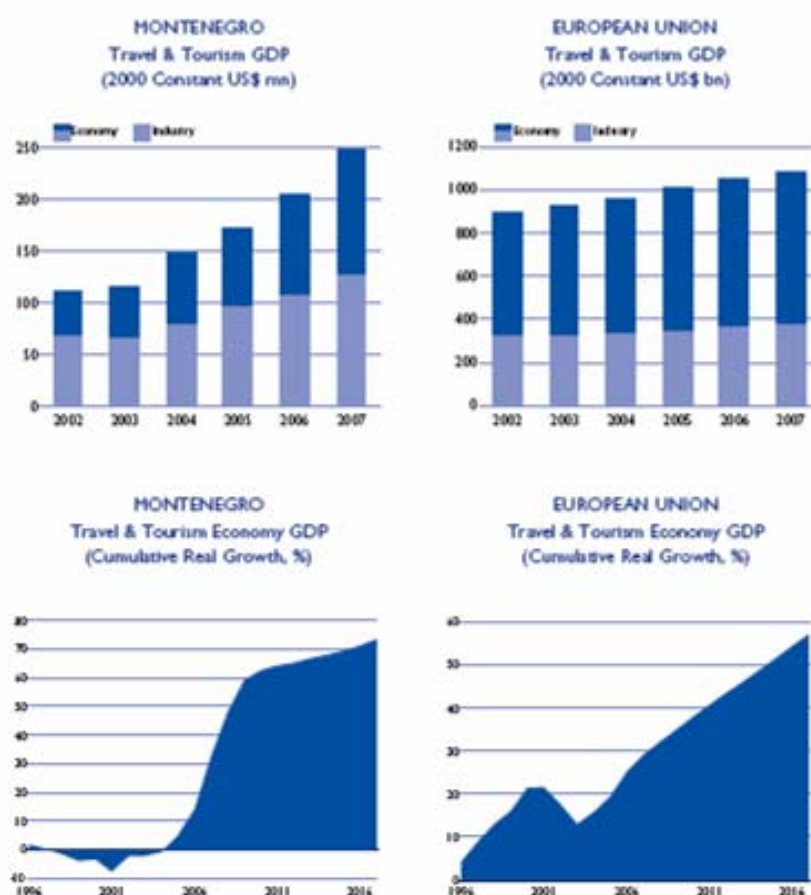
⁹ Only direct effects of tourism

- Share of tourism in total employment is 17.7%¹⁰

Government efforts are aimed to create the conditions for tourism development. Some of the most significant implemented measures are as follows:

- Privatization of hotels and other tourism assets which is underway for several years and which is 95% completed;
- Adoption of open sky policy;
- Creation of competitive business environment (taxation is very competitive);
- High investments in infrastructure: in last 3 years, the Government has invested approx. 250 million Euros into modernization and upgrading of airports, roads, border crossings and utilities;
- Strong tourism promotional campaign on international markets.

According to the WTTC's Tourism Satellite Account for Montenegro, the long-term expectations for Travel & Tourism GDP growth are positive at 7.1% annualized real growth, taking the share of T&T GDP in the country to 27.1% in 2017.



Source: Montenegro Travel & Tourism: Unlocking the Potential for Growth, WTTC, 2007

¹⁰ The Travel & Tourism Competitiveness REport 2008, World Economic Forum, 2008

3.5. Taxation Issues

Corporate profit tax is 9%, reported to be the lowest in Europe (in Serbia is 10%, in Macedonia 15%, Hungary 16%, Slovakia 19%, Croatia 20%, Albania 23%, etc)

Value added tax (VAT) - The standard value added tax rate is 17%, but in tourism sector a reduced rate of 7% is applied.

Personal income tax rate - The personal income tax is flat, 15% in 2007 and 2008. The Government is planning to reduce the personal income tax rate to 12% in 2009 and to 9% in 2010.

Tax incentives - There is an opportunity for investors to take advantage of the following tax incentives: tax credits, incentives for non-developed areas, carrying forward of losses, incentives for new development, etc.

3.6. Generic Analyses - Conclusions

Main conclusions on general environment for the subject project in Montenegro are as follows:

- Overall macroeconomic situation in Montenegro is favourable for the development of new tourist projects. Over the past three years and especially since the county's independence from Serbia in June 2006, Montenegro has pursued an open market economy and its macroeconomic indicators are stable. Montenegro is fast developing emerging market, one of SEE's the fastest growing economies in transition. The main macroeconomic trends are connected with the increasing growth rates of GDP and reduction of inflation, as well as positive future economic outlook.
- Montenegro's business environment for investments in hotel / tourism sector, as well as real estate is favourable, since Montenegro has the lowest corporate profit tax level in Europe, and low value added tax rate. Furthermore, the net salary level is low (below 300 Eur per capita monthly). However, at the Montenegro's human resource market, there is a shortage of qualified personnel needed for future tourism development.
- The key challenges for new tourist projects in the Montenegro's coastal zone are connected with several issues, as follows:
 - **ACCESS:** Although some 30 million Euros have been invested in improvement of airport infrastructure in last few years, still the access could become the bottleneck for future tourist development: (a) Tivat airport capacity will soon become inadequate; (b) There is a need to attract the low-cost carriers that will improve the access possibilities for international tourist demand; (c) There is a need for integration of local road network into the regional network of neighbouring countries.
 - **INFRASTRUCTURE:** Speed hotel and mixed-use resorts development in the coastal zone is not followed by adequate development of electricity and water supply as well as the liquid and solid waste disposal systems. The problems are especially visible during the peak summer season.

- **SPATIAL PLANNING:** High illegal construction threatens to spoil the attractiveness of coastal area. There is a limited space available for development in the coastal zone, so there is a need for sustainable development model. Although the municipalities have the power to formulate their own spatial plans, so far only the municipality of Budva has done so. Precise and adequate planning is important, taking into consideration the speed and quantity of development.
- **ENVIRONMENTAL PROTECTION:** Since Montenegro's tourism positioning is based on natural resources, the vital key success factor for successful long-term tourism development of the country is the environmental protection. Presently, the coastal region is especially endangered having in mind intensive construction of number of new tourism projects in steep coastal zone.
- Having in mind the above key challenges, the main long-term risk for tourism development in Montenegro is connected with the ability of the public sector (destination and regional management systems) to follow adequately the intensive investment process in tourism industry, carried out by the private sector. This could, if not managed properly, seriously endanger the future position of Montenegro at international tourism market.

4. OVERVIEW OF MONTENEGRO TOURISM MARKET

4.1. Market Drivers, Attractions and Offerings

Natural resources - Montenegro is a country rich in natural resources, which represent a main pillar in Montenegro's tourism positioning. Very important is that natural resources are still not exploited and they give an opportunity for a diversification of tourism products and development of different niche tourism products.



Montenegro has 4 national parks: Lake Skadar, Biogradska Gora, Lovćen and Durmitor. Ratification of the fifth national park, Prokletije region, is expected to be realized by the end of this year.

Lake Skadar, with a surface of 400 square kilometres, is located in the Zeta - Scadar valley, 7 km from the Adriatic Sea. It is the largest lake in the entire Balkan district, situated at the southern end of Montenegro, on the border with Albania (two thirds of Lake Scadar is in Montenegro and one third is in Albania). Lake Skadar has also cultural significance, representing the bridge between Muslim and orthodox way of life.

The National Park of Durmitor, located in the mountain region in the North West of Montenegro is an area of exceptional natural beauty with a surface of 390 square kilometres. Over half of the National Park has been declared a UNESCO world heritage site. Durmitor is famous for its glacial lakes, or 'mountain eyes'. It includes 82 kilometers of canyon of the Tara, deepest canyon in Europe. Zabljak, the city with the greatest height above the sea level in the Balkans, 1,456 m, is situated here.

The National Park Lovćen (62.2 square



kilometers) is located in the southwest part of Montenegro. Beside its ecological value, it has a significant cultural-historical heritage.

The National Park Biogradska Gora, (56.5 square kilometers) is located in the central part of Bjelasica Mountain, between the Lim and Tara rivers. Its essential natural value is Biogradska gora, one of the last three jungles in Europe.

Adriatic coast - Adriatic coast of Montenegro is 293.5 km long and has 73 kilometres of beaches, out of which 33 kilometres are sand beaches. One of the most famous beaches is a 13 kilometres long the Big Beach, in Ulcinj. The favourite coastal destinations of Montenegro are: Budva, Herceg Novi, Bar, Ulcinj, Kotor and Tivat. The two most popular destinations are Budva and Herceg Novi accounting for in Montenegro and 64% share in 2007 total tourist overnights.



Sveti Stefan



Budva



Herceg Novi

The most famous landmark of Montenegro's Adriatic Coast is Sveti Stefan. Sveti Stefan is a luxury resort, known as the Montenegro's "main jewel".

Culture - Due to its long history, Montenegro has a remarkable diversity of cultures. The coast was influenced by Venice and Habsburg that can be appreciated in the architecture of most of the coastal towns (Budva, Perast, Herceg Novi, Budva, Ulcinj). The South and Northwest of the country have been influenced by the Ottoman Empire.

The Montenegro's tourist slogan is MONTENEGRO - WILD BEAUTY.

Montenegro bases its tourism market positioning on natural resources, similar as the other countries in the SEE region, for example:

- Albania - The Last Secret
- Croatia - Mediterranean As It Once Was
- Macedonia FYR - Cradle of Culture, Land of Nature



demand over the last few years.

By its tourism positioning, Montenegro promotes itself as one of the last undiscovered destinations in the world, which raised significant interest of the international demand. This is visible in high growth rates of international

Sun and beach product dominates in Montenegro's tourism industry. Having in mind huge investments in hotels and resorts along coastline which are underway, it is

expected that the Montenegro will stay in the same product category (sun and beach) but with higher quality level. However, it should be pointed out that the efforts have been made to initiate a development of series of niche tourism products connected with rich diversity of Montenegro's natural resources, such as skiing, hiking, biking, paragliding, canoeing, rafting, fishing, horse riding sightseeing of world heritage sites, bird watching, etc.



The above mentioned diversification of tourist products should be seen as the widening the product base, that will help to extend the tourist season.

4.2. Key Tourism Destinations



The leading tourism destinations of Montenegro are towns situated on the Adriatic Coast, Budva and Herceg Novi. The two mentioned leading destinations together account for 64% of total tourist overnights of Montenegro (Budva accounts for 41% of the total tourist overnights and Herceg Novi accounts for 23% of the total tourist overnights).



Budva



Herceg Novi

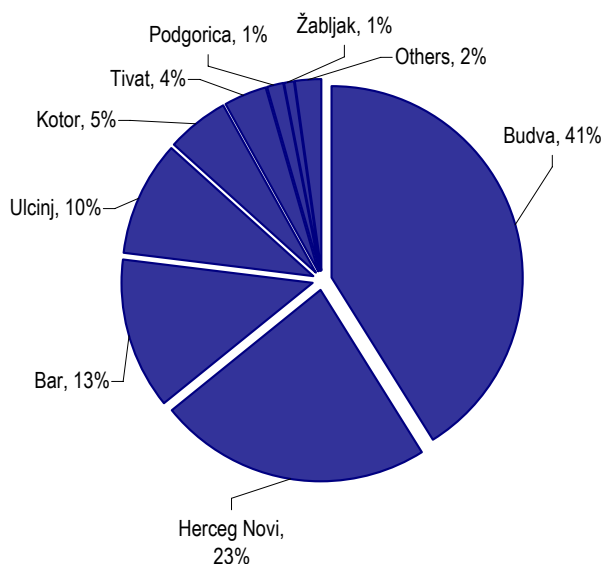
Budva is the most popular tourist destination in Montenegro and is known for its sandy beaches, cultural heritage and Mediterranean architecture. In 2007, Budva achieved almost 3 million of tourist overnights, out of which a significant share of foreign tourist overnights. Budva is one of the oldest settlements on the Adriatic Coast (2,500 years old) and a traditional tourism spot. The surface of the municipality of Budva is 122

square kilometres and it has 15,909 inhabitants, out of which 10,918 are located in city of Budva (according to the 2003 census).

Bar, a major port of Montenegro, is on the third position regarding the number of overnights achieved, generating 12.7% of the total tourist overnights. It is achieved due to its transit position and business oriented activities.

The structure of tourist overnights in Montenegro is showing a strong concentration on the coastal region. The six most popular coastal towns (Budva, Herceg Novi, Bar, Ulcinj, Kotor and Tivat) generate 95% of the total tourist overnights. Of the total hotel bed capacity, 96% is situated in the coastal zone, while in the mountain region is situated only 1% of the total bed capacity. The only two inland tourism destinations, Zabljak (in the Durmitor National Park) and Kolasin (close to National Park Biogradska Gora), realize a share of only 1.3% of the total tourist overnights of Montenegro.

TOURIST OVERNIGHTS BY MAJOR DESTINATIONS IN MONTENEGRO IN 2007



Source: Ministry of Tourism and Environmental Protection of Montenegro

The Government of Montenegro is aware of the increasing pressure on the coastal region and is now trying to develop tourism products in the inland and mountain regions of the country. In order to diversify tourism product portfolio and develop new tourism products in the inland and mountain region, the Government is now working with different donor agencies and NGO's.

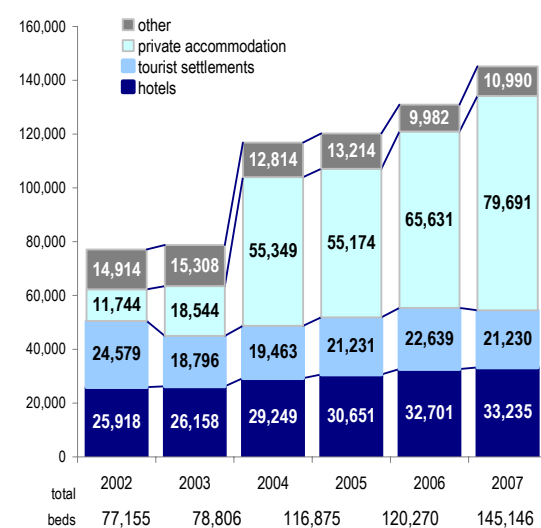
Tourism Master Plan for Montenegro suggests that Ulcinj, with its 13 kilometres long sandy beach, should become one of the most popular tourism destinations in the future. Ulcinj is projected to have the highest number of beds by 2020 (36,000), more than Budva (24,000) and Herceg Novi (15,000).

4.3. Tourism Market Supply Trends

Key characteristics of tourism market supply evolution trends are as follows:

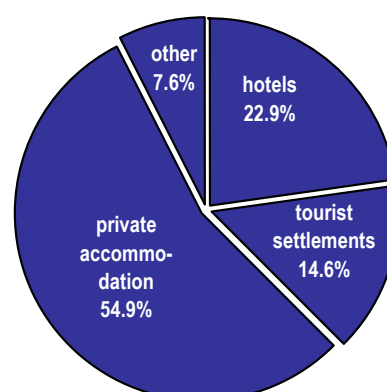
- The private accommodation (privately owned rooms and apartments) represents the dominant share of overall accommodation supply in Montenegro (54.9% of total capacities).
- Hotels represent just 22.9% of total accommodation supply in Montenegro, while tourist settlements represent 14.6% of total capacities.
- In the period 2002-2007, hotel capacities increased by the annual growth rate of 5.1%. In the same period, the private accommodation has increased 6.7 times, i.e. by an average annual growth rate of 47%.
- Overall quality of tourism supply in the country is low to moderate, although with intensified entering of new hotels and resorts to the market, the significant shift in quality structure is currently underway.
- The low entrance barriers that exist in the Montenegro tourism market has influenced the establishment of new stakeholder structure, since a lot of new owners entered the hotel market over last few years.

**TOURISM SUPPLY IN MONTENEGRO (BED CAPACITY)
2002 - 2007**



Source: Montenegro Travel & Tourism: Unlocking the Potential for Growth, WTTC, 2007

**STRUCTURE OF TOURISM SUPPLY IN
MONTENEGRO 2007**



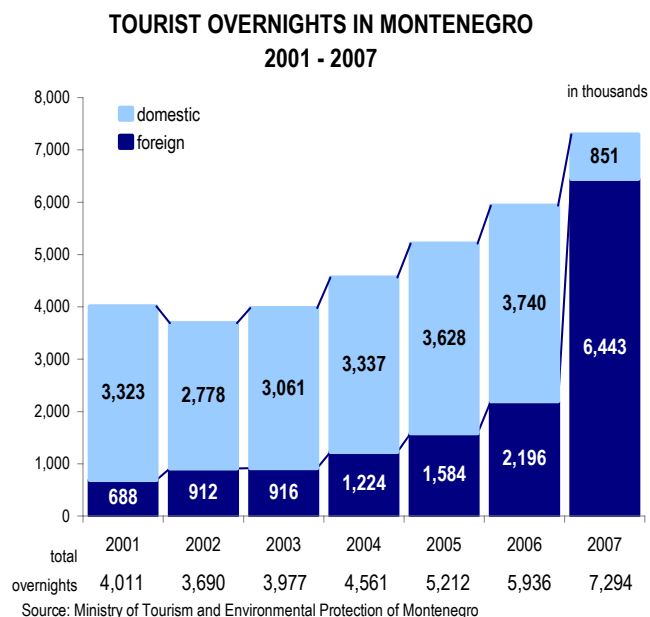
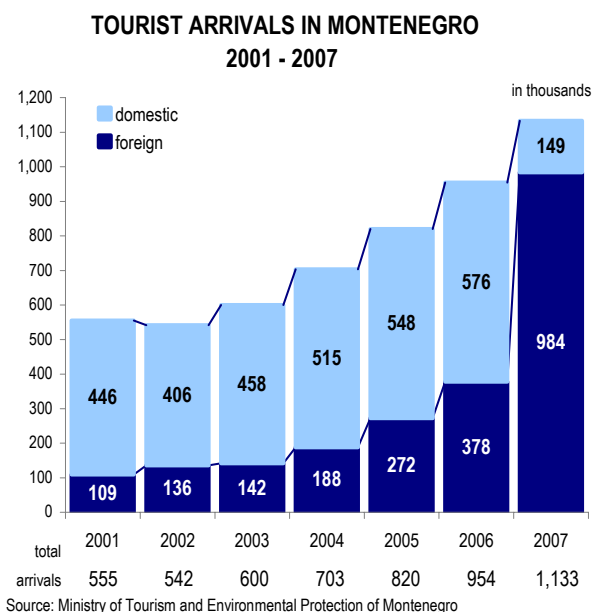
Source: Montenegro Travel & Tourism: Unlocking the Potential for Growth, WTTC, 2007

4.4. Tourism Market Demand Trends

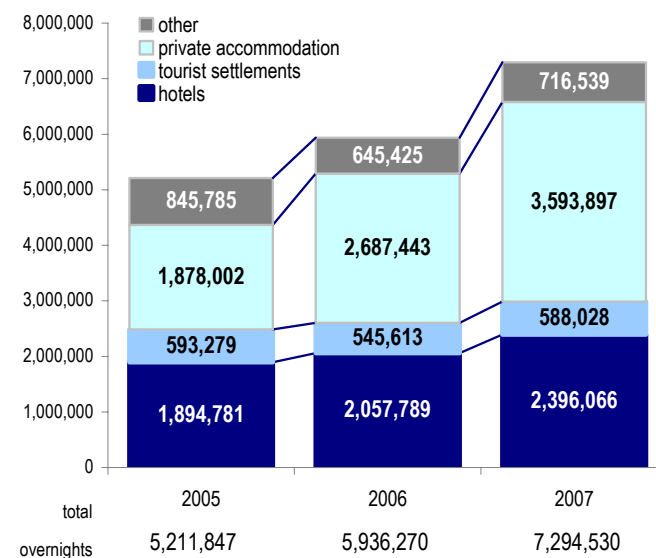
Key tourism market demand trends in Montenegro are as follows:

- As a results of high investments in hotels and other tourist assets during last several years and strong country's tourism promotional campaign on international market, there is a high increase of international demand in the period of last five years.

- In the period 2001-2007, the international arrivals have grown at the average annual growth rate of 44.3%, while total arrivals have, in the same period, grown at the moderate annual rate of 12.6%.
- At the same time, the average annual growth rate of international overnights (2001-2007) was 45.2%, while the AGR of total overnights was 10.5% in the same period.
- It should be pointed out that the total tourism demand volume in last three years has been increased at higher annual growth rates than in previous periods (the AGRs in 2004-2007 amounts to 17%). At the same time, the annual growth rates of international demand in last three years have been reaching 74%.
- Occupancy rate of total accommodation supply in Montenegro (all types of accommodation) is very low (approx. 13.8% on an annual basis). Hotels, on average, have the annual bed occupancy of 19.8%.
- Seasonality of tourism volumes in Montenegro is extremely high: 66% of annual volume of tourist overnights in 2007 is realized in July and August, and 88% in the period from June to September.

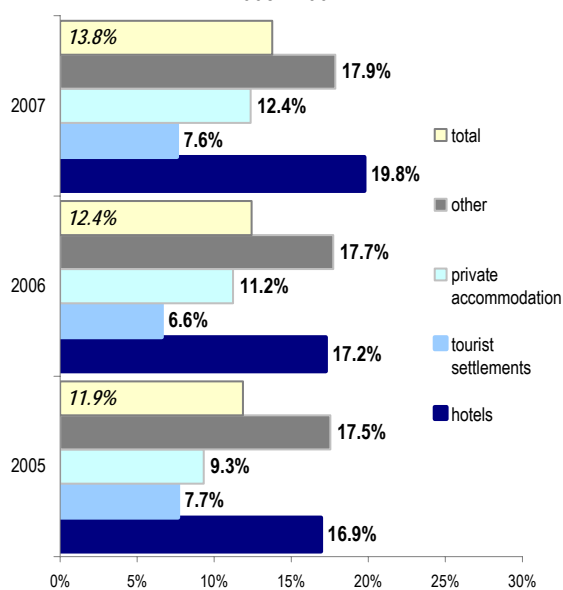


TOURISM DEMAND IN MONTENEGRO (OVERNIGHTS) 2005 - 2007



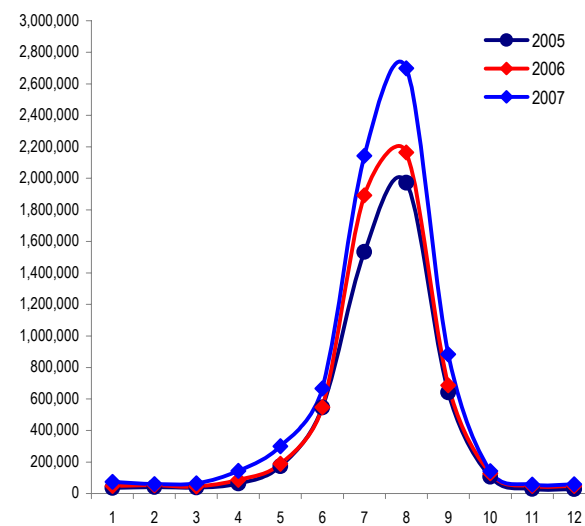
Source: Ministry of Tourism and Environmental Protection of Montenegro

ANNUAL BED OCCUPANCY (%) IN MONTENEGRO 2005 - 2007



Source: Ministry of Tourism and Environmental Protection of Montenegro

SEASONALITY OF MONTENEGRO NUMBER OF OVERNIGHTS BY MONTHS 2005 - 2007



Source: Montenegro Travel & Tourism: Unlocking the Potential for Growth, WTTC, 2007

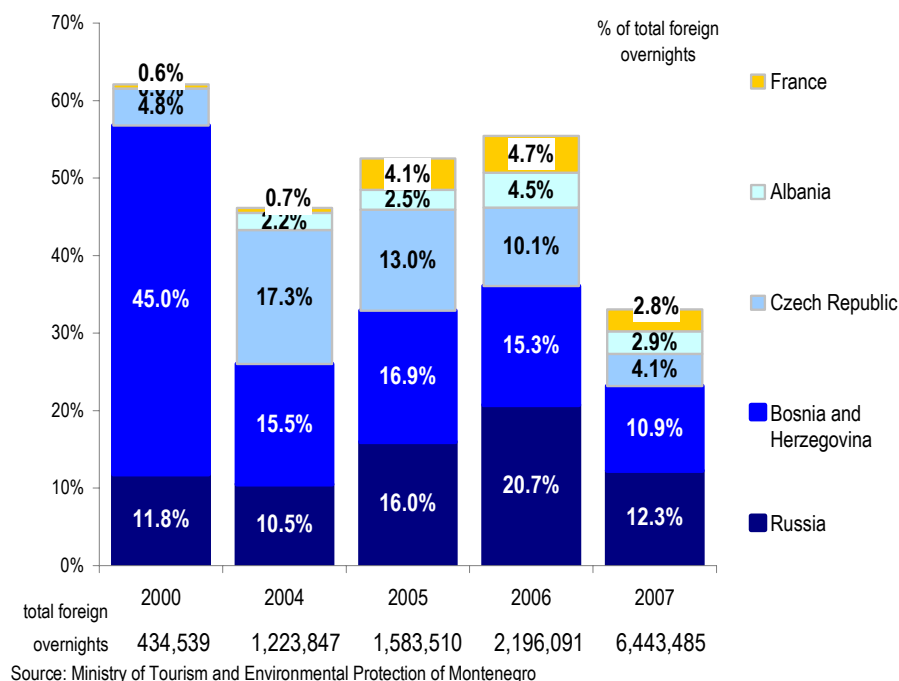
4.5. Actual Tourism Market Profile

Current market profile of Montenegro's tourism industry is characterized by the following:

- Currently, there is a shift in quality structure of accommodation supply: the concept of the supply has been changing from mass low-yield to higher class supply. The process is connected with upgrading of existing hotel and resort assets and new greenfield tourism projects, located along the coast.
- In 2007, the travel and tourism capital investment in Montenegro is totalling 141.6 million Euros, which is 25.8% of total investment in the country.¹¹
- Most of hotels and resorts are concentrated in the coastal zone, thus doing a high pressure on steep and relatively short coastal line. There is a high saturation of carrying capacity in the most important tourist destinations, such as Budva, Herceg Novi, Bar and Ulcinj. Subsequently, the six key coastal destinations absorb 95% of total tourism demand volume realized in Montenegro. Budva is the market leader, absorbing 41% of total tourism demand. Inland destinations, such as Kolašin, Žabljak and other destinations in mountain region just start to be interesting for investors.
- Dominant product is sun and sea, currently extended with new market drivers such as MICE and wellness/spa products (being developed in new hotel projects which have been put on the market lately or which are in planning or construction stage).
- Having in mind the present structure of the tourist products on Montenegro's tourism market, the estimated tourist - business traveller split is 95% : 5% (considering all the accommodation capacities). In hotels, the tourist - business traveller split varies with regards to the location of the hotel: in hotels in coastal destinations, the share of business guests is 5%, in hotels in Podgorica and Cetinje 76%, and in mountain hotels approx. 33% of total hotel demand.
- The tourism of Montenegro is characterized by high seasonality of demand, where approx. 66% of total annual demand is realized in July and August, and 88% of total annual demand in the period May to September.
- There is a shift from traditional originating markets (such as German and UK market) to new markets (such as Russia, Czech Republic, Albania etc). The most important originating market is Russia, with more than 12% of total overnight volume realized in Montenegro (2007).
- Average length of stay in Montenegro, considering all accommodation capacities is 6.4 days, which is in line with the market profile and dominant tourist products on the market. In coastal destinations the average length of stay is 6 to 7 days in average.

¹¹ WTTC, 2007

OVERNIGHTS BY MONTENEGRO'S TOP FIVE INTERNATIONAL SOURCE MARKETS 2000, 2004 - 2007



OVERNIGHTS BY MONTENEGRO'S TOP TEN INTERNATIONAL SOURCE MARKETS 2000, 2004 - 2007

market	2000	2004	2005	2006	2007
Russia	51,329	128,507	253,178	455,502	789,497
Bosnia and Herzegovina	195,428	190,066	267,875	336,618	703,472
Czech Republic	20,715	211,430	206,418	222,169	266,598
Germany	10,821	188,439	133,903	142,538	116,807
France	2,405	8,273	64,354	103,828	181,384
Albania	na	26,806	40,091	99,621	188,572
Slovakia	24,148	52,902	63,918	89,212	83,939
UK	3,572	36,072	48,582	79,008	90,543
Slovenia	14,576	53,506	57,967	76,325	90,023
Macedonia	16,190	21,388	88,905	74,581	156,371
total (incl. others)	434,539	1,223,847	1,583,510	2,196,091	6,443,485

Source: Ministry of Tourism and Environmental Protection of Montenegro

ARRIVALS FROM MONTENEGRO'S TOP TEN INTERNATIONAL SOURCE MARKETS

2000, 2004 - 2007

Market	2000	2004	2005	2006	2007	Average stay (nr. of days)
Russia	6,218	16,270	41,011	61,092	102,350	7.7
Bosnia and Herzegovina	29,943	32,706	46,838	55,553	101,394	6.9
Czech Republic	2,365	24,356	23,517	28,674	33,100	8.1
Albania	na	8,853	13,234	25,925	37,801	3.1
Germany	2,228	19,873	18,352	20,252	17,891	10.1
France	826	2,047	11,300	17,702	30,279	6.2
Italy	3,035	5,642	11,432	17,702	37,211	2.3
Slovenia	2,979	10,114	13,659	17,607	20,663	4.4
Macedonia	2,557	10,187	14,940	14,469	22,543	4.0
UK	1,045	5,462	7,817	13,084	15,324	10.2
total (incl. others)	73,559	188,060	272,005	377,798	984,138	6.5

Source: Ministry of Tourism and Environmental Protection of Montenegro

OVERNIGHTS IN MONTENEGRO'S TOP FIVE DESTINATIONS

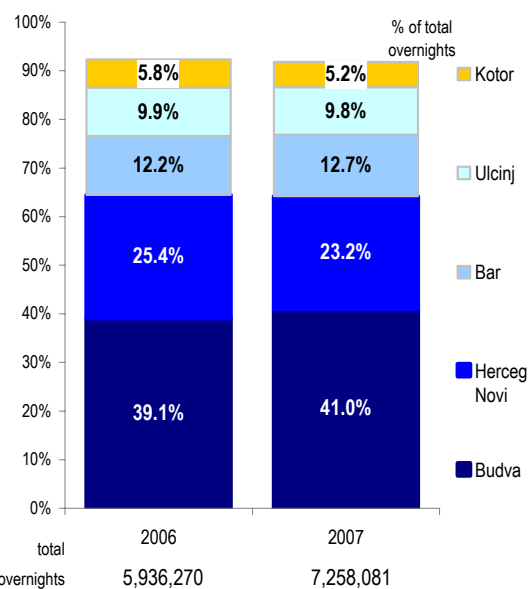
2006 and 2007

TOURIST OVERNIGHTS IN MONTENEGRO BY MAJOR DESTINATIONS

2006 and 2007

municipality	2006	2007
Budva	2,319,339	2,990,529
Herceg Novi	1,506,053	1,691,363
Bar	721,774	923,729
Ulcinj	588,280	712,798
Kotor	347,023	378,656
Tivat	209,301	264,369
Podgorica	74,169	104,986
Žabljak	47,307	67,870
Cetinje	39,948	52,013
Nikšić	35,826	43,424
Kolašin	18,575	28,344
total (incl. others)	5,936,270	7,294,530

Source: Ministry of Tourism and Environmental Protection of Montenegro



Source: Ministry of Tourism and Environmental Protection of Montenegro

4.6. Montenegro Tourism Market Outlook

4.6.1. Tourism Planning

The Government of Montenegro is becoming more and more aware of the strategic importance of tourism in the overall economic and social development of the country, thus having placed tourism as the priority in policy and decision making.

In 2001, the Ministry of Tourism and Environmental Protection has developed Tourism Master Plan for Montenegro in collaboration with German Investment and Development Company (DEG). The Master plan is currently updated. According to the Master plan, positioning of different clusters of Montenegro is based on the following features:

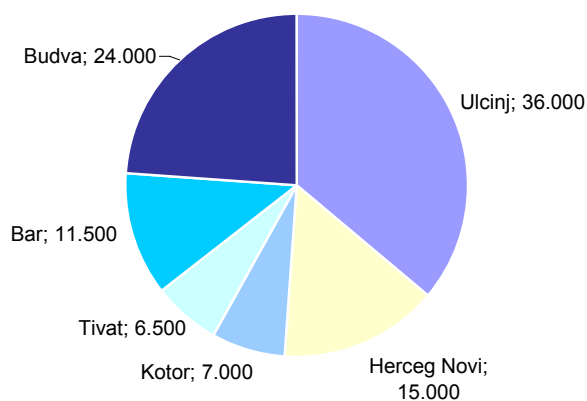
- BOKA KOTORSKA BAY, including Herceg Novi, Kotor, Perast: unique landscape, culture, small town milieu;
- ROCKY COAST, including Tivat, Budva, Sutomore: pebble beaches and bays, younger public, lively vacations;
- ULCINJ, including Velika Plaza: sandy beaches, modern holiday complex, sporty, families;
- HINTERLAND, including Durmitor, Tara, Scutari Lake: culture, nature, local colour;
- CETINJE, including surroundings and Lovćen: well-tended spa, culture, sports, recreations, congresses.

The main goal of Montenegro's tourism development is the implementation of higher value strategy that is to reach higher level of competitiveness of tourism sector by diversification and essential quality improvement. The Master Plan forecast for 2020 is:

- accommodation capacity of 280,000 beds, out of which 35.7% in high-quality hotels and 39.3% in apartments;
- 25.9 million of overnight stays, out of which 70% in hotels, mostly by foreigners.

The allocation of the planned hotel capacity in the coastal zone is the following:

Planned hotel capacity in the coastal zone (2020)



Source: Master Plan for Montenegro, DEG (2001)

The highest growth is expected to be achieved in Ulcinj, with the planned hotel capacity of 36,000 beds, out of which 56% in 4 and 5 stars properties. The planned hotel capacity for Budva is 24,000 beds, out of which 58% in 4 and 5 stars properties.

According to the WTTC,¹² the baseline forecast for tourism development of Montenegro for next ten years is the following:

- 20.7% of tourism sector contribution to GDP in 2007 is projected to grow to 27.1% in 2017;
- 18.7% share of T&T jobs in total employment in 2007 is projected to grow to 25% in 2017;
- annual growth of 7.1% of GDP generated by tourism sector - over the next ten years;
- total T&T demand is forecast to grow by 8.6% per annum.

4.6.2. Tourism Market Outlook

It is clear that Montenegro has decided to make a shift from previous low-yield, mass market strategy to higher value strategy. This implies the establishment of certain preconditions in the destination development, such as access, infrastructure, spatial planning, environmental protection etc. The success in implementation of future higher value strategy will depend on the ability to overcome the above mentioned issues, which currently represent basic challenges to future tourism development in the country.

Furthermore, in future tourism development of Montenegro the following issues must be taken into consideration:

- **HUMAN RESOURCES** - There is a shortage of qualified personnel in tourism sector. To confront this problem, the Ministry for Economic Development of Montenegro has assigned the elaboration of Human Resources Development Strategy in tourism (currently is in the draft version) to GTZ (German Technical Cooperation);
- **BRANDING** - Having in mind the strong growth of international demand, the branding issues will have to be taken into consideration. Presence of international brands in Montenegro's tourism industry will be of major importance for the future internationalization of the market.

Official forecast in Montenegro predicts the 10% growth of total overnights in 2008 compared to 2007. The total number of overnights in 2008 is estimated at 8 million, consisting of 88% of international demand, and 12% of domestic demand.¹³

World Travel and Tourism Council in its preliminary results for 2008 and forecast to 2018, ranked Montenegro as second country (out of 176) with highest potential to grow its travel and tourism economy GDP and T&T capital investments in 2008. Montenegro

¹² WTTC: Montenegro Travel & Tourism: Unlocking the Potential for Growth, 2007

¹³ Source: Ministry for tourism and environmental protection of Montenegro, <http://www.vlada.cg.yu/mintur/>, March 2008

is ranked as third country according to its potential to grow its T&T employment and T&T demand in 2008. According to the same source, Montenegro is ranked as number one country based on its potential to grow its T&T visitor exports in the period 2009-2018.

Having in mind current investment process in tourism industry, and the interest of the international market for the "new" tourism destination of Montenegro, we believe that in next five years the annual growth rates of total overnights in the country will be approx. 10 to 12% in average, and in next five years 8 to 10% in average.

4.7. Tourism Market – Conclusions

Montenegro tourism market is currently passing the transformation process, shifting itself from mass-market to higher-yield market. The investors look at this market as the market of great potentials. The key characteristics of Montenegro tourism market are as follows:

- High growth rates of tourism volumes in last five years and strong potential for tourism development, mainly based on natural resources. Positioning of the country on the international market, based on nature, is in line with available resources. Such positioning has raised significant interest of the international tourism demand.
- Private accommodation represents a half of overall accommodation capacities of Montenegro, while hotels represent one fourth of total capacity. The overall quality level of tourism supply in Montenegro is medium, although the hotel supply is currently under huge investments, mainly focused on the resorts in the coastal zone.
- Since sun and beach product currently dominates in Montenegro tourism, the prevailing market segment is tourism leisure guests (95% of total demand). Having in mind huge investments in coastal tourism resorts that is currently underway, we predict that sun&beach will stay the dominant product of Montenegro, although the product diversification has already started, introducing the new market drivers such as MICE and wellness/spa, connected with the investments into hotel resorts.
- Tourism of Montenegro is characterized with extremely high seasonality, where 88% of total annual demand is realized in the period June to September. Due to that, the occupancy rate (on annual bases) is low, in average 13.8% (all the accommodation capacities).
- There is a big pressure of tourists on the coastal region of Montenegro, where six coastal destinations absorb more than 95% of total Montenegro tourism volumes. The major tourism destination is Budva, where 41% of total Montenegro overnight volume is realized.
- There is a shift from traditional to new markets, such as Russia, Czech Republic, Albania etc. The five top markets are Russia, Bosnia and Herzegovina, Czech Republic, Albania and Germany.
- The tourism market outlook depends on the solution of certain limitations that could endanger the possibilities for growth, such as access, infrastructure, spatial planning, environmental protection and qualified human resources in tourism sector. If managed properly, we believe that the country has the

potential to increase its tourism volumes at annual growth rates of 10 to 12% in the first five years, and 8 to 10% annually in next five years.

5. MONTENEGRO PREMIUM RESIDENTIAL MARKET

5.1. Development Trends and Characteristics of Residential Development Projects

Recent developments in Montenegro have been characterized by intensive residential developments. Montenegro is still experiencing a shift of residential product supply from low to medium quality towards higher value residential developments.

Most recent premium residential developments are being envisaged within world-class mixed use complexes. Such a complexes usually assume international hotel operator, property management services and also include several internationally themed restaurants, a full service spa and other amenities (pools, wellness, golf, tennis course), and other tourist infrastructure that correspond to the positioning of the resort.

Current developments on the Montenegrin coast are mostly residential and hotel properties. Residential developments are mostly 3 to 5-story buildings, offering one- and two-bedroom residences, lofts, studios and stunning penthouses ranging from 300 to 700 square meters ("sqm"). Most of developments are constructed as condominiums of 100 - 300 residences and some condo/hotel suites.

Key characteristics of current residential developments in Montenegro:

Tourist villages' concepts or condominiums

- Villas with own outside swimming pools; apartments with common pools, garages for each suite, business premises (small shops, wellness, spa), restaurants and bars.
- Villas with 2 floors, and 3 to 4- story buildings
- Luxury developments would include a service department, cleaning, laundry, babysitting, etc.

Available size of apartments on the market

- Villas of 120-400 sqm
- Penthouses of 200 to 500 sqm
- Apartments of 80 sqm (2 bedrooms, 2 bedrooms, dining room, kitchen, terrace – sea view)
- Studios of 25 – 45 sqm (room, kitchen, bathroom, terrace)

In accordance with our research data base (with dynamic changes in offer), here are current findings of residential supply in the region:

Average size of residential houses in January / February 2008:

- Herceg Novi municipality - size = 208 sqm ; price = 2,518 €/sqm
- Tivat municipality - size = 214 sqm ; price = 2,492 €/sqm
- Kotor municipality - size = 207 sqm ; price = 3,634 €/sqm
- Budva municipality - size = 233 sqm ; price = 3,727 €/sqm
- Petrovac - size = 212 sqm ; price = 3,321 €/sqm
- Bar municipality - size = 190 sqm ; price = 1,827 €/sqm
- Ulcinj municipality - size = 286 sqm ; price = 1,372 €/sqm

Average size of apartments in January / February 2008:

- Herceg Novi municipality - size = 65 sqm ; price = 2,287 €/sqm
- Tivat municipality - size = 55 sqm ; price = 3,085 €/sqm
- Kotor municipality - size = 66 sqm ; price = 3,287 €/sqm
- Budva municipality - size = 59 sqm ; price = 3,530 €/sqm
- Petrovac - size = 49 sqm ; price = 3,206 €/sqm
- Bar municipality - size = 67 sqm ; price = 2,208 €/sqm
- Ulcinj municipality - size = 70 sqm ; price = 1,436 €/sqm

Coupled with the general residential market analyses, we have also performed the analyses of residential market being envisaged within mixed-use resorts that are currently in construction or planning phase in Montenegro coastal region:

Residential town houses / villas:

- size range from 200-400 sqm
- price range from EUR 5000 - 6700 per sqm

Apartments

- size range from 70- 150 sqm
- price range from EUR 2800 - 4000 per sqm

Description of developments

- Luxury,
- Construction that corresponds to Mediterranean nature,
- Self sustainable utilities (electricity, drinking and waste water),
- Ecological treatment of waste, etc.
- Property management

Examples of a few new residential developments

- in Kumbor
- in Tudorovići,
- in Becici
- in Kotor Bay– Muo and Prcanj
- in Herceg Novi Bay -Djenovici
- on Sveti Stefan, and
- in Petrovac.

Residential developments in Kumbor, Djenovici and on Lustica

Residential developments in Tudorovici, in Muo and in Prcanj

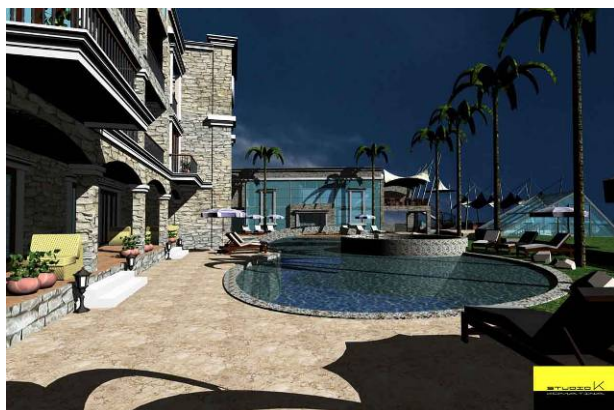
Residential apartments in Kumbor



Residential developments on St. Stefan and in Becici

Residential development Lučice and in Petrovac

Development in Tudorovići (land plot of 6,000 sqm – 90 to 95% building area):



Development in Kumbor (land plot of 15,000 sqm – 90 to 95% building area):



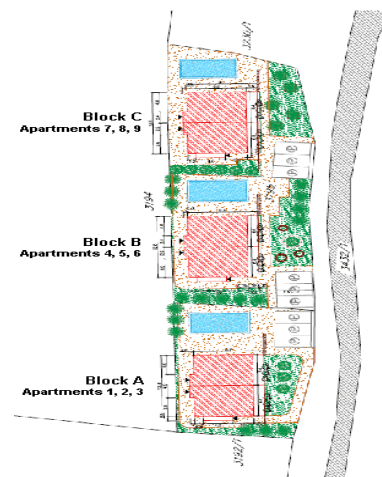
Development in St. Stefan (land plot of 60,000 sqm – 90 to 95% building area):



Development in Lucice (land plot of 40,000 sqm – 90 to 95% building area):



Montenegro Off plan Development in Lustica Peninsula (apartment's complex, with high comfort standards)



- The Development is situated in Lustica Peninsula near Miriste and Zanjice beaches
- The Project Developer is company Kotor Accommodation DOO owned by English entrepreneurs
- Construction completion is planned in June 2009
- The companies 'Birch' from Budva, 'Ural Mont' from Niksic and 'Brent' from Herceg Novi are engaged for construction works
- Offered properties for purchase include duplex apartments (88.04 m² interior, plus 24.71 m² patio and balcony and 88.04 m² interior, plus 32.05 m² patio and balcony), Penthouses 67.26 m² interior, plus 75.61 m² patio and balcony)
- The sale price in early construction phase amounts to 2,400/ m², for standard area
- Payment terms and schedule:

- Payment of the Reservation fee - in the amount of EUR 4,000
- On signing of the Sale contract -30% of the sale price decreased for Reservation fee
- On completion of foundations- 30% of the sale price
- On completion of roof - 30% of the sale price
- 10% on final completion

-Discounts would be considered for multiple purchases or if more money was paid up front and less in the latter stages

-Prospective buyers, based on expressed interest, are dominantly private investors from Russia

Becici Sunset 2 Development, (residential complex, with high quality standard)



- The Development is situated in Becici, on the hill above the Hotels complex in Becici bay
- The Project Developer UK based property Consultant and Developer company DPS .
- Construction completion is planned in July 2008
- The company Grafikon –Cetinje with its subcontractors is engaged for construction works
- Offered properties for purchase include apartments (area from 60.22 to 97.26 m²)
- The sale price in early construction phase amounts from 2,300/ m² to 2,660/ m² (expected price after construction amounts to 3,300/ m²)
- Payment terms and schedule:

- Payment of the Reservation fee - in the amount of EUR 3,000
 - On signing of the Sale contract -30% of the sale price decreased for Reservation fee
 - On completion of all storeys- 30% of the sale price
 - On completion of roof - 30% of the sale price
 - 10% on final completion
- Discounts are provided for off plan purchase, in early construction phase, in the amount of 15%
 - Main buyers are private investors from UK and Ireland, and further from Russia
 - Developer offers agents commission of 4%

Petrovac Bay Development (residential complex, with high quality standard)



- The Development is situated in Petrovac, in the city area
- The Project Developer UK based property Consultant and Developer company DPS
- Construction completion is planned in July 2009
- The company Ozren –Budva with its subcontractors is engaged for construction works
- Offered properties for purchase include apartments (area from 55.24 to 86.90 m²)

- The sale price in early construction phase amounts from 2,100/ m² to 2,350/ m² (expected price after construction amounts to 3,500/ m²)
- Payment terms and schedule:
 - Payment of the Reservation fee - in the amount of EUR 3,000
 - On signing of the Sale contract -30% of the sale price decreased for Reservation fee
 - On completion of all storeys- 30% of the sale price
 - On completion of roof - 30% of the sale price
 - 10% on final completion
- Discounts are provided for payments 100% within 30 days in the amount of 5%.
- Main buyers are private investors are dominantly from UK, Ireland and other European countries

Acacia Hills Development, (luxury apartment complex)



- The Development is situated in Djenovici , in the Herceg Novi area
- The Project Developer is company Plutodevelopments, founded by two British entrepreneurs and funded by UK-based investors
- Construction completion is planned in April 2009
- Offered properties for purchase include apartments (area from 37.4 to 73.5/ m²)

- The sale price in early construction phase amounts from 2,500/ m² for non furnished apartments and EUR
- 3,000/ m² for completely furnished apartments
- Payment terms and schedule:
 - Payment of the Reservation fee - in the amount of EUR 10,000
 - On signing of the Sale contract -30% of the sale price decreased for Reservation fee
 - On completion of all storeys- 20% of the sale price
 - On completion of roof - 30% of the sale price
 - 10% on final completion
- Prospective buyers, based on expressed interest, are dominantly private investors from Russia and UK
- Developer offers agents commission of 3%

Kotor Vista Development, (exclusive standard residential complex)



- The Development is situated in Muo in Kotor area

- The Project Developer is company Plutodevelopments, founded by two British entrepreneurs and funded by UK-based investors
- Construction completion is planned in
- The company Trend –Herceg Novi is engaged for construction works
- Offered properties for purchase include fully quality furnished apartments (area from 79.27 to 89.83 m²)
- The sale price in early construction phase amounts EUR 3,000/ m² for completely furnished apartments
- Payment schedule:
 - Payment of the Reservation fee - in the amount of EUR 10,000
 - On signing of the Sale contract -30% of the sale price decreased for Reservation fee
 - On completion of all storeys- 20% of the sale price
 - On completion of roof - 30% of the sale price
 - 10% on final completion
- Prospective buyers, based on expressed interest, are dominantly private investors from UK , Ireland and other European countries
- Developer offers agents commission of 3%

5.2. Clients / Customers

5.2.1. Growth of International Interest for Montenegro Residential Market

International interest grows in the emerging property markets such as Croatia, Slovenia, Montenegro, Hungary, Bulgaria, Slovakia and the Czech Republic. A second home in the sun is now the boast of more than 300,000 people, according to a study of foreign home ownership – which is 300% more than it is recorded in 1995. Many prominent media are publishing articles about Montenegro property investments these days.

- **Financial Times (Nov. 2006):** “Montenegro gears up for mega-yachts”, and “Peter Munk proposed \$150m for luxury yacht marina, part of a planned \$500m (£270m, €400m) resort complex to be built within three years, as the anchor for sustainable high-end tourism around the bay. Total greenfield tourism projects will soon exceed the republic's annual €1bn gross domestic product, some officials say.”
- **The Guardian (Nov. 2006):** “Montenegro, which features in the latest Bond movie Casino Royal, is on the shopping list of British bargain hunters. Budget flights, booming property markets and the rise and rise of the super rich pensioner have fuelled the boom, which is continuing to gather pace.”
- **Herald Tribune (Nov. 2006):** “In the past two to three years, hundreds of Russians have flocked to Montenegro to buy up large stretches of land along

the increasingly fashionable Adriatic coast and to build resorts like the Hotel Splendid (www.montenegrostars.com)”.

5.2.2. International Customers Demand

Trends

Montenegro already became a new destination in Europe, in regard to real estate investments. Therefore, clients mainly come from Europe, region and from Russia:

- Herceg Novi – Tivat coast: English, Irish, Russians, Serbs, Croats and Slovenians are far more willing and fast to invest here than Western Europeans;
- Kotor Bay –Perast-Risan-: English, Irish, Scandinavians.
- Budva’s Riviera: Irish, Russians, Serbs;
- Bar/Ulcinj Riviera: Italians, Russians and Albanians.

Agent’s forecast

Due to type of developments ongoing, Montenegro seems to become a new luxury destination and it should be compared, in long term, with Sardinia/Costa Smeralda. According to statements of sales agencies, there is not enough available high quality properties for wealthy international customers who seems to have become obsessed with owning its own place in the sun, sea and sand - somewhere they can escape to, or which is going to effectively be their pension when older;

Montenegro also has attractive tax system (9% tax on profit, and 17% VAT). The Government has plans to reduce taxes to a flat tax of 9% in general. It might really become the second Monte Carlo, as forecasted by Peter Munk, Canadian investor that bought Tivat marina.

Current examples

- **Equity Trust Bank and Ready2invest** purchased 100,000 sqm for 25 mil Euro in St. Stefan and Petrovac area
- And the land purchase of **Ralf Schumacher** will not be the last one of a prominent investor (150,000 sqm for 7.5 mil Euro).
- The Mayor of Moscow, **Yuri Mikhailovich Luzhkov**, bought already some properties in Zanjice. Luzhkov will develop 12,148 sqm (purchased for cca 4 mil Euro closer to the Sea), the most probably for its own house (as written in news, tourist village had been envisaged for that area, however authorized municipality and the State would adjust DUP/GUP to investor’s reasonable request in correlation to overall development and tourism strategy)
- **Oleg Vladimirovich Deripaska** – RUSAL owner (“king of aluminium”, with over 10 bil USD property in ownership), both land in Trstenovo, for development of luxury apartments.
- **Miroslav Misković** – Serbian businessman (with property of 1.5 bil USD, ranges among the wealthiest people in CEE), builds ethno village in Rose (on 30,000 sqm) for high luxury clientele. He also purchased 100,000 sqm for development on the Cape Arza.

Type of customers

High class

- Apartments and villas with current prices of 3,500 € / sqm to 7,500€ / sqm, even up to 10,000 € / sqm (on. St. Stefan), have their buyers already
- Nationality: Russians, English, Germans

Middle class

- There are customers ready to pay under 300,000 € for apartments (from 1,500 € / sqm up to 2,500 € / sqm);
- Middle class customers also should have the impression, that they are buying in a prominent destination for still available prices;
- Nationality: Russians, English, Irish, Slovenians, Serbians, etc.

5.2.3. Local Customers Demand

Local customers are heavily investing in a real estate, because according to experience, prices are going up. Real Estate market returns are higher than interest rates at the bank. The Stock Exchange is very fluctuating, and there is still reluctant for savings in the local banks.

There are middle class clients, ready to pay under 300,000 Euro for apartments (1,500 € / sqm up to 2,500 € / sqm),

5.2.4. Total Expected Demand

There is aggressive growth in real estate demand since 2005. And there is still a lot to develop.

Due to property inflation currently running at between 15% and 25% quarterly, the financial attraction is immediately obvious and all local and international sales agents and developers predict that Montenegro would be one of the luxurious Mediterranean developments and buyers would respond to a luxury offer. The buyers will own a piece of what will be the greatest destination in Europe, with a growing popularity of Montenegro as a vacation destination.

As per our research, market prices for real estate properties registered in the middle of April 2007, are going up, and the following is growth rate for the period until middle of September 2007:

Growth rate of sales price per net sqm	House / Villa	Apartment	Land	House/Villa	Apartment	Land
	Aprile 07 / Septmeber 07			Aprile 07 / Septmeber 07		
Bar	130%	79%	237%	19%	77%	19%
Petrovac	-27%	39%	-3%	4%	14%	5%
Budva	45%	78%	70%	44%	13%	19%
Tivat	166%	-22%	18%	10%	96%	12%
Herceg Novi	16%	34%	95%	22%	14%	20%
Kotor	40%	5%	-41%	17%	21%	25%
Ulcinj	8%	4%	30%	3%	15%	116%
Average growth	25%	27%	33%	17%	36%	31%

5.2.5. Sales Agencies

So far, estate agents selling Montenegrin property have had easy business. Whoever starts research will quickly see that many of the properties advertised have already been sold or have been published on the internet merely as examples.

5.2.5.1. International sales agencies

- Mainly on the coast
- Mainly English and Irish agents, also Russian agents, and
- There are some Hungarian international agents.

These agencies mostly serve on a small local area (Budva, Tivat, Kotor and Herceg Novi Riviera).

Commissions here are substantially higher than in the EU. An agent will state that it will not discount their selling price, as there is a lot of demand from wealthy customers (Russian, English, German, Czech and other nationalities).

Following table shows real-estate supply structure offered by international sales agencies:

Bar	Petrovac	Budva	Tivat	Herceg Novi	Kotor	Ulcinj
3,5%	1,0%	16,0%	10,5%	14,0%	54,5%	0,5%

The supply structure according to the type of real-state supply is as follows:

Houses	Apartments	Land plots
44,0%	38,5%	17,5%

Local sales agencies

Following table shows real-estate supply structure offered by local sales agencies:

Bar	Petrovac	Budva	Tivat	Herceg Novi	Kotor	Ulcinj
25,64%	2,15%	29,94%	8,44%	16,58%	14,23%	3,02%

The supply structure according to the type of real-state supply is as follows:

Houses	Apartments	Land plots
55,16%	24,85%	19,99%

5.2.5.2 Sales Agencies - recent results and expectations

Based on interviews with the representatives from the selected sample of the Sales agencies, we examined recent trends and expectation for Montenegrin market that have resulted in following findings:

- The major share in sold real estates in Montenegro are located on Budvanska Riviera and Boko-Kotorski Bay, with a predominant sales realized in areas of Budva, Becici, Kotor, Tivat, Bar and Herceg Novi municipalities.
- The customers are mainly private investors, foremost from Russia, UK, Ireland, Slovenia and Germany and further from Austria, Poland, France, US and other EU countries.
- Average sale price for most of sold non-exclusive properties with standard living area, in coastal region recorded during 2007, amounts to EUR 2,000-3,000 /sqm on average
- Most sales agencies expect to be able to provide a number customers ready to pay price from 2,000-2,500 /sqm for standard properties in coastal area
- Expected price for residential developments with provided medium-standard quality on the coast amounts up to 4,500 EUR/sqm
- Expected price for high standard - exclusive developments on the favourable locations on the coast up to 10,000 EUR/sqm
- Charged agencies commissions for sale are 3% minimum (provided for exclusivity in sale), and 4% to 5% as standard.
- Highest recent sales price, were recorded for properties on Sveti Stefan amounting up to 15,000 EUR/sqm

Agencies' representatives expect further market development and residents supply, enhanced by completion of large infrastructure projects in Montenegro.

5.3. Real Estate Market - Conclusions

- The opportunity for investment into Montenegro real estate (residential and tourism) projects have recently increased significantly, due to:
 - High demand of international buyers
 - Developments and privatization of maritime and tourism assets
 - Government's dedication and investment into infrastructure
 - Favourable tax regime and legal openness
 - Favourable climate.
- Numerous transactions in real estate and purchase on Montenegrin coast have had so far steady growth trend.
- Sales prices rapidly grow more 20% in the last 5-6 months for residential, and 30% for land plots.
- The main buyers are Irish, British and Russian buyers, who in particular have been quick to understand the potential return from property stock. The other buyers are Serbs, Slovenians, Spanish, Swedish and other Western European buyers.
- Due to the big ongoing real-estate developments, supply of residential properties is expected to increase.
- Estimation is that growth of high demand will slow down in approx. four years (peak in 2011).
- However Montenegro Government is undertaking all necessary steps to achieve quality shift in tourism product supply through structured and well prepared projects.

6. MONTENEGRO HOTEL MARKET

6.1. Hotel Supply in Montenegro

The key characteristics of hotel supply in Montenegro are as follows:

- The average size of hotels in Montenegro is approx. 140 rooms. Bigger hotels (with average size above 160 rooms) are located along the coast, in order to be able to accommodate high summer season demand. Average age of the hotels in Montenegro is 26 years, and average period from last renovation is approx. 2 years.¹⁴
- Montenegro's hotel market is still dominated by 3-star category properties (over one third of available capacities). Five and four star hotels in 2007 represented approx. 15,5% of total hotel room count in Montenegro.
- The process of raising standards of Montenegro's hotel industry is underway, since a number of existing hotels have been upgraded and new Greenfield hotel and mixed-use development projects are in the phase of planning or construction. Most of these hotel projects are concentrated in the coastal zone.
- More than 95% of the former state-owned hotels in the country have been privatized, and some 350 million Euros investment has been made by new owners in upgrading of hotel assets.
- Several greenfield sites have been offered for hotel development, primarily along the Velika Plaža in the south of the coast. Since some military sites have been released for development, the potential for development have been increased significantly. These locations for future tourism development are for example Ada Bojana, Buljarica Valdonos, Jaz, the Župa-Bonići region and the island of Mamula at the entrance to the Kotor Bay. Altogether, some 15-20 potential sites have been marked as possible tourism resorts.
- Although dominant share of hotels are operating mostly in sun&sea product category, new and renovated hotel projects that have been put on the market recently, include also some other market drivers, such as MICE, wellness/spa etc.
- Currently, there is a low share of internationally branded hotels at Montenegro's market. However, there are several new hotel projects that are in a planning stage, expected to be internationally branded. Branding is the key issue in further internationalization of the Montenegro's hotel market.

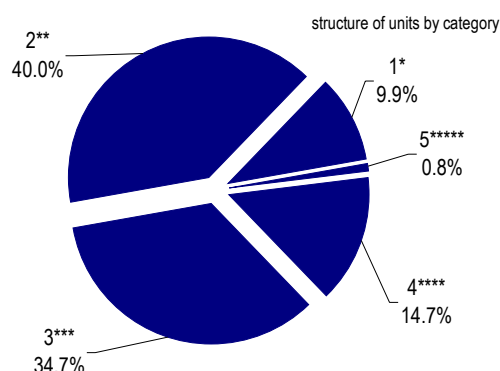
¹⁴ Source: Horwath Hotel Industry Study - Montenegro 2005, 2006 and 2007

2007 HOTEL ACCOMMODATION SUPPLY STRUCTURE IN MONTENEGRO

category	hotels	units	beds
5*****	3	106	247
4****	36	2,065	5,104
3***	81	4,876	11,175
2**	79	5,626	13,851
1*	20	1,396	2,858
total	219	14,069	33,235

Source: Ministry of Tourism and Environment of Montenegro

2007 HOTEL ACCOMMODATION SUPPLY STRUCTURE IN MONTENEGRO



Source: Ministry of Tourism and Environment of Montenegro

Foreign owned, managed and franchised hotels in Montenegro - status quo as at April 2007

Hotel	Location	Star category ^a	Ownership/management	No. of rooms/suites ^b
In operation by end-2007				
Maestral	Bečići, Budva	4*	Hit, Slovenia	180
Tara	Budva	3*	Unis Tours, Bosnia-Herzegovina	243
Rivijera	Petrovac, Budva	4*	Perni Bau, Germany	91
Mediteran	Budva	3*	Maestraltours, Budva	222
Queen of Montenegro	Budva	4*P	Springer Plaetzer, Austria	136
Vila Olivia	Budva	4*P	Springer Plaetzer, Austria	150
As	Budva	5*P	Sibinergo Resurs, Russia	150
4 July	Petrovac, Budva	4*P	Moskovskaja Trastovaja Group, Russia	9
Avala	Budva	5*P	Beppler & Jacobson	225
Bianca	Kolašin	5*P	Beppler & Jacobson	143
Bellevue	Bečići, Budva	4*	Immobilia Budva/Iberostar, Spain	576
Sveti Stefan/Miločer	Sveti Stefan, Budva	4*P	Amanresorts, Singapore	50
Queen's Beach	Sveti Stefan, Budva	5*P	GHM/Amanresorts, Singapore	125
Sun Resort	Herceg Novi	5*P	Hunguest Hotels, Hungary	250
Hotel Riviera	Herceg Novi	4*P	Israel Hotel Company	119
Hotel Splendid	Budva	2*	Hotel Group Montenegro Stars	343
Hotel Otrant	Ulcinj	5*P	Barkli SK, Russia/Park Inn by Rezidor	250
Hotel Mediteran	Ulcinj	4*P	Becovic Management, USA	150
Contract negotiations and/or modernization underway				
Hotel Village Slovenska Plaža ^c	Budva	3*	Soravia Group, Austria	1,000
Hotel Kotor Excelsior (plus Kotor Palace and Kotor Bay)	Kotor	5*P	United Investment Partners	700
Marina Resort Development	Tivat	4/5*	Peter Munk, Canada	500
Hotel Topolica	Bar	4*P	Azelea Hotels, Austria	150
Hotel Complex Korali	Bar	P	Azelea Hotels, Austria	250
Hotel Lido	Ulcinj	4*P	Management contract	300
Hotel Crna Gora	Podgorica	5*P	Management contract	150
Hotel Ljubović	Podgorica	3*P	Franchise negotiations	80
Hotel Planinka	Žabljak	4*P	Management contract	150
International tenders pending				
Ada Bojana Hotel Village	Ulcinj	4/5*P		2,500
Mediterranean Health Center	Herceg Novi	4*P		400
Plaza Hotel	Herceg Novi	4*P		250
Hotel Igalo	Herceg Novi	3*P		250

a. P = pending classification b. Actual or planned c. Long-lease agreement d International management (but no management contract)

Sources : Agency for Economic Restructuring and Foreign Investments; Ministry of Tourism and Environmental Protection

6.2. Hotel Demand in Montenegro

The key characteristics of Montenegro's hotel demand are as follows:¹⁵

- Parallel with entering of new hotel projects to the market, the new market drivers such as MICE and wellness/spa have been added to the existing hotel products. This is the base for future change of hotel business mix structure. Currently, in hotels in coastal destinations the share of business guests in total hotel overnights is 5%, in hotels in Podgorica and Cetinje 71%, and in mountain hotels approx. 24% of total hotel demand. Local business guests and business guests from neighbouring countries (which are in average more price sensitive) are dominantly oriented to mid-market hotels (3*), while international business guests and MICE guests are oriented to higher class hotels (4* and 5*).
- MICE or conference hotel demand is oriented mostly to the renovated or new hotel properties, which can accommodate such a demand in quality conference facilities. Since the MICE demand exists in the market, most of new hotel projects have or plan to have conference facilities in their product mix. This strategy allows to combine various market drivers (sun&sea in summer season, MICE in shoulder season, seniors in low season), which proved to be successful sales strategy in hotel industry of this region.
- Allotments and groups represent the major distribution channel in Montenegro's hotel industry: almost 80% of total hotel overnights are generated by these channels in average in Montenegro, and in coastal hotels some 81% of total overnights volume. By hotel categories, the highest share of touroperating business is in 3-star properties (84%), while in 4-star hotels some 66% of total hotel demand is generated by allotments and groups.
- High orientation of hotels to the touroperating business affects the hotel profitability, since the discounts in this distribution channel are up to 50% of the rack rates (in average 30 to 40%).
- Individual tourist / leisure guests (F.I.T.) represent approx. 12.5% of total hotel demand. International FIT are oriented to higher class hotels (4* and 5*), while domestic individual leisure guests are accommodated mostly in mid-market hotels (3*).
- In the dominant sun & sea hotel market, Russia represents the most important originating market (18%), followed by Serbia (12%) and Czech Republic (9%).
- Seasonality of the hotel business in Montenegro is high, especially in the coastal zone (48% of the total annual overnights are realized in July and August, and 80% in the period June to September). In 4-star hotels, the seasonal concentration of the business is somewhat lower: 42% of the total annual overnights are realized in July and August, and 74% of annual overnights in the period from May to September.
- Average occupancy level¹⁶ of hotels in Montenegro (in 2007) is 35.7%, and in the coastal zone 37.6%. Higher quality hotels achieve the highest occupancy

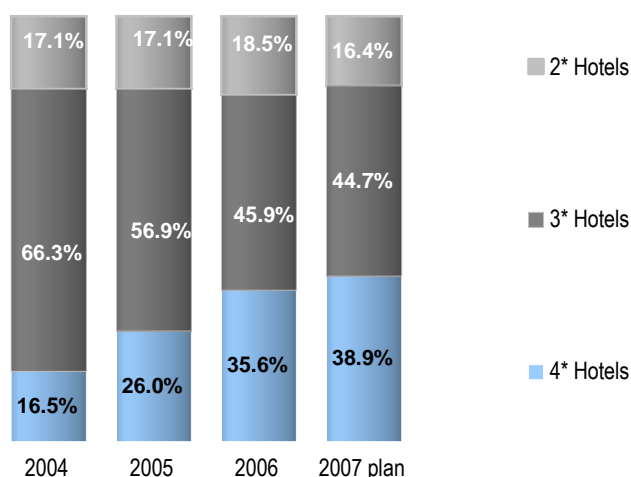
¹⁵ Horwath Hotel Industry Survey Montenegro, 2007

¹⁶ Room occupancy calculated on an annual basis (365 days)

level: 4-star properties have 48.5% occupancy, while 3-star hotels achieve 30.5% occupancy.

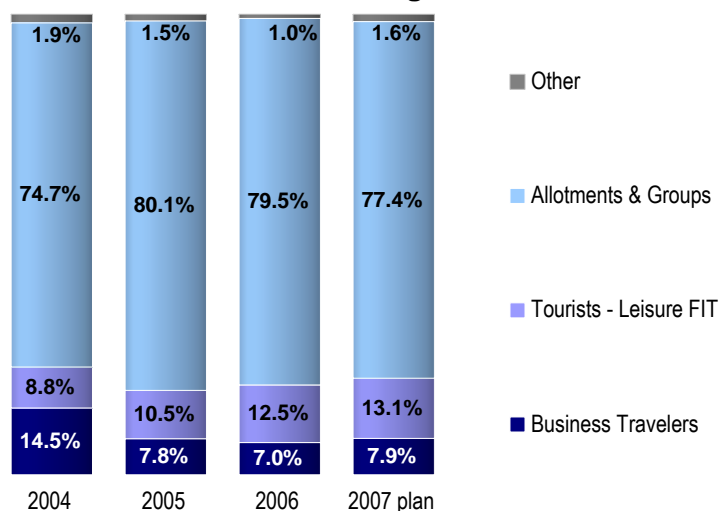
- Average daily room rate (in 2007, without VAT) in Montenegro's hotels is 50 Euros - almost the same level is achieved in coastal hotels. Four-star properties achieve 67.1 Euros ADR, while 3-star properties achieve significantly lower ADR (32.8 Euros).

2004 - 2006 Actual and 2007 Budgeted Overnights Structure in Montenegrin Hotels by Category (%)



Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

Market mix in hotels in Montenegro



Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

2005 Montenegrin Highlights by Region and Hotels' Category

2006	Montenegro	Seaside Area	Central Area	Mountain Area	4* Hotels	3* Hotels	2* Hotels
Average Size of Property (rooms)	139	162	89	54	108	153	173
Average Annual Room Occupancy	29.8%	31.7%	17.6%	14.5%	37.7%	28.6%	22.0%
Average Room Rate (Euro)	42.92	43.17	39.56	39.46	62.06	31.47	29.51
Total Operating Revenue per Available Room (Euro)	10,459	11,616	10,793	4,014	16,736	7,119	4,638
GOP per Available Room (Euro)	2,212	2,442	4,190	-662	5,124	401	102
Average No. of Employees per Room	0.62	0.60	0.91	0.52	0.97	0.52	0.34
Monthly Payroll Expenses per Employee (Euro)	451	470	285	347	515	407	325
Total Operating Revenue per Employee (Euro)	16,968	19,438	11,894	7,731	17,263	13,729	13,448
Payroll and Related Expenses (% of Operating Rev.)	29.2%	31.4%	10.3%	38.9%	26.4%	35.1%	31.0%
Gross Operating Profit (% of Operating Revenue)	21.2%	21.0%	38.8%	-16.5%	30.6%	5.6%	2.2%
Profit Before Depreciation, Amortization and Profit Tax (% of Operating Revenue)	18.0%	20.8%	24.3%	-39.7%	22.5%	11.6%	5.1%
Profit Before Profit Tax / Loss (% of Total Rev.)	9.0%	12.3%	18.4%	-61.5%	12.4%	5.7%	-5.1%
Domestic Guests	9.3%	7.5%	37.4%	49.2%	8.4%	8.7%	12.7%
Foreign Guests	90.7%	92.5%	62.6%	50.8%	91.6%	91.3%	87.3%
Average Length of Stay (days)	4.6	5.1	3.3	2.8	3.7	4.1	7.2
Russia	17.6%	18.4%	2.3%	3.3%	21.7%	16.5%	12.5%
Serbia	12.1%	11.5%	27.4%	15.9%	3.9%	16.1%	17.8%
Czech Republic	9.2%	9.6%	0.4%	0.4%	1.1%	9.5%	23.7%
Other Foreign Countries	51.9%	53.0%	32.5%	31.3%	65.0%	49.2%	33.3%
Business Travelers	7.0%	5.4%	70.7%	23.6%	11.6%	6.4%	2.5%
Tourists/Leisure FIT	12.5%	12.3%	1.9%	25.6%	20.9%	8.2%	12.2%
Allotments & Groups	79.5%	81.4%	21.8%	50.8%	66.1%	84.3%	85.1%
Other guests	1.0%	0.9%	5.6%	0.0%	1.3%	1.1%	0.2%
Average Age of Hotel (in years)	25.7	26.1	21.7	25.8	22.6	25.4	33.8
Period from Last Renovation (years)	1.6	2.0	0.0	0.8	0.6	2.8	0.9

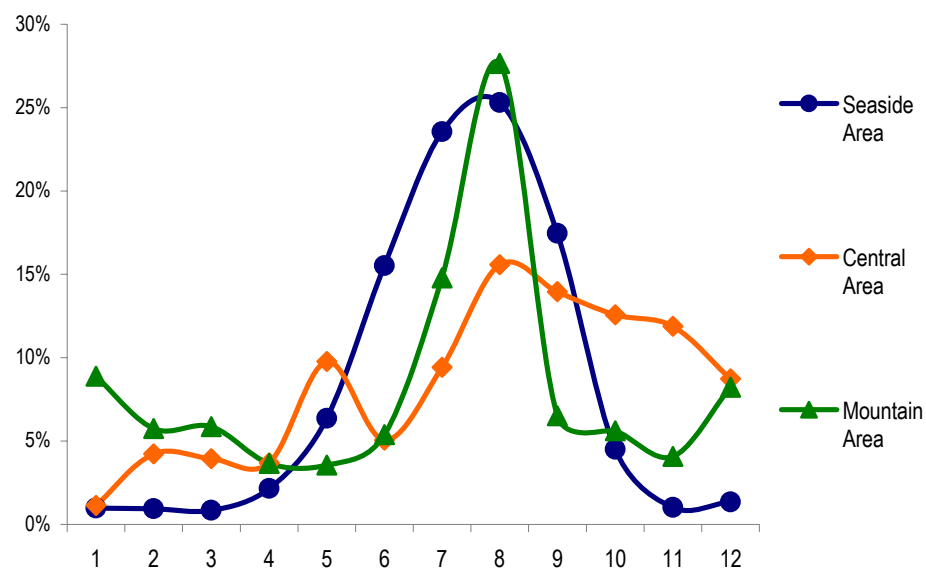
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

2006 Montenegrin Highlights by Region and Hotels' Category

2007 plan	Montenegro	Seaside Area	Central Area	Mountain Area	4* Hotels	3* Hotels	2* Hotels
Average Size of Property (rooms)	137	160	89	54	100	156	173
Average Annual Room Occupancy	35.7%	37.6%	28.1%	20.6%	48.5%	30.5%	28.7%
Average Room Rate (Euro)	50.00	48.76	76.48	43.01	67.17	32.85	21.95
Total Operating Revenue per Available Room (Euro)	14,581	15,618	22,370	5,584	21,549	9,827	5,087
GOP per Available Room (Euro)	5,028	4,930	12,174	623	8,810	2,026	885
Average No. of Employees per Room	0.36	0.34	0.53	0.52	0.75	0.22	0.17
Monthly Payroll Expenses per Employee (Euro)	626	667	443	353	708	530	366
Total Operating Revenue per Employee (Euro)	40,046	45,958	42,217	10,755	28,663	44,337	29,154
Payroll and Related Expenses (% of Operating Rev.)	25.3%	29.9%	6.4%	28.7%	23.5%	29.8%	27.0%
Gross Operating Profit (% of Operating Revenue)	34.5%	31.6%	54.4%	11.2%	40.9%	20.6%	17.4%
Profit Before Depreciation, Amortization and Profit Tax (% of Operating Revenue)	27.3%	26.6%	40.3%	-0.1%	33.1%	15.3%	9.7%
Profit Before Profit Tax / Loss (% of Total Rev.)	19.8%	19.0%	35.8%	-14.6%	24.8%	10.7%	-2.7%
Domestic Guests	11.5%	8.0%	52.6%	53.7%	6.8%	12.8%	18.7%
Foreign Guests	88.5%	92.0%	47.4%	46.3%	93.2%	87.2%	81.3%
Business Travelers	7.9%	5.4%	70.2%	21.4%	12.9%	6.8%	3.1%
Tourists/Leisure FIT	13.1%	13.0%	1.5%	24.4%	17.8%	11.2%	10.8%
Allotments & Groups	77.4%	80.2%	17.7%	54.2%	67.2%	80.3%	85.6%
Other guests	1.6%	1.4%	10.6%	0.0%	2.2%	1.7%	0.4%

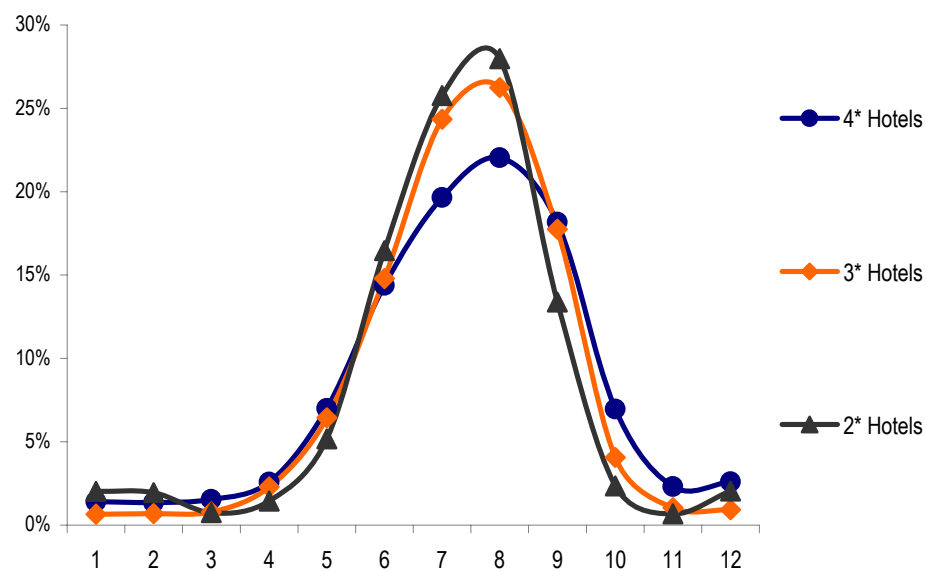
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

Overnights Seasonality in Montenegrin Hotels by Region



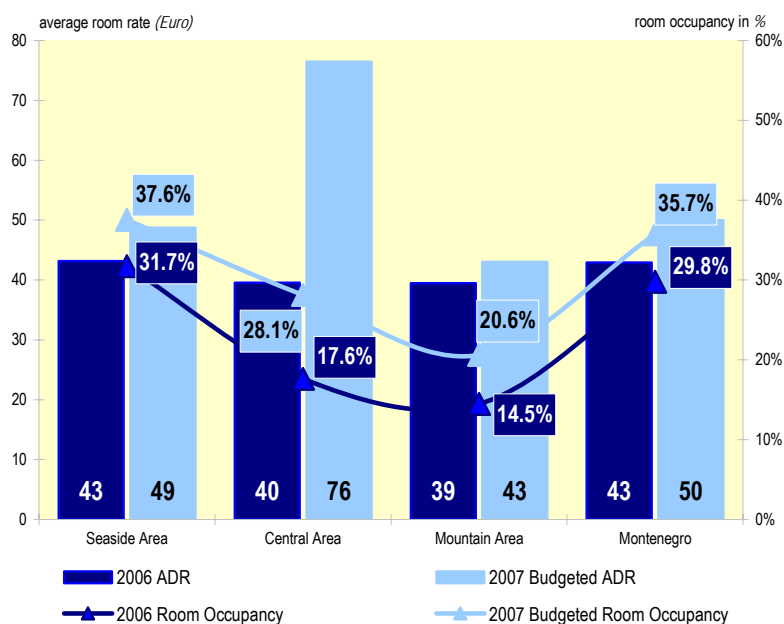
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

Overnights Seasonality in Montenegrin Hotels by Category



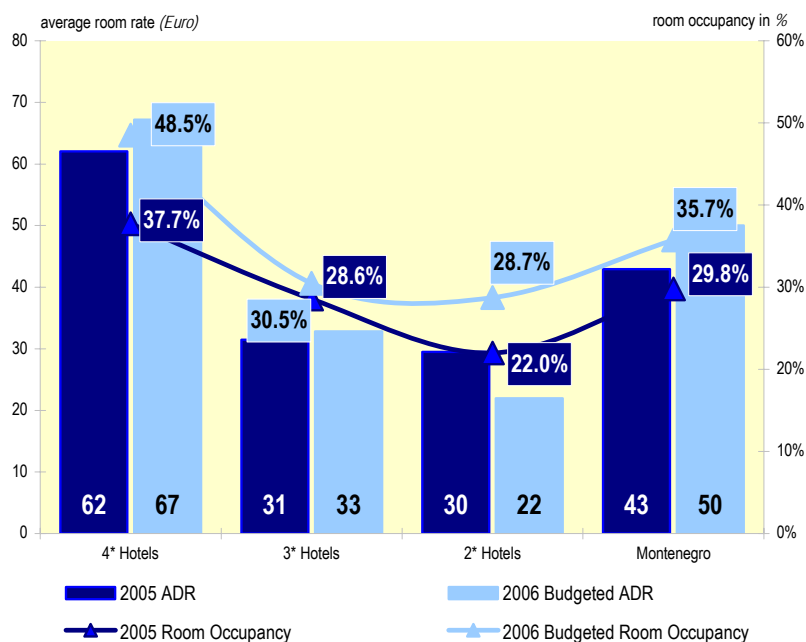
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

2006 and 2007 Montenegrin Hotels Average Room Rate and Annual Room Occupancy by Region



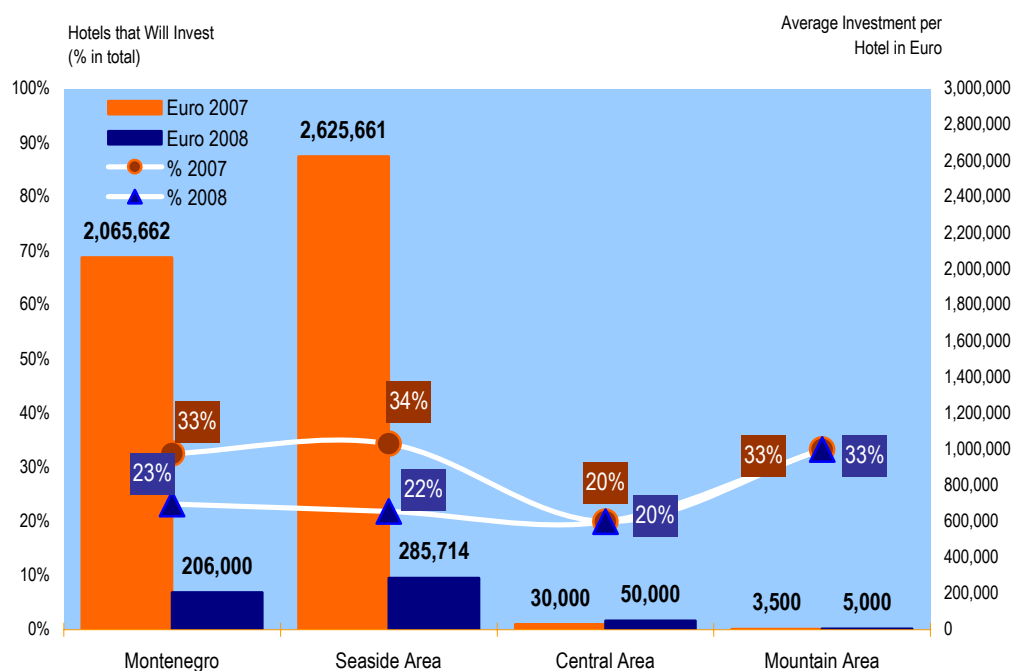
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

2006 and 2007 Montenegrin Hotels Average Room Rate and Annual Room Occupancy by Category



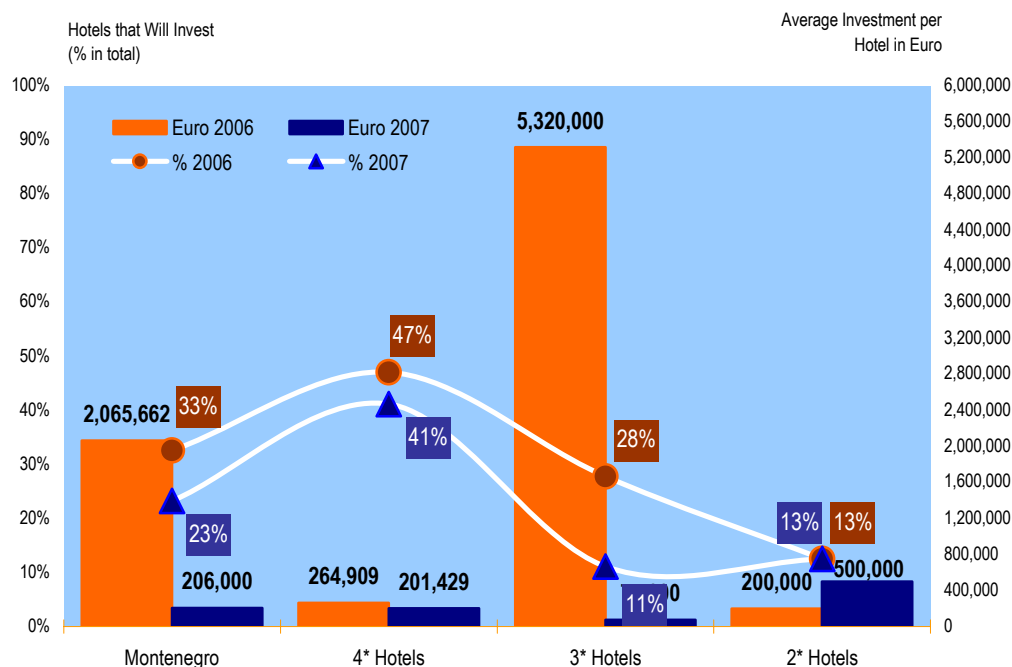
Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

Planned Investments in 2007 and 2008 by Region



Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

Planned Investments in 2007 and 2008 by Category



Source: Horwath Hotel Industry Survey Montenegro 2007, Horwath Consulting Zagreb

6.3. Top performer hotels in Montenegro

Due to the unique product mix and the investors objective to build 5 star property operated by first tier international hotel operator, herewith we provide an overview of the top performer hotels in Montenegro currently operating in Montenegro. As top performing hotels we have identified as follows:

1. Conference & Spa resort hotel Splendid, 5*, located in Bečići;
2. Beach resort hotel Montenegro, 4*, located in Bečići;
3. Hotel Iberostar Bellevue, 4*, located in Bečići;
4. Hotel Queen of Montenegro, 4*, located in Bečići;
5. Maestral resort and casino, 4*, located in Pržno.

The features of these hotels are as follows:

- All of them are located on Budva riviera, at the first seafront;
- All of them currently represent the best hotels in Montenegro, where hotel Splendid is the leader (5*) while other selected hotels are 4-star properties;
- All selected hotels are recently developed, mostly as the reconstructions of the existing hotel properties; however, due to the extent of investment, hotel Splendid could be considered as the greenfield investment;
- All selected hotels are big hotel properties, with more than 130 keys;
- Selected hotel properties mostly have year round operation (with exception of Iberostar Bellevue hotel, which has seasonal operation (April – October).

The analyses of the above defined hotel set shows that analysed hotels have the following key performance indicators:

- annual room occupancy, ranging from 45% to 62%
- average daily room rate, ranging from 51 Eur to 154 Eur.










In achieving the above mentioned performances, the selected hotels dominantly operate on the basis of allotments (their share in total overnight volumes ranges from 58% to 84%), while the dominant segments are the leisure guests. The share of MICE segment is the highest at hotel Splendid (14% of total overnight volume).

Property	CONFERENCE & SPA RESORT HOTEL SPLENDID, Bečići				
Owner	Hotels Group Montenegro Stars d.o.o., Kotor, Montenegro				
Category	5 **** hotel				
Year of last renovation	2007 finalized complete reconstruction				
Operating period	January - December				
Rooms	341				
Type of rooms and average room area (incl. bathroom and hall)	322 superior rooms (41 sq.m. each), 4 junior suites (each 74 sq.m.), 1 presidential suite (385 sq.m.), 1 Penthouse suite (215 sq.m.) and 13 wellness suites (each 84 sq.m.)				
F&B facilities					
service possibilities	BB or HB				
main restaurant	600 seats				
lobby bar	200 seats				
conference and banquet bar	170 seats				
pool bar / winter bar	100 seats				
Window of Montenegro (a la carte restaurant)	60 seats				
lobby restaurant	70 seats				
terrace restaurant	80 seats				
beach restaurant and bar	100 seats				
Conference facilities					
Conference hall with possibility to split in 4 parts with aperitif bar and media centre (total area 2000 sq.m.)	780 seats				
Other facilities					
Wellness and spa centre (2800 sq.m.) organized in co-operation with Haslauer "Hamam" and "Jacuzzis", thermal, steam, infrared sauna, massage centre, trim cabinet, solarium	Pitch and put golf course		Children's castle		
	Hotel garage on 3 levels with 230 parking lots		Multipurpose sport ground		
2 indoor and 2 outdoor swimming pools (1000 sq.m) with pool water treated with ozone			Private beach		
Key Performance Indicators					
year	Annual room occupancy	Number of sold rooms	Average daily room rate (ADR)		Total revenue
2007	51%	63,826	154 €		14,244,009 €
Number of employees in 2007	376	or 1.10 per room	2007 Total revenue per room		41,771 €
Price discounts	Tour operator rates are 10% lower than rack rates	Distribution channels	59.7% allotments 26.4% individuals		13.8% congress groups 0.1% other groups

Source: Horwath HTL market research, 2007

Property	BEACH RESORT HOTEL MONTENEGRO, Bečići			
Owner	Hotels Group Montenegro Stars d.o.o., Kotor, Montenegro			
Category	4 **** hotel			
Year of last renovation	2004 - 2005 renovation			
Operating period	January - December			
Rooms	172			
Average room area (incl. bathroom and hall)	25.37 sq.m.			
F&B facilities				
service possibilities	BB, HB or FB			
main restaurant				
aperitif bar	40 seats			
lobby bar	40 seats			
piano bar - night club	80 seats			
coffee bar Milka	112 seats			
night Stars club	180 seats			
express beach restaurant Galia	240 seats			
beach Tequila bar	100 seats			
Conference facilities				
3 conference halls of total 510 sq.m.	270 seats			
Other facilities				
Wellness centre with 2 beauty and massage salons, trim cabinet, 2 sauna, 2 jacuzzis, 3 hydro massage showers, Turkish steam bath (80-95°C)		Medical centre with massage and therapy		Private beach
		3 outdoor swimming pools (40-60°C), 1 indoor swimming pool		
Key Performance Indicators				
year	Annual room occupancy	Number of sold rooms	Average daily room rate (ADR)	Total revenue
2006	60%	33,740	56 €	3,333,917 €
2007	61%	38,132	82 €	4,476,512 €
Number of employees in 2007	158	or 0.92 per room	2007 Total revenue per room	26,026 €
Price discounts	Tour operator rates are 10% lower than rack rates	Distribution channels	83.6% allotments 11.8% individuals	3.4% congress groups 1.2% other groups

Source: Horwath HTL market research, 2007

Property	HOTEL IBEROSTAR BELLEVUE, Bečići			
Owner	Iberostar Bellevue Hotels Group d.o.o.		 	
Brand	Iberostar Hotels & Resorts			
Category	4 **** hotel			
Year of last renovation	2004 - 2006 complete renovation of 3 hotel buildings		 	
Operating period	April - October			
Rooms	578		 	
Type of rooms	double and family rooms			
Average room area (incl. bathroom and hall)	24 - 25 sq.m		  	
F&B facilities				
service possibilities	BB, HB or all inclusive			
4 restaurants	950 seats			
4 bars	610 seats			
Conference facilities				
2 conference halls	650 seats			
Other facilities				
Swimming pools: 3 outdoor (2 for adults, 1 for children) and 1 indoor				
Sport: Children playground, tennis courts, beach volleyball, basketball-street ball, aerobic, water gym, table tennis, picado				
SPA centre	Animation team			
Private beach				
Key Performance Indicators				
year	Annual room occupancy	Number of sold rooms	Average daily room rate (ADR)	Total revenue
2006	34%	72,388	50 €	6,000,000 €
2007	45%	95,067	51 €	7,500,000 €
Number of employees in 2007	290 or 0.50 per room		2007 Total revenue per room	12,976 €
Price discounts	Tour operator rates are 30% lower than individual rates	Distribution channels	80% tour operators	20% travel agencies and individuals
Main markets	Russia, Belgium, France, England, Germany, Austria, Ireland, Finland, Serbia, Ukraine, Slovenia and Ex Yugoslavia	Market segments	80% leisure families during Summer	20% groups (incentive, seminar, congress)

Source: Horwath HTL market research, 2007

Property	HOTEL QUEEN OF MONTENEGRO, Bečići		
Owner	Tourist agencies Adriatic Express, Montenegro and Springer Reisen, Austria		
Category	4 **** hotel		
Year of last renovation	2005 - 2006 complete renovation and additional building		
Operating period	January - December		
Rooms	129		
Type of rooms	twin, double, family rooms and suites		
Average room area (incl. bathroom and hall)	28.9 sq.m		
F&B facilities			
service possibilities	BB or HB		
main restaurant	400 seats		
a la carte restaurant	50 seats		
taverna	100 seats		
beach restaurant	80 seats		
Conference facilities			
2 conference halls	150 seats		
1 meeting room	14 seats		
Other facilities			
Wellness centre including saunas, jacuzzi, massages, solarium, fitness and cosmetical treatments			
Casino with Roulette, Electronic Roulette, Black Jack, Caribbean Poker and Slot machines			
Indoor/outdoor swimming pool			
Sport ground			
Yacht rent	Private beach		
Key Performance Indicators			
year	Annual occupancy	Average daily room rate (ADR)	Price discounts
2006	34%	63 €	Tour operator rates are 30% lower than rack rates
2007	58%	85 €	
Main markets	Russia, Ireland, Great Britain, Germany, Austria, Italy		
Market segments	69% leisure guests	Distribution channels	58% tour operators, 24% groups, 18% individuals



Source: Horwath HTL market research, 2007



Property	MAESTRAL RESORT & CASINO, Pržno, Sveti Stefan			
Owner	HIT d.d., Nova Gorica, Slovenia			
Category	4 **** hotel			
Year of last renovation	2002 - 2004 renovation of rooms, new wellness, congress hall, casino and implementation of new hotel technology			 
Operating period	January - December			
Rooms	180			
Type of rooms	double, single rooms and suites			
Average room area (incl. bathroom and hall)	34 sq.m			
F&B facilities				
service possibilities	BB or HB			
2 restaurants	470 seats			
1 a la carte restaurant	30 seats			
aperitif bar	50 seats			
casino bar	200 seats			
beach bar	50 seats			
Conference facilities				
1 congress hall (possible division in 3 separate rooms)	386 seats			
Other facilities				
Casino with 102 slot machines, an electronic roulette and 11 gaming tables				
Wellness centre with indoor and outdoor swimming pools, different kinds of saunas, a solarium, a beauty parlour, as well as a massage centre				
Children swimming pool and playground				
Library	Shops			
Private beach				
Key Performance Indicators				
year	Annual room occupancy	Number of sold rooms	Average daily room rate (ADR)	
2006	60%	39,716	76 €	
2007	62%	40,809	82 €	
Number of employees in 2007	228	or 1.27 per room		

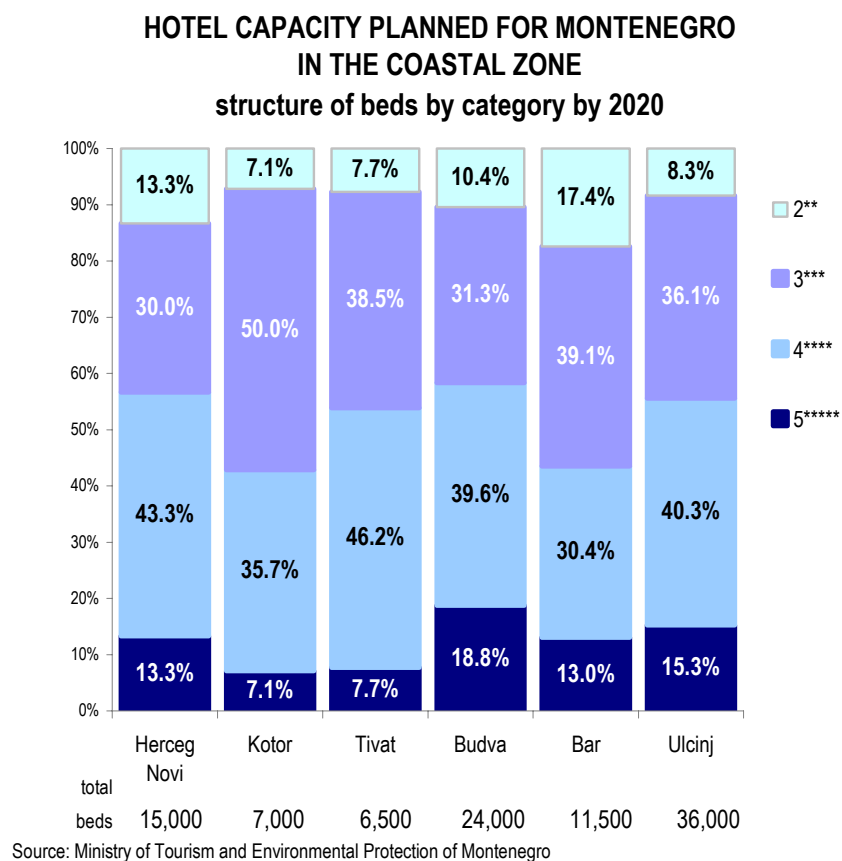
Source: Horwath HTL market research, 2007

6.4. Hotel Market – Outlook and Conclusions

Montenegro hotel market is presently characterized by the following:

- There is a concentration of hotel supply in the coastal zone, where the average hotel has more than 160 keys. The overall standard of all hotels is 3+ category, although during last five years many hotel reconstructions took place. This brought the new (typically 4 to 5-star) hotel products to the market. Although these products are mainly based on sun and sea, the new market drivers such as MICE and wellness are entering the market.
- The current investment process in hotel industry of Montenegro is aiming to increase hotel quality standards, both in existing hotels (through reconstructions) or in new greenfield projects. However, even these new hotels on the market operate mostly with touroperators (allotment guests represent approx. 80% of total business), and they target mostly leisure guests.
- Based on such sales strategy, and the fact that the seasonality of the hotel business is still very high in Montenegro (a half of annual overnight volumes are realized in two summer months), the average hotel operating performances are modest. Hotel occupancy is 43% in average on the coast. However, 4-star hotels have higher occupancies (56% in average). The ADR in 4* hotels is, in average, 41 Eur.
- The top performing hotels located on Budva riviera (Conference & Spa resort hotel Splendid, Beach resort hotel Montenegro, Hotel Iberostar Bellevue, Hotel Queen of Montenegro, and Maestral resort and casino) represent the leading hotels in Montenegro, measured by operating performances. They achieve occupancy between 45 and 62% and ADRs between 51 and 154 Euros, while their business is dominantly based on allotments.
- With regards to the future hotel development in Montenegro, it should be pointed out that this market is currently missing the international brands. However, several new projects are going to be internationally branded (such as Kempinsky, Aman Resorts), so future Montenegro hotel market will be better adjusted to the needs of international tourism demand. This is especially important, since in the close vicinity, in Croatia, on Dubrovnik Riviera, there are several internationally branded upscale hotels already operating (Hilton Dubrovnik, Adriatic Luxury Hotels Dubrovnik) or to be developed (The Regent Dubrovnik, Radisson SAS hotel and residences Dubrovnik) that could compete with the hotels on Montenegro coast, especially at Budva riviera.
- According to the available information¹⁷ some 1,300 hotel rooms (in 9 hotel properties) were expected to be added to the market during the course of 2007. These projects will generate approx. 170 thousand additional overnights. Over the next two years (2008-09), some 13 hotels are expected to be added to the market, estimated to generate approx. 220 thousand overnights.
- The expectations of the Government are that the overall quality structure of hotels in Montenegro will be significantly upgraded. By 2020, the following hotel capacity structure by category is expected:

¹⁷ Source: Ministry of Tourism and Environmental Protection and DEG, 2007



7. ONGOING AND FUTURE HOTEL AND RESORTS DEVELOPMENT IN MONTENEGRO AND CROATIA

7.1. Ongoing and Future Hotel Development in Montenegro

The following table presents the development of hotels and resorts in Montenegro. For each hotel project the following elements are outlined:

- the name of the hotel / resort or hotel company with the year of privatization,
- the accommodation capacities are described,
- the obligatory investments, as per privatization agreement signed with the Agency for privatization of Montenegro; however, since the real investments are much higher, we have outlined the already done investments and realized investments per key,
- the owner of the hotel / resort,
- the category,
- the location,
- the development phase and planned year of start of operation.

DEVELOPMENT OF HOTELS AND RESORTS IN MONTENEGRO

Name of hotels / resorts / hotel companies and year of privatization	Accommodation capacity	Obligatory investments (EUR)	Investm. done (EUR)	Done invest. per key (EUR)	Owner	Category	Location	Development phase	Planned year of commissioning
BUDVA RIVIERA									
Hotel MAESTRAL (2001)	180 rooms (9 suites, 149 double and 22 single rooms)	7,209,216	15,000,000	83,333	HIT, Slovenia	4*	Milocer	Reconstruction finished	Operating
Hotel AS (2002)	135 rooms - a total of 295 beds	11,248,421			Sibinergoresurs, Moskva, Russia	4*	Perazica Do	construction	2008
Hotel 4 JUL (2002)	115 rooms - a total of 230 beds	3,400,000	7,000,000	60,870	Moskovskaja Trastovaja Grupa Moskva, Russia	4*	Petrovac	Reconstruction finished	Operating
Hotel MONTENEGRO A (2003)	136 rooms and 12 apartments - a total of 508 beds	1,120,000	9,000,000	60,811	Unis Tours ,Banja Luka, Bosnia and Herzegovina		Becici	Reconstruction finished	Operating
Hotel RIVIJERA (2003)	91 rooms - a total of 252 beds (in apartments, double and single rooms)	1,921,980	6,000,000	65,934	Pemi BauBerlin, Germany	4*	Petrovac	Reconstruction finished	Operating
Hotel IBEROSTAR BELLEVUE (2003)	578 rooms (double and single)	7,779,000	10,000,000	17,301	Imobilija , Budva, Montenegro	4*	Becici	Reconstruction finished	Operating
Hotel MEDITERAN (2003)	230 rooms - a total of 547 beds	2,639,200	15,000,000	65,217	MaestraltoursBudva, Montenegro	4*	Becici	Reconstruction finished	Operating
Hotel MONTENEGRO (2003)	168 double rooms and 4 luxurious apartments with a total of 344 beds	1,730,000	8,000,000	46,512	Hotel Apartmans Brunsweek	4*	Becici	Reconstruction finished	Operating
Hotel Splendid (2004)	322 superior rooms and suites with private balcony, 4 junior suites, 1 Presidential suite, 1 Penthouse suite, 13 wellness executive suites.	4,783,610	90,000,000	263,930	Hotels Group Montenegro Stars doo Kotor		Becici	Reconstruction finished	Operating
Hotel Queen of Montenegro (ex. Panorama) (2004)	129 rooms and 7 apartments	5,056,000	na		Springer&Sohns,Austria	4*	Becici	Reconstruction finished	Operating
Hotel Avala (2004)	226 rooms - a total of 586 beds	9,032,000			Bepler&Jacobson Ltd UK	4*	Budva	Reconstruction finished	Operating
Hotel "Vile Oliva" (2006)	95 rooms - a total of 300 beds (in apartments and double rooms)	9,806,100			Konzorcijum:- Pletzer Leasing Austria- Montemlin Šajo Montenegro- Adriatic Express Montenegro	4*	Petrovac	Planning and designing	Operating, 2010
Hotel Sheraton		na			Private	4*	Becici	Planning and designing	2011
Hotel Alet	74 apartments and 131 rooms	20,000,000			Vektra Montenegro Podgorica, Montenegro	5*	Becici	Planning and designing	2010
Apart - Hotel	na	na			Dragan Brkovic	5*	Budva	Planning and designing	2010

DEVELOPMENT OF HOTELS AND RESORTS IN MONTENEGRO

Name of hotels / resorts / hotel companies and year of privatization	Hotels in ownership (if relevant)	Accommodation capacity	Obligatory investments (EUR)	Owner	Category	Location	Development phase	Planned year of commissioning
ULCINJ - BAR RIVIERA								
HTP »Korali« AD	Hotel Topolica	150 rooms - a total of 300 beds (in apartments, three-bedded, double and single rooms)	7,550,000	Consortium. Atlasmont, Trend, NFD Holding, Fininvest doo Montenegro	4*	Bar	Reconstruction not finished	Operating, 2009
	Hotel Korali	385 rooms - a total of 869 beds (in apartments, three-bedded, double and single rooms)			4*	Sutomore	Reconstruction not finished	Operating, 2009
	Hotel Južno more	94 rooms - a total of 186 beds (in three-bedded, double and single rooms and double bungalows)			3*	Sutomore	Reconstruction not finished	Operating, 2009
	Hotel Sozina	32 rooms - a total of 64 beds (in three-bedded, double and single rooms)			3*	Sozina	Reconstruction not finished	Operating, 2009
	Hotel 13. jul	25 rooms - a total of 50 beds (in double rooms)			3*	Skadar Lake	Reconstruction not finished	Operating, 2009
	Hotel Rumija	9 rooms - a total of 18 beds (in double rooms)			3*	Border to Albania	Reconstruction not finished	Operating, 2009
Hotel Otrant (2004)	--	128 rooms and 129 apartments	4,500,000	Barkli SK, Russia	4*	Velika Plaza	Reconstruction not finished	Operating, 2009
Hotel Mediteran (2005)	--	243 rooms	6,500,000	Bečović menadžment GROUP Ulcinj, Montenegro	3*	Ulcinj	Reconstruction not finished	Operating, 2009
Hotel Galeb (2006)	--	155 rooms and 25 apartments - a total of 300 beds	35,000,000	Rokšped d.o.o. Podgorica, Montenegro	4*	Ulcinj	Reconstruction not finished	Operating, 2009
Hotel Lido (2006)	--	256 rooms - a total of 558 beds (in apartments, semi-apartments, four-bedded, three-bedded, double and single rooms)	37,000,000		4*	Velika Plaza	Reconstruction not finished	Operating, 2009
HERCEG NOVI - TIVAT RIVIERA								
HTP „Boka“ AD (2007)	Hotel Plaza	287 rooms - a total of 582 beds (in apartments, three-bedded, double and single rooms)	64,000,000	Vektra Montenegro Podgorica, Montenegro	5*	Herceg Novi	Planning and designing	Operating, 2010
	Hotel Igalo	270 rooms - a total of 517 beds (in apartments, three-bedded, double and single rooms)			5*	Igalo	Planning and designing	Operating, 2010
	Hotel Tamaris	140 rooms - a total of 280 beds (in apartments, three-bedded, double and single rooms)			4*	Igalo	Planning and designing	Operating, 2010
Hotel Hunguest Topla (2004)	--	254 rooms	3,358,000	Hunguest Hotels, Hungary	3*	Herceg Novi	Reconstruction finished	Operating
Hotel Hunguest Centar (2004)	--	114 rooms and 7 apartments - a total of 200 beds	1,660,000	Hunguest Hotels, Hungary	4*	Herceg Novi	Reconstruction finished	Operating
Hotel Rivijera (2004)	--	248 rooms - a total of 510 beds	2,000,000	JT Investment Limited, Israel	3*	Njivice, Herceg Novi	Reconstruction not finished	Operating, 2008
Vacation, Recreation and Health Centre "Igalo" AD (2006)	--	256 rooms - a total of 558 beds (in apartments, semi-apartments, four-bedded, three-bedded, double and single rooms)	4,002,975	Cosortium: HLT Fond and HTP Primorje	4*	Igalo	Planning and designing	Operating, 2010
Hotel in Tivat new marina		60 rooms		PM Securities, Barbados	5*	Tivat	Planning and designing	2010
PODGORICA								
Hotel Podgorica (2004)	--	226 rooms - a total of 586 beds	3,412,921	Normal Tours doo Podgorica, Montenegro	4*	Podgorica	Reconstruction finished	Operating
UTIP Crna Gora Podgorica (2006)	Hotel Crna Gora	138 rooms - a total of 290 beds (in apartments and three room categories: economy, standard and luxurious)	17,304,300	Normal Tours doo Podgorica, Montenegro	4*	Podgorica	Planning and designing	Operating, 2010
	Hotel Ljubović	82 rooms - a total of 191 beds			3*	Podgorica	Planning and designing	Operating, 2009
	Hotel Zlatica	60 rooms - a total of 150 beds			3*	Podgorica	Reconstruction not finished	Renting

Source: Agency for privatization of Montenegro and Ministry of tourism and environmental protection of Montenegro, 2007

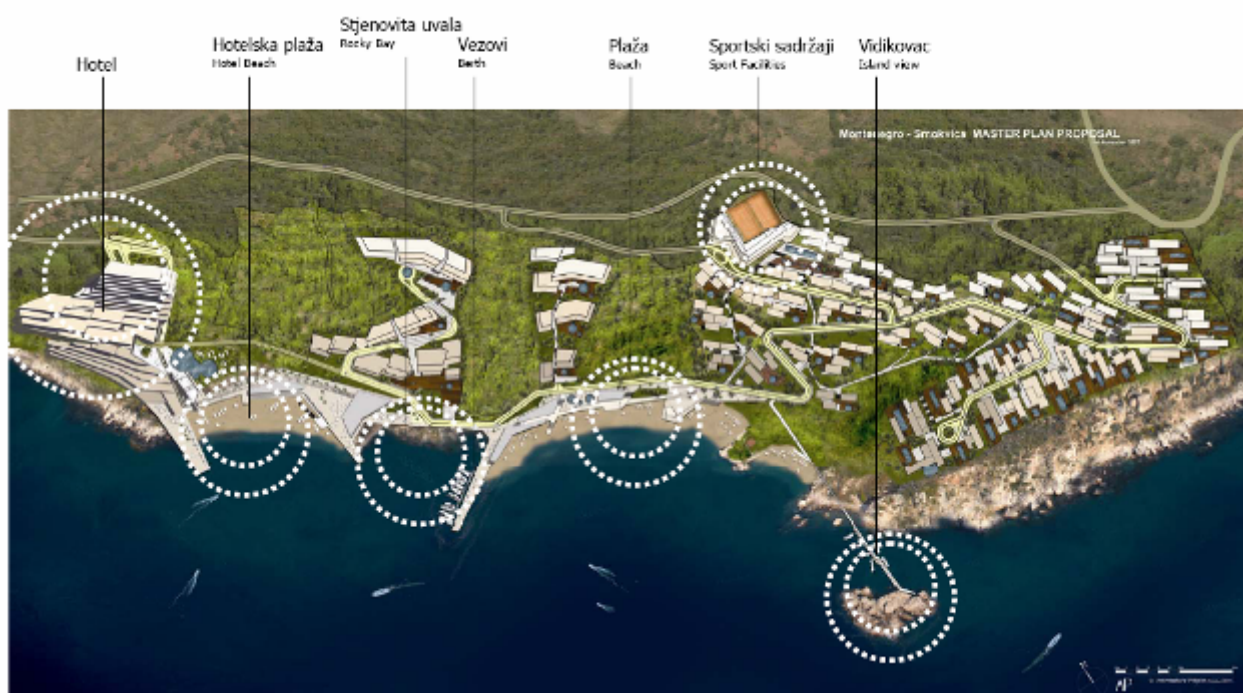
7.2. Ongoing and Future Mixed-Use Development in Montenegro

KEMPINSKI SMOKVICA RESORT, located at Budva Riviera, stretched on 20 hectares of land. The site consists of a long stretch of coast south of Sveti Stefan in a zone that is currently undeveloped. The facility program includes the following:

- Luxury resort hotel, 250 keys, with conference facilities and a large spa / wellness center,
- Residential area, consisting of apartments, townhouses and villas,
- Sports and retail centre with various service facilities, situated at the entrance of the resort,
- Various F&B, retail and other facilities along the lungomare.

The resort will be operated by Kempinski. Planned opening is in 2009/2010.

Planned sales prices of real-estate within the complex ranges from 5 to 6 thousand Euros per sq.m.





ASTRA MONTENEGRO COMPLEX, located in Becici, on Budva Riviera, on the total area of 94 thousand sq.m., is designed as a city-club, consisting of following facilities:

- Five-star Condominium Hotel
- Premium-class villas (with two apartments in storey),
- High-rise apartment building
- Health centre, fitness center, SPA-center, children fun club, zoo, seaports for yachts, shops, casino, leisure&sport and entertaining zones.

The Project Developer is Russian Corporation, **MIRAX GROUP** (known for its "Federation Tower project" in Moscow, among others)

Construction completion is planned for villas in July 2009 and for the Hotel July 2010. The sales prices in an early construction phase amounts to 6,000 Euros per sq.m.



Published general sale terms are as follows:

- ❖ The sale price in early construction phase amounts to EUR 6,000/m², for standard living area (expected price after construction amounts to EUR 10,000/ m²)
- ❖ Payment terms and schedule:
 - Payment of the Reservation fee in the amount of EUR 50,000 (returned if the buyer withdraws)
 - On signing of the Sale contract (in 20-30 days from the payment of Reservation fee), payment of 30% of the sale price, decreased for the Reservation fee.

- ❖ Payment of the remaining prices is defined according to construction stages.
- ❖ Offered discounts include postponed payment (in six months) for purchase of more than one apartment
- ❖ Further, purchase include the following specific condition: the Draft sale contract stipulates for Mirax Corporation to be entitled on priority right for purchase of property from the development, on the same conditions agreed between the owner and prospective buyer
- ❖ The sale is manly oriented to the Russian market, and to the lesser extend to the Western European countries
- ❖ Prospective buyers, based on expressed interest, are high ability clients, dominantly businessmen from Russia
- ❖ Developer offers agents commission of 3%

AMAN RESORTS – SVETI STEFAN, MILOČER AND QUEENS BEACH



The complex is situated on a surface of 67,650 sq.m. which includes Sveti Stefan Island, Miločer and Queens Beach site, as well as minor outlets such as restaurants, parking, retail and bar/club?

Amanresort Sveti Stefan, Miločer and Queens Beach will include the following:

- 43 rooms in Sveti Stefan
- 8 rooms at Hotel Miločer
- 15 luxury villas
- 120 hotel rooms and apartments
- Spa
- Various F&B and other outlets

HOTELS AND VILLAS AS, PERAZIĆA DO - PETROVAC

This complex is situated in Perazića Do within 20 minutes walking distance to Petrovac on the site of 32 thousand sqm. According to the available information, future developments envisage hotels that cover 5,9 thousand sqm of land and hillside apartments.

MALJEVIC LUXURY HOTEL-RESORT COMPLEX, located in Maljevic bay, on Bar Riviera, on the total area of 370.8 thousand sq.m., developed as mixed use four and five star hotel-tourist complex resort, consisting of following facilities:

- Five-star Hotel-Resort complex in the overall constructed area of 30,000 sq. m., with the aqua park and leisure&sport, health center and entertaining areas;
- Luxury Villas with private swimming pools and the sea view (120 villas with average area of 246 sq. m., each);
- Exclusive apartment units, in four and five story buildings, (2175 apartments with average area of 80 sq. m., each) with buildings organized in a small town blocks with stores, court yards, open pools, children's playgrounds and recreation avenues with fountains and various entertainment facilities.

Recreation area on the area of 38,000 sq. m., in green avenues and boulevards that will extend from the living area to the coast park and beach, with a number of F&B and retail facilities, sport terrains, and small marina with moorings for yachts and small boats providing repair and regular maintenance. Complex will also include 900 parking lots in area of 36,000 sq. m.

Planned sales prices of real-estate within the complex ranges from: 4.5 for villas, for apartments 3.5, for business premises 3.5 thousand Euros per sq.m.

The Project Developer is Montenegrin-Russian Company, SONUBA MONTENEGRO DOO.





Developer is obliged to build the facilities which have been predicted in Detailed Urban Plan for the Maljevic area, until September 2011, according to the contract concluded with Municipality of Bar, on the transfer of property rights on land in Maljevik planned for construction.

The planned construction project is in accordance with the plans and programs of PE Coastal Zone Management „Morsko Dobro“, due the part of land is located in the area managed by Morsko dobro.

TOURIST RESORT MICRO VILLAGE on Drobni Pijesak Beach is planned as Realty Development proposing 28,000m² of the highest standard four star mixed accommodations comprised of:

- “Resort Hotel (300 suites / 15,000m²),
- Residences and Apartments (7,000m²),
- Tourist Hotel “Rent-A-Villa” (Studio Apartments / 6,000m²)”
- including a generous amount of commercial premises located on approx. 22,000m² of land.

The 2.2 hectares of first category waterfront land under management physically comprises the central majority of “Zukovi Rat”, (a geological bluff / peninsula).

Annexation of parcels from the perimeter to the Residential Village is possible.

The Land and Development program includes approx. 6 million Euros required expenditures on infrastructure to support the intended investment for development.

7.3. Benchmark Projects in Croatia

We are presenting here two branded resorts located in Croatia, which consist of upscale hotels and residences (apartments / villas). These resorts will be operating as integrated resorts with the first class international brand and operator that will operate both the hotels and residences. One of the project is located on the Istria peninsula and is green field developments. The second project is going to be developed on Dubrovnik riviera, and is partially a reconstruction of an old tourist apartment settlement, transforming the apartments into residences, while two greenfield hotels will be built in the same resort location.

The presented resorts are as follows:

- KEMPINSKI ADRIATIC, located at Alberi (small village on north-western coast of peninsula Istria, Croatia)
- THE REGENT hotel and RADISSON SAS hotel & residences, located at SUNGARDENS RESORT at Orašac (small village located north to the city of Dubrovnik, Croatia).

The project KEMPINSKI ADRIATIC, located at Alberi in Istria, is the first one that is going to be available on the market. Since it is the first Kempinski property in Croatia it is visible that there has been a lot of preparation going on while the project was under development. Therefore this is the only project that has its official web page available on the internet. From the telephone interview with Kempinski representatives in Croatia we found out that the real estate portion is going to be operated under the sell and lease back model. At the moment the model is still in the development phase so no further information on the model is available.



Location

Project is located in Croatia on the Istrian peninsula on the coast around 400 m from the water line. The development took place in a small village called Alberi that is overlooking the Savudrian bay. This part of Croatia is on the border with Slovenia and Italy. The closest city in Croatia is Umag with a population of 12.901 people (Census 2001), and it is reachable within ten minutes by car. In Slovenia the first bigger city and tourist center is Portorož, just on the opposite side of the Savudrian bay, around 15 km from Alberi. Closest airport is situated within 15 km in Portorož in Slovenia. There are other airports situated in Pula (Croatia - 95 km), Trieste (Italy - 85 km) and Ljubljana (Slovenia - 140 km).



Resort Information

Kempinski Hotel Adriatic located in Alberi is an integrated resort offering a five star hotel property with 186 rooms and 3.000 m2 luxurious spa, conference facilities, 22 private villas, 20 private apartments, 18 hole golf course and private marina for up to 35 yachts.

Investment	170 million Euros
Employees	270 in the resort, together with the marina and golf
Opening	May 15th 2008



Accommodation

Hotel	Real Estate
186 rooms ranging from 40 to 250 m2	22 Kempinski Residence villas with interior space from 520 to 895 m2 can accommodate up to 6 people in 4 bedrooms and are surrounded with between 1.000 to 2.000 m2 of land.
Parkview rooms (40 m2)	
Superior Seaview rooms (40 m2)	
Deluxe seaview rooms (40 m2)	
Junior suite (85 m2)	20 private apartments in four residence buildings with interior space from 73 to 144 m2, with one or two bedrooms.
Presidential apartment (265 m2)	

Amenities

All units are incorporating Bang & Olufsen equipment, state-of-the-art designer fittings and highest quality electronic appliances. All the hotel rooms have large balconies or terraces overlooking the coast or gardens. Bathrooms have a bathtub with separate showers and integrated Mirrored TV for relaxing time. Every villa has its private pool, private SPA with sauna and jacuzzi and private terrace and balcony overlooking the sea. All apartment residences feature a basement and a private garage.

Food and Beverage

There are four outlets: a la carte restaurant with the terrace overlooking the coast line, bar and lounge, golf club house and lounge overlooking the coast and golf course and the mediterranean marina restaurant in the conference building.

Conference Facilities

Four meeting rooms situated in the building at the coast, all with sea view and day light. Conference center accommodates up to 250 guests, with a total of 300 m2. All the meeting rooms and business center are equipped with the latest technology.

SPA

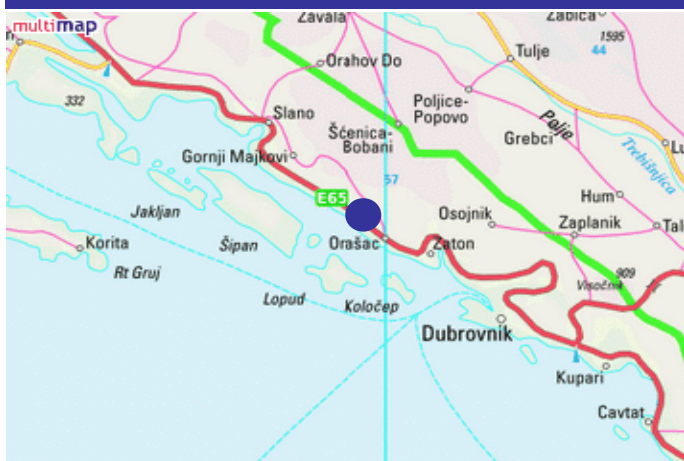
3.000 m2 of SPA facilities with one indoor and two heated outdoor swimming pools.

Source: Horwath HTL market research, 2007

The Sun Gardens project, located near Dubrovnik in Croatia, is going to open in 2009. The project consists of two first class (luxury and upscale) hotels: Radisson SAS Hotel and Residences in March 2009 and The Regent Hotel Dubrovnik in September 2009.

Similarly like the Kempinski Adriatic project, the real estate part of the development (apartments) is going to function on the sell and lease back model.

SUN GARDENS RESORT



Location

Project is located in the southern part of Croatia in Dubrovačko-Neretvanska county, in the Dubrovnik area. The development will take place in a small village called Orašac, approximately 20 km from Dubrovnik city. In front of the site there is a view of the islands which together with the area close to Dubrovnik adds attractiveness. This part of Croatia is on the border with Bosnia to the east and Montenegro to the south. Dubrovnik city has a population of 43.770 people (Census 2001). Closest airport is Dubrovnik airport situated within 17 km in the city of Cavtat.

Resort Information

The resort is divided in two different products that are going to be separately positioned. "The Regent Hotel Dubrovnik" comprising of key brand values and Dubrovnik brand values, and "Radisson SAS Hotel and Residences" as Holiday, Spa and Conference resort, represented by Radisson brand values, first class spa operator and Dubrovnik site values.

Investment

153.8 million Euros

Employees

325 in the whole resort (both projects)

Opening

to be opened in 2009

Resort

The Regent Hotel Dubrovnik

130 units from 40 to 145 m²
4 food and beverage outlets
Spa 500 m²
Swimming pools
Conference facilities 360 m²

Radisson SAS Hotel & Residences

201 rooms in hotel and 207 apartment units, sizes from 44 to 138 m²
16 food and beverage outlets
Conference and meeting rooms, total space 1.757 m²
Wellness, with swimming pools 3.610 m²
Shops
Swimming pools
Indoor and outdoor parking

Source: Horwath HTL market research, 2007

EXPECTED PERFORMANCES IN THE STABILIZED PERIOD

ADR (EURO)	KEMPINSKI ADRIATIC		SUN GARDENS DUBROVNIK		
	High Season	Low season	Hotel Regent	Hotel Radisson SAS	Residences Radisson
rooms	250 €	188 €	215 €	150 €	181 €
suites	500 €	375 €			
presidential	1.000 €	750 €			
villas	1.714 €	1.286 €			
Occupancy (%)	85%	30%	68%	70%	62%

Source: Horwath HTL market research, 2007

Based on our market research, we have collected the information on expected performances for the three presented resorts. The sales prices of real-estate in the analysed resorts are as follows:

- Kempinski Adriatic project listed the prices of villas that are on sale and range between Euro 3.0 mil. Euro and 5.4 mil. Euro for a villa, depending on its size. The sizes of the villas ranges from 515 sqm to 915 sqm, and the prices per sqm ranges between 6,000 and 7,000 Euro per sqm.
- It is expected that the apartments in Sun Gardens resort will be sold at 5,000 Euros per sqm (in average). The apartments size in Sun Gardens resort ranges between 45 and 140 sqm.

7.4. Other Market Developments

Additional facilities development

Golf courses

Ministry for Tourism is drafting report on golf course potentials. There are available potential locations for golf course developments in Montenegro. Many international investors are interested to finance this sector. There are even pioneer projects designed on some smaller private land plots.

The GoV of Montenegro has launched a tender for privatization sale of company owning 1km² in Tivat bay.. Transaction will envisage golf course with additional amenities for high class clientele.

Marinas

Marina Tivat

Peter Munk, signed the contract with GOV of Montenegro, to redevelop the 24-hectare site on the scenic Bay of Kotor, as a luxury yacht marina with 724 berths, the largest in the eastern Mediterranean.

Mr. Munk is one of Canada's leading industrialists and the chairman of Barrick Gold (www.barrick.com), which recently regained its position as the world's largest and most profitable gold mining venture. While his PM Securities is to buy and transform the naval yard, he also owns part of **TriGranit**, the Hungarian-based real estate company that expects to build neighboring resorts (www.trigranit.hu).

Project in numbers: Mr. Munk proposed \$150m marina, part of a planned \$500m (£270m, €400m) resort complex to be built within three years, as the anchor for sustainable high-end tourism around the bay. The Canadian investor will develop: hotels, malls and luxury suites, and guaranteed introduction of world brands as operators.

Marina Kotor

Port has an operational and service coast 512,60m long toward the inland aquatorium and 153m long toward the Škurda river.

Kotor has a status of a permanent border crossing where all customs regulations are carried out during 24 hours.

Shipyard Bijela

Company for ships' repair and maintenance - »Adriatic Shipyard Bijela « in Bijela .(7,5 Nm), www.asybijela.com (under tender privatization procedure).

Airports

Tivat (renovated) - <http://www.aptivat.com/naslovna1.php> - is 3 km from Tivat, 20 km far Budva, 20 km from Herceg Novi, 4 km from Kotor, 60 km from Bar, 84 km from Ulcinj.

Podgorica (fully renovated) - Airport Golubovci (Podgorica) is 12 km from Podgorica, 80 km from Kolasin, 170 km from Zabljak, 62 km from Budva, 65 km from Bar.

Dubrovnik airport (www.airport-dubrovnik.hr) is 24 km from Herceg Novi, 44 km from Tivat and 68 km from Budva. Tourists coming to Montenegro on charter flights to Cilipi airport have organised bus transfers to their hotel destination.

Other

Future hotel development in Montenegro is connected both with reconstruction and upgrading of the hotels being privatized and with greenfield investments. Several greenfield sites have been offered for hotel development, primarily along the 13-meter long Velika Plaža in the south of the coast. Since some military sites have been released for development, the potential for development have been increased significantly. These locations for future tourism development are for example Buljarica, Jaz, Ada Bojana, Great Beach, Valdanos and the Island of Flowers, Kumbor, Trašte and Bigova, the Župa-Bonići region and the island of Mamula at the entrance to the Kotor Bay. Altogether, some 15-20 potential sites have been marked as possible tourism resorts. Most greenfield sites are being offered for development by the Government for joint venture development, but some sites will be developed based on long-term leases as well. The projects will be realized by applying the model of public private partnership (PPP). With estimated value several billion euros. The preparation of the mentioned projects has been initiated and international public invitations for the expression of interest have been announced for the locations Ada Bojana, Bigovo, Kubor and Mediteran, whereas the invitation for the remaining locations are in the preparation phase.

7.5. Ongoing and Future Developments - Conclusions

- Due to the privatization of numerous Montenegrin hotels over the recent years, significant capital investments in the tourism are underway, resulting in further expansion and renovation of the tourism infrastructure, particularly in the area of hotel supply.
- Main priorities in the policy for tourism development are accelerated privatization and creation of the presumptions for foreign direct investments.
- Adequate privatization model should provide accomplishment of the following objectives:
 - Focus on middle and high standard tourism,
 - Improving of quality level in tourist infrastructure,
 - Creating of tourist supply for the guest during whole year, and
 - Increase in the economic potential of all tourist destinations, i.e. towns.
- The Government of the Republic of Montenegro and the Ministry of Tourism carry out regular activities on re-establishment of business relations with foreign partners on a permanent basis, through capital investments in tourism capacities.
- New hotel owners base their projection for increased average unit rental for at approximately 120% in first year after hotels reconstructions and modest increase of 5% in years after, up to 60% average occupancy rate in next years.
- Newly developing mixed-use resorts are mainly self integrated resorts, offering palettes of products and services to the guests.
- Such a resorts usually consist of upscale branded hotels and residences with clear positioning.
- Ongoing resorts development target high-end customers primarily from Russia, UK, Ireland and Scandinavia.
- High value strategy of ongoing and future developments envisages high pricing strategy which is in direct correlation with their positioning and branding.

8. MARKET ASSESMENT CONCLUSIONS RELEVANT FOR THE PROJECT

According to our project tasks, we have conducted the extensive market analyses starting from Montenegro general and business environment, and focused to four market segments: tourism, hotel, premium residential market and ongoing and future hotel and resorts developments of Montenegro. In our analyses we have covered relevant information in all four analysed market segments, on the basis of which one could draw the conclusions important for planning and designing of the development project Skoči Đevojka. We believe our findings will be valuable for setting the course for future development of the project.

On the basis of conducted analyses, we have given the conclusions per each analysed market segment (Subsections 3.6., 4.7., 5.3., 6.4. and 6.7. of this Report). Here we summarize the SWOT of Montenegrin tourism, hotel, premium residential market and ongoing and future hotel and resorts developments, as follows:

Strengths

- Favourable climate
- Rich natural resources, both on the coast and in hinterland
- Excellent positioning of the country that initiated high interest of international market ("Wild Beauty")
- High demand on international market (both for tourism and real estate)
- Government's dedication to setting up the pre-conditions for investments (investment into infrastructure and creation of competitive business environment)
- Privatization of tourism assets almost completed
- Shift in hotels and resorts quality structure (upgrading of existing properties and development of new greenfield high / higher quality projects)
- Favourable tax regime and legal openness

Weaknesses

- Slow decrease of grey economy and corruption
- High pressure of the new resort and residential development on the narrow coastal strip
- Sun and sea tourism product still dominates
- High seasonality

- High dependence of resorts on the tour operating business
- Some areas on the coast are endangered by overbuilding / illegal construction
- Inadequate and obsolete infrastructure

Opportunities

- Low entrance barriers to the market: establishment of new stakeholders structure
- Huge investment potentials not only on the coastline, but also in the hinterland
- Product diversification to be speeded up
- High interest of international market will continue in next mid term period, since Montenegro is an interesting, emerging destination
- Development of high end resorts that would increase the value of the entire region

Threats

- High illegal construction threatens to spoil the attractiveness of coastal area
- Tivat airport will soon become inadequate for the increasing level of demand
- Urgent need for attracting the low cost carriers
- Zoning solutions affect future ROI – lack of security for investors
- Speed hotel & resorts development on the coast is not followed by adequate development of road network, electricity and water supply and waste disposal systems
- Very low level of branding of Montenegrin hotel market
- Significant lack of skilled, trained personnel needed for hotels & resorts – imbalance between demand and supply

9. SITE ANALYSIS AND PROJECT DESCRIPTION

9.1. Site description

Skoči Đevojka site is situated in Budvanska rivijera in the picturesque place Reževići - an authentic village, with traditional old stone houses. The site is located south from the city of Budva. The location is well connected with three airports Tivat (25 km from the site) and Podgorica and Dubrovnik in Croatia (around 70 km from the site). Until recently, the whole area was used by military.

Location map



The site contains approximately 66.000 m² divided in two not adjacent plots. The upper site, with 15.000 m², close to the coastal road and lower plot with 51.000 m², next to the sea on top of 40 meters high cliff. Distance between two plots is approximately 100

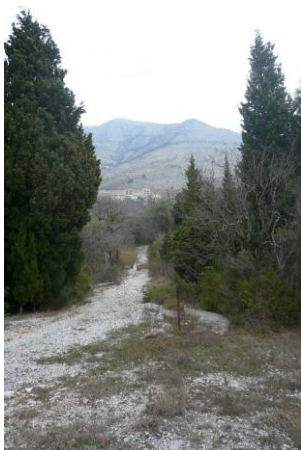
m. The site section show from flat to light hilly configuration (light elevation) in upper parts and steep cliff at the sea edge. Most of the land is covered with Mediterranean high vegetation. In upper part we have some existing building for military personal and on the lower plot mostly underground passages for artillery defence units.

Exposition of the location is towards southwest and offers spectacular views. The location offers sea views and plenty of sunlight.

Urban Evaluation

Site is from the constructional point of view in general very attractive, unique and with high potential to be developed. However, urban layout and typology of architecture has to determine appropriate attractive solution for this site in order to maintain the quality of the extraordinary environment. Space potential is connected to strategic position along the coast, that dominates over the area. Despite the facts, or just because, that site was used by military defence for over 50 years, environmental condition is very good, with no visible pollution. Minor disadvantage of the whole site is divided plots with unpredicted development in between.

Location photos



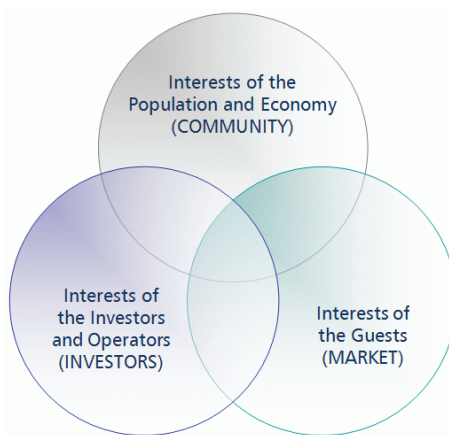
9.2. Evaluation of the site

9.2.1. Evaluation approach

Evaluation According to Various Interest Groups

Different interest groups have varying approaches and views when it comes to the evaluation of the overall attractiveness and suitability of a location. Subsequently, different criteria receive a deviant rating and weighting from potential hotel guests than from e.g. the investor, the operator, the local community and / or the community.

Therefore, the three most important and different interest groups that are dominant in the evaluation process of the location have been taken into account as follows:



For the purpose of evaluation of attractiveness and suitability for this project, the deviant ratings and weightings of evaluation criteria as prioritized by the different interest groups has been set as follows : from ① = less important to ③ = very important in terms of attractiveness. Please find the rationale and evaluation results per interest group below.

Suitability and attractiveness from the Guest (MARKET) point of view

This location has been evaluated from the point of its ability to attract potential customers. Therefore the location has been analysed from the point of its accessibility, visibility, environment, pollution, tourist attractions, tourism related infrastructure, as well as the immediate and collateral surroundings of the site.

Suitability and attractiveness from the Local community (DESTINATION) point of view

An investment project of this scale does have an impact on the urban environment and the local community as well local economy. Central themes are links with the communal infrastructure, as well as the integration into the existing traffic system etc.

Suitability and attractiveness from the INVESTOR / OPERATOR point of view

As for the investor / operator, some of the most important criteria in terms of suitability include the organization and management of operations, and here in terms of supply, access, existing infrastructure, available sewage connections etc., visibility from the road, as well as the existence / availability of reserved areas for optional later expansion. From a financial point of view, attention is given to the initial cost of

acquiring the plot and / or associated costs, as well as to sub sequential development costs.

Evaluation scoring system

For the evaluation of the suitability of the location the following scoring system (based on value-points distribution) is used:

- a) Different weightings for specific evaluation criteria :

Weighting	Criteria for Evaluation of Attractiveness / Suitability for the Potential Location are...
①	... less important
②	... important
③	... very important

- b) A 5-ary Points Evaluation Scale is applied for scoring in terms of attractiveness and suitability of the site, and as to individual evaluation criteria:

Points	Evaluation of the Site Suitability
①	Very Poor
②	Poor
③	Average
④	Good
⑤	Excellent

- c) By multiplying the weighting factor (1-3) with the evaluation factor (1-5) one may calculate a theoretical minimum of points of 1, and a theoretical maximum of 15 for each individual evaluation criteria.
- d) In order as to assign equal weight to each of the interest groups, average values are determined within each interest group (Market, Community and Investor). For the final overall assessment, the average values in between these groups are calculated in return.

The individual location assessment is calculated according to the following percentage scale:

Total Points	Suitability
100 – 85%	Excellent Suitability
84 – 65%	Good Suitability
64 – 55%	Limited Suitability
54 – 45%	Strongly Limited Suitability
below 45%	Unsuitable

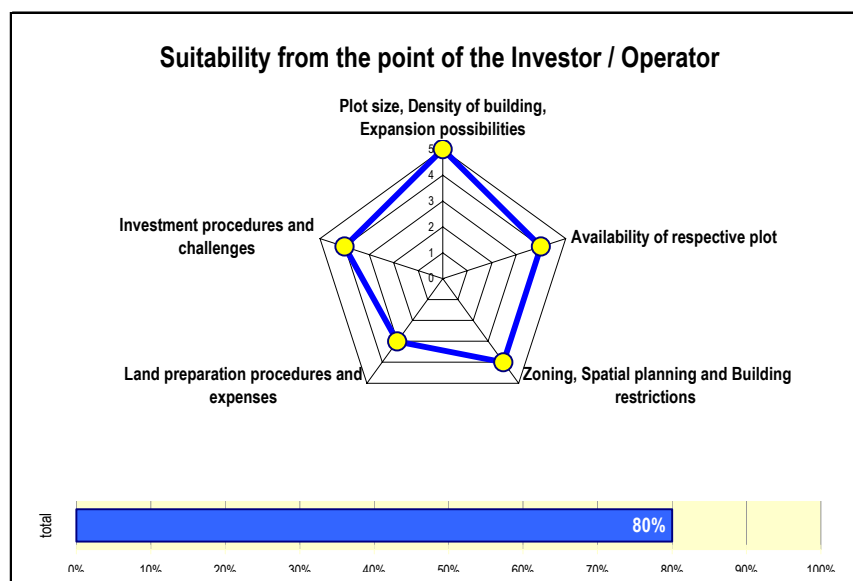
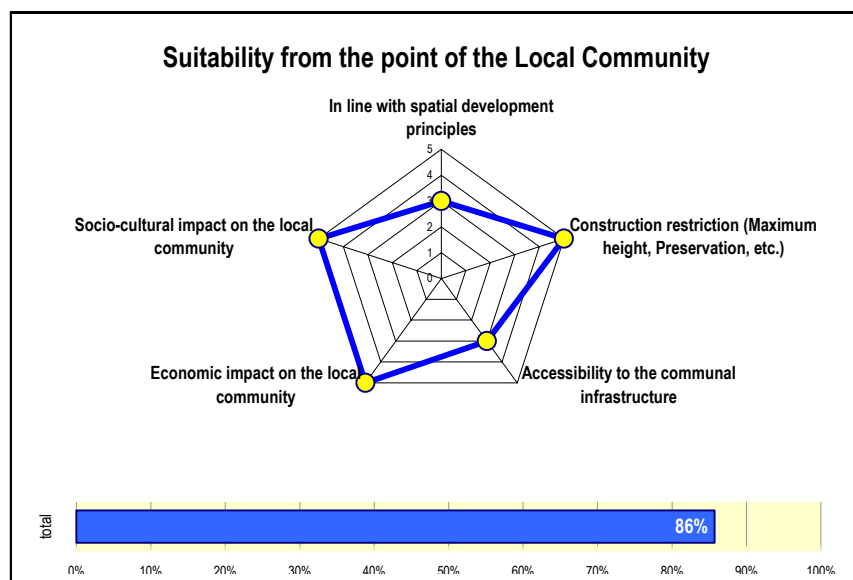
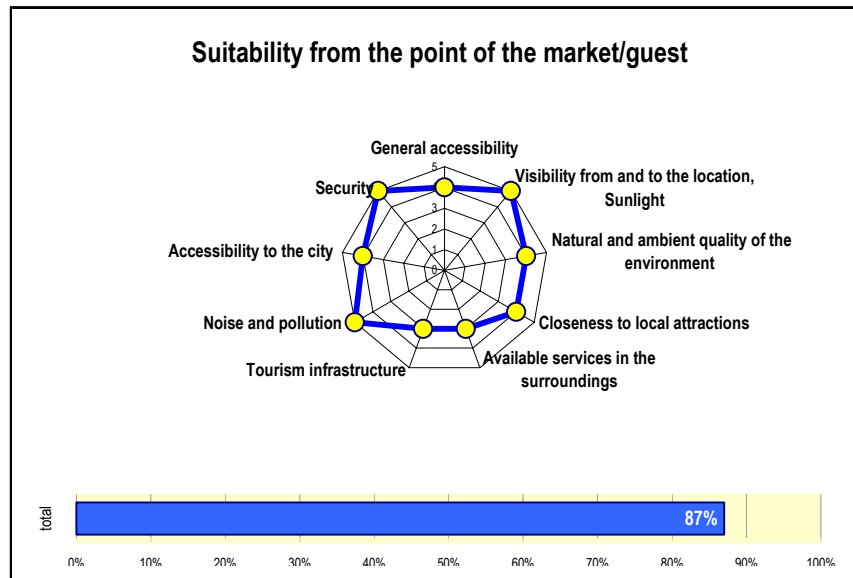
9.2.2. Evaluation of the Skočī Devojka site

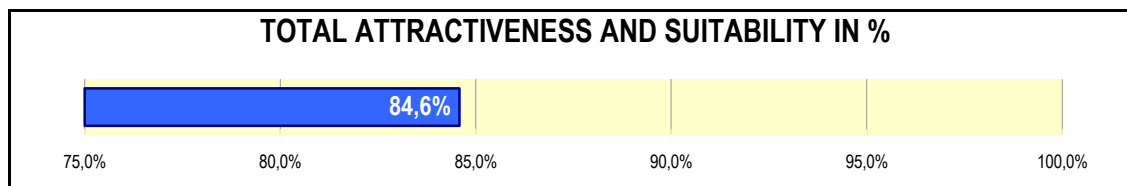
The evaluation of the site is given in the following table.

SKOČI ĐEVOJKA, BUDVA RIVIERA

SITE EVALUATION

Attractiveness and suitability of the proposed Skoči Đevojka Site	Weighting	Rating	Comments
	3 - very important 2 - important 1 - less important	5 - excellent 4 - good 3 - average 2 - poor 1 - very poor 0 - n/a	
Suitability from the point of the market/guest			87%
General accessibility	3	4	Nearest airport is Tivat located 25 km away from the proposed sites. Podgorica and Dubrovnik (Croatia) airport are situated around 70 km away. Roads have not been upgraded yet, and on coastal roads there is traffic conjunction during summer peak season.
Visibility from and to the location, Sunlight	3	5	Exposition of the location is towards southwest and offers great view. The location offers sea views and plenty of sunlight.
Natural and ambient quality of the environment	3	4	The site is situated close to the picturesque place Reževići, with ambient stone houses and historical Monastery. However, the site itself has a minor disadvantage of being divided into two plots with unpredicted development in between.
Closeness to local attractions	3	4	Within close driving distance to the Montenegro prime attractions, Sv. Stefan, Old town Budva and Reževići Monastery.
Available services in the surroundings	1	3	Since the destination is in the early development stage there are limited services available in the surroundings.
Tourism infrastructure	2	3	Very basic tourism infrastructure is available.
Noise and pollution	3	5	Due to the location away from the traffic jams and roads and surrounded by sea and parks, this is a very quite and secluded site. Pollution levels are very low due to the fact that industry is not developed.
Accessibility to the city	3	4	Sites are very close to Budva, around 8 km distant, and at the moment the road is being rebuilt which should improve communication with the city especially in the high season.
Security	3	5	Proposed sites has all predisposition to ensure seclusion and safety to it's guests.
Suitability from the point of the Local Community			86%
In line with spatial development principles	3	3	Urban elements could be to some extent discussed in Detail urban plan for this area, except Building Ratio strongly defended by Authorities. The LUF Ratio of 1,3 is already to considered as very high Ratio for this type of development.
Construction restriction (Maximum height, Preservation)	3	5	According to the information received from the investor there are no significant construction restrictions for developer.
Accessibility to the communal infrastructure	2	3	According to the Ministry of Tourism and Environmental Protection the regional water supply project is expected to be finished for the season 2010 and will end water shortage problems. Although general infrastructure problems that are existent on the Montenegro coast should be seriously considered before planning.
Economic impact on the local community	3	5	Since the project Skočići Đevojka will offer all the services needed by guests there will be limited direct impacts on local economy, however the indirect effects will be high and positive.
Socio-cultural impact on the local community	3	5	The whole country and the destination Budva riviera will receive higher value through introduction of such a high quality resort and brand.
Suitability from the point of the Investor / Operator			80%
Plot size, Density of building, Expansion possibilities	3	5	The plot of both sites offers enough space for the development of the project, density of building are quite high for this type of resort developments.
Availability of respective plot	3	4	The respective sites are already purchased, and there are potentials to buy the land between two sites.
Zoning, Spatial planning and Building restrictions	3	4	According to the information received from the investor all the zoning spatial and building restrictions will be respected, although certain key urban planning elements still needs to be officially obtained.
Land preparation procedures and expenses	3	3	The land preparation will be somewhat increased and thus the whole investment will be higher.
Investment procedures and challenges	2	4	Required well prepared investment and planning procedure.
TOTAL ATTRACTIVENESS AND SUITABILITY IN %		85%	





9.2.3. Conclusion

The above presented analysis can be divided in quantitative and qualitative part. The quantitative analysis presented in the table above shows a high overall score of 85% of suitability of the location for the resort development. This indicates that the selected site is perfectly suitable for the integrated project development. The highest level of suitability is from the point of view of market / guests with 87%, followed by the point of view of local community with 86%, and then investor / operator as the least graded with 80%.

Qualitative location analysis shows the following conclusions:

- Proposed hotel site offers very high levels of security, low levels of noise and pollution and closeness to local attractions, which are most important factors to the future target market and resort concept;
- From the location beautiful views and exposure;
- A disadvantage of this location is the fact that the site is divided plots with unpredicted development in between.
- Potential disadvantage, looking from the present point of view, is access to the beach, which could be expected when developing this type of resort. However, with smart architectural solution we think that these disadvantages can be overcome.

10. THE PROJECT DESCRIPTION¹⁸

10.1. Approach and strategy

According to the Clients inputs, the entire resort will encompass two different products.

☞ **The Hotel**, which should be **branded** by an upscale international hotel operator.

☞ **Residences** as Holiday resort, which will be sold at the real estate market.

The upper part of the site is going to be developed as a residential area, whilst the lower part of the site will accommodate luxury villas with an exclusive view, five star branded hotel and residences.

Products of Skočić Devojka resort should follow its market positioning, therefore offering high quality residences in an exceptional location.

The Investors' intention and a strategy are to focus on development of residences, which are going to be sold at the real-estate market and to sell hotel land and a hotel project as at the market.

10.2. Differentiation elements

In order to develop an exclusive resort we propose basic differentiation elements:

- Exceptional location and position in an integrated resort;
- Creation of village-like, multigenerational, year-round, 24-hours experience;
- Lavish and exquisitely designed guestrooms and residences;
- Resort themeing that reflects the authenticity of immediate spurning, to capture the essence of the locals;
- Creation of rich amenities program and range of programming that guarantees a good time for guests of all ages;
- Creation of special events to engage visitors in a type of spectacle to create the sense of community;

¹⁸ Clients inputs

10.3. Land use planning

10.3.1. Approach

Land use planning proposal was based on urban planning restriction provided by the investor in coordination with local department for urban planning. Land use factor (LUF) is 1.3 of net sellable area. Building heights are related to calculation of architectural typology and all above mentioned figures.

However, all those elements are not fully conforming to present urban building law for this area and therefore they have to be finally approved by authorities after officially filing Location study project (Preliminary design).

10.3.2. Construction condition

Due to the geological soil condition, pre-construction earth works are to be considered as very difficult with classification IV (out of V). Some unpredicted mining works are to be calculated in connecting with rocky structures. On the other site Foundation issue is because of rocks minor obstacle, despite the fact that whole coast is considered as 9th earthquake zone (out of 10). Construction itself on this site is to be considered as difficult due to the coastal connection roads, lack of qualified building industry and skill labours. Construction on the sea level could be easily done with tugboat.

10.3.3. Land use

Physical and functional integration of project components such as interconnections of pathways and roads, pedestrian circulation, positioning of different resort uses is very important element in the resort success. In order to achieve desired synergies resort, master planning is one of the critical elements for successful mixed use project.

In order to evaluate the viability of the project we have used investors inputs related to the possible land uses

<i>Segment</i>	<i>Net Sellable Area m²</i>
Villas	7.000
Apartments	41.500
Commercial	10.192
Hotel Land	12.000
	70.692

**Note: Inputs provided by MENA INVESTMENT, 23 April 2008*

10.4. Key Success Factors of the Resort

The **key success factors** for development of Skočī Devojka can be divided into two equally important set of factors. First relates to creation of predisposition for project realisation and second to delivering its positioning. Therefore we have identified following key success factors:

- To set clear Project development objectives that would:
 1. Enable the successful realization of the project by:
 - *Overcoming legal barriers & enable a viable project,*
 - *Overcoming local barriers & create a positive attitude of local stakeholders toward the project (showing the positive impacts of the project to local community).*
 2. Enable to design the project in accordance with market trends and demand requirements, through preparation of adequate Best-use concept and management model.
 3. Develop the project with satisfactory Return on Investments.
- Handling local situation & strong lobbying at local, regional, and national level;
- Control of potential developments on between the sites owned by investors (potential purchase of the land);
- Assurance of construction permits;
- To design acceptable management model, regarding to:
 - Assurance of the quality of the resort
 - Level of social and economical well-being provided to local community
 - Sustainable development
- Well prepared project development and project management - Strong "hands-on" team that would tailor the process to deliver required product;
- Planning of self sustainable utilities in the resort (electricity, drinking and waste water), and ecological treatment of waste;
- Delivering this vision requires preparation to the smallest detail at the early stage of project preparation and masterplanning;
- Evolving consumer expectations by providing activities and experiences that span seasons and generations, and creating an environment capable of marrying village charm with sound brands, business tourism with family ambience and environmental sustainability with modern luxuries;
- Market strategy to be developed parallel with the planning of the resort (structure of the resort, product development and system of experiences to be adjusted to the needs of chosen market segments) – involvement of selected hotel operator from the very beginning of planning phase;
- Branding of the resort is obligatory (we recommend one of the first class international brands);

- The communication with the market should start at least twelve months before the opening;
- Timely involvement of hotel operator in early project stages;
- Regarding differentiation and competitive advantage, the successful implementation & strict application of international product & service standards (according to the chosen first class international operator) will be of utmost importance;
- Creating residences that are occupied throughout the year in order to create a busier resort year-round;
- Application of fractional ownership options, by the residences, affording consumers the opportunity to enjoy a luxury, serviced holiday home without the enormous costs incurred by outright purchase;
- Related to the above is the issue of finding operations personnel that will be sufficiently qualified and trained to deliver up to the above-mentioned levels of internationally comparable levels of service quality.

11. INVESTMENT AND FINANCING MODEL¹⁹

11.1. Investment volume, structure and time schedule

Project investment volume is based on the following:

- Investment in land acquisition provided by the Investor;
- Proposed land use summary provided by the Investor,
- Investment costs provided by the Investor.

According to the above, total investment amount equals 153,2 mil. EUR. This investment sum refers to all costs needed to develop residences. The structure of investment as well as envisaged investment dynamics is as follows:

INVESTMENT COSTS

SKOČI DEVOJKA - RESIDENCES AND OTHER

Description	EUR	%	INVESTMENT DYNAMICS			
			2008	2009	2010	2011
Land costs	41.732.460	27,2%	41.732.460			
Construction	86.934.059	56,7%	0	30.426.921	34.773.624	21.733.515
Studies and Supervision	2.503.948	1,6%	1.001.579	500.790	625.987	375.592
Sales & Marketing	13.812.036	9,0%	4.834.213	3.453.009	3.453.009	2.071.805
Interest expense	2.887.500	1,9%				2.887.500
Contingencies	4.971.959	3,2%				4.971.959
Other	400.000	0,3%				400.000
TOTAL INVESTMENT	153.241.962	100%	47.568.252	34.380.719	38.852.620	32.440.371

**Note: Inputs of Investment costs provided by MENA INVESTMENT, 05 May 2008*

Envisaged period of project preparation (master planning, obtaining all permits, construction is 3 years (mid of 2008 - mid of 2011). Project is scheduled for soft opening in August 2011.

¹⁹ Provided by the Investor

11.2. Financing model

Based partly on the information provided by Investor, project financing for Skočī Devojka resort will be realized through Investors' equity, pre-sale of residences and long term bank loan, according to the following financing structure:

PROJECT FINANCING

SKOČI DEVOJKA - RESIDENCES AND OTHER

	EUR	%
Equity	25.125.000	16,4%
Pre-sale	115.117.000	75,1%
Loan	12.999.962	8,5%
TOTAL INVESTMENT	153.241.962	100,0%

**Note: Inputs of Project financing provided by MENA INVESTMENT, 23 April 2008*

According to information provided by Investor, in project evaluation we have used the following loan terms and conditions for loans:

- interest rate 10% p.a.
- 3 years grace period (with only interest payment).

The interest payment is calculated annually and paid at the end of the period.

Detailed repayment schedule is given in the following table:

SKOČI DEVOJKA - TOTAL

opening (end of project) August 2011

LOAN REPAYMENT SCHEDULE

loan start July 2008

loan end

	2008	2009	2010	2011
Investments	-47.568.252	-34.380.719	-38.852.620	-32.440.371
Equity	25.125.000	0	0	0
Inflow from pre-sale	11.971.832	31.852.177	38.852.620	32.440.371
Loan draw down	10.471.419	2.528.543	0	0
Interests during construction period (incl. in investment)				2.887.500
Interests as expenses				1.299.996
Principal repayment				12.999.962
repayment %				100,00%
Remaining debt	10.471.419	12.999.962	12.999.962	0
Debt Service	0	0	0	14.299.958

12. PROJECTED FINANCIAL PERFORMANCE

12.1. Methodology and assumptions

Financial projections of Skočić Đevojka resort have been prepared in accordance with the Investors strategy for this project. This implies following assumptions used in the calculation of the project:

- ❖ Period of project preparation and construction: from 2008 till August 2011;
- ❖ Sale of residences and commercial area during the period of 4 years;
- ❖ Developer intends to sell hotel project and related hotel site;
- ❖ Developers exit from the project is 2011;
- ❖ In projections we have used the assumptions of upscale market positioning of the resort (brand standards including advanced marketing and selling techniques);
- ❖ In the next mid-term, we expect a stable growth in demand for upscale hotels and resorts on Montenegro coastline. In the same period several high-quality resorts will occur on Montenegro riviera, but we do not believe that this might have considerable negative impact on the future performance of the Resort. On the contrary, we believe that the concentration of quality and internationally branded properties will increase the attractiveness of Montenegro as tourism destination in years to come;

Financial projections are based on the market assumptions which exclude from consideration any abnormal relationship between supply and demand that may result in unusual revenues or expenses i.e. our business scenario relies on predictable market trends without significant market disturbances.

Financial projections are prepared for 2009 – 2011 period.

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

Revenues and expenses in Profit and Loss statements are shown in net amounts, which do not include Value Added Tax.

12.2. Financial projections²⁰

Residences in Skočić Đevojka resort, subject for sale, will be fully equipped upscale residences.

²⁰ Inputs regarding residences pricing and sales dynamics, sellable areas are provided by the Investor

Having in mind the volume of the real estate within Skočī Đevojka resort complex to be put on the market, and the level of demand for residential real-estate on Montenegro coastline, we expect the following dynamics of sale:

- Year 1 = 15% of total sellable surfaces
- Year 2 = 25% of total sellable surfaces
- Year 3 = 35% of total sellable surfaces
- Year 4 = 25% of total sellable surfaces

Sale is projected to occur during the period from 2008 till the project completion 2011.

Accordingly, total revenue to be raised from residences sale and hotel project is projected in the amount of 276.7 million Euros, and the book value of sold residences is written off and shown as an expenses.

SALE OF RESIDENCES AND OTHER AREA

SKOČIĐEVOJKA	APARTMENTS	VILLAS	HOTEL LAND	COMMERCIAL
Total sellable area (sq.m)*	41.500	7.000	12.000	10.192
Net sales price per sq.m. (EUR)	4.300	5.000	850	5.160

The down payments of the sold premises presented above are projected as follows:

	<i>Cash collection form sales revenues in %</i>			
	2008	2009	2010	2011
sold in year 2008	30%	30%	30%	10%
sold in year 2009		26%	50%	24%
sold in year 2010			30%	70%
sold in year 2011				100%

SALE OF RESIDENCES AND OTHER AREA

SKOČIĐEVOJKA	APARTMENTS	VILLAS	HOTEL LAND	COMMERCIAL	in constant prices
Total sellable area (sq.m)*	41.500	7.000	12.000	10.192	
Net sales price per sq.m. (EUR)	4.300	5.000	850	5.160	
	2008	2009	2010	2011	total
% of sold area in year	15,0%	25,0%	35,0%	25,0%	100,0%
APARTMENTS					
Sold area in year (sq.m.)	6.225	10.375	14.525	10.375	41.500
Revenue from sale of units (EUR)	26.767.500	44.612.500	62.457.500	44.612.500	178.450.000
REVENUES FROM SALE (EUR)	26.767.500	44.612.500	62.457.500	44.612.500	
VILLAS					
Sold area in year (sq.m.)	1.050	1.750	2.450	1.750	7.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	35.000.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	
HOTEL LAND					
Sold area in year (sq.m.)		12.000			12.000
Revenue from sale of units (EUR)	0	10.200.000	0	0	10.200.000
REVENUES FROM SALE (EUR)	0	10.200.000	0	0	
COMMERCIAL					
Sold area in year (sq.m.)	1.529	2.548	3.567	2.548	10.192
Revenue from sale (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	52.590.720
REVENUES FROM SALE (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	
TOTAL					
Sold area in year (sq.m.)	8.804	26.673	20.542	14.673	70.692
Revenue from sale of units (EUR)	39.906.108	76.710.180	93.114.252	66.510.180	276.240.720
REVENUES FROM SALE (EUR)	39.906.108	76.710.180	93.114.252	66.510.180	
Book value of sold areas (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	128.666.519
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	

*Note: Inputs of Net sellable area provided by MENA INVESTMENT, 23 April 2008

On the basis of the previously presented assumptions for Skočī Đevojka, the table below presents the results - Profit and Loss statement for the whole Skočī Đevojka Resort.

PROFIT AND LOSS PROJECTIONS

SKOČIĐEVOJKA - RESIDENCES AND OTHER

in current prices

EUR	2008	2009	2010	2011
REVENUES FROM SALE (EUR)	39.906.108	76.710.180	93.114.252	66.510.180
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630
Administration payroll and related expenses	108.000	111.240	114.577	118.015
EARNINGS BEFORE INTERESTS AND TAXES				
EBIT	20.498.130	44.432.310	47.966.393	34.225.536
INTERESTS				
Total interests	0	0	0	1.299.996
PROFIT BEFORE PROFIT TAX / LOSS				
Profit before profit tax / Loss	20.498.130	44.432.310	47.966.393	32.925.540
NET PROFIT				
Profit tax	1.844.832	3.998.908	4.316.975	2.963.299
Net profit / Loss	18.653.298	40.433.402	43.649.418	29.962.241

13. ECONOMIC AND FINANCIAL EVALUATION OF THE PROJECT

13.1. Methodology

Economic and financial evaluation of the project is based on the standard procedure of calculation of the following indicators:

- Liquidity of the project (net cash flow)
- Internal rate of return (IRR)
- Return on investment (ROI) and return on equity (ROE).

13.2. Liquidity of the project

Starting from the P&L projection, the projection of cash flows for the period 2008-2011 is prepared. Cash flow projection of Skočī Đevojka project is prepared on the basis of all inflows and outflows from operational, financial and investment activities.

Projection of cash flow shows that project of Skočī Đevojka in the entire analysed period (2008-2011) will not have liquidity problems, under the assumptions used in this report. Under previously elaborated assumptions, the project can timely pay back its obligations.

13.3. Internal rate of return of the project

Under the assumptions presented in this study the project of Skočī Đevojka shows the internal rate of return of 411%.

13.4. Return on investment and return on equity

Skočī Đevojka project achieves return on investment in 2010 and return of Investor' equity in the same year (2010).

The detailed calculations of economic and financial evaluation of the project are given in the following tables.

CASH FLOW

in current prices

EUR

SKOČI DEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
Net profit	18.653.298	40.433.402	43.649.418	29.962.241
+ book value of sold assets	19.299.978	32.166.630	45.033.282	32.166.630
+ loan inflows	10.471.419	2.528.543	0	0
+ equity	25.125.000	0	0	0
- capital expenditures	-47.568.252	-34.380.719	-38.852.620	-32.440.371
- principal	0	0	0	-12.999.962
CASH FLOW	25.981.444	40.747.855	49.830.080	16.688.537
CUMULATED CASH FLOW	25.981.444	66.729.299	116.559.379	133.247.917

in current prices

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

SKOČI DEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
ROI	24,8%	47,4%	57,9%	41,4%
Cumulated ROI	24,8%	72,1%	130,0%	171,4%
ROE	24,8%	47,4%	57,9%	40,5%
Cumulated ROE	24,8%	72,1%	130,0%	170,6%

14. CONCLUSION

In preparation of this Market and financial feasibility study, we have carried out the necessary analyses of market trends, benchmark and competitive market analysis as well as detailed economic and financial evaluation of the project, by using the standard procedures of investment projects evaluation.

The Investor has provided information on project assumptions such as land use factor, net sellable area, pricing, financing model and business model, which are used in this feasibility study as a valid base for project evaluation.

The projected results and the real feasibility of the project depend on their achievement in the project realisation.

The project has strong possibilities to achieve very high profit rates, with the establishment of assumptions used in the report.

Under the analysed assumptions, conducted market, economic and financial evaluation of the project has pointed out that Skočī Đevojka project represents a feasible investment project.

15. APPENDIX

- Sale of residences and other area
- Investment costs
- Project financing
- Profit and loss projections
- Loan
- IRR calculation
- Return on investment and equity

SALE OF RESIDENCES AND OTHER AREA

SKOČIĐEVOJKA	APARTMENTS	VILLAS	HOTEL LAND	COMMERCIAL	in constant prices
Total sellable area (sq.m)*	41.500	7.000	12.000	10.192	
Net sales price per sq.m. (EUR)	4.300	5.000	850	5.160	
	2008	2009	2010	2011	total
% of sold area in year	15,0%	25,0%	35,0%	25,0%	100,0%
APARTMENTS					
Sold area in year (sq.m.)	6.225	10.375	14.525	10.375	41.500
Revenue from sale of units (EUR)	26.767.500	44.612.500	62.457.500	44.612.500	178.450.000
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VILLAS					
Sold area in year (sq.m.)	1.050	1.750	2.450	1.750	7.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	35.000.000
REVENUES FROM SALE (EUR)	5.250.000	8.750.000	12.250.000	8.750.000	
HOTEL LAND					
Sold area in year (sq.m.)		12.000			12.000
Revenue from sale of units (EUR)	0	10.200.000	0	0	10.200.000
REVENUES FROM SALE (EUR)	0	10.200.000	0	0	
COMMERCIAL					
Sold area in year (sq.m.)	1.529	2.548	3.567	2.548	10.192
Revenue from sale (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	52.590.720
REVENUES FROM SALE (EUR)	7.888.608	13.147.680	18.406.752	13.147.680	
TOTAL					
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Book value of sold areas (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	128.666.519
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630	

INVESTMENT COSTS

SKOČIĐEVOJKA - RESIDENCES AND OTHER

Description	EUR	%	INVESTMENT DYNAMICS			
			2008	2009	2010	2011
Land costs	41.732.460	27,2%	41.732.460			
Construction	86.934.059	56,7%	0	30.426.921	34.773.624	21.733.515
Studies and Supervision	2.503.948	1,6%	1.001.579	500.790	625.987	375.592
Sales & Marketing	13.812.036	9,0%	4.834.213	3.453.009	3.453.009	2.071.805
Interest expense	2.887.500	1,9%				2.887.500
Contingencies	4.971.959	3,2%				4.971.959
Other	400.000	0,3%				400.000
TOTAL INVESTMENT	153.241.962	100%	47.568.252	34.380.719	38.852.620	32.440.371

**Note: Inputs of Investment costs provided by MENA INVESTMENT, 05 May 2008*

PROJECT FINANCING

SKOČIĐEVOJKA - RESIDENCES AND OTHER

	EUR	%
Equity	25.125.000	16,4%
Pre-sale	115.117.000	75,1%
Loan	12.999.962	8,5%
TOTAL INVESTMENT	153.241.962	100,0%

**Note: Inputs of Project financing provided by MENA
INVESTMENT, 23 April 2008*

PROFIT AND LOSS PROJECTIONS

SKOČIĐEVOJKA - RESIDENCES AND OTHER

in current prices

EUR	2008	2009	2010	2011
REVENUES FROM SALE (EUR)	39.906.108	76.710.180	93.114.252	66.510.180
WRITE OFF - SOLD ASSETS (EUR)	19.299.978	32.166.630	45.033.282	32.166.630
Administration payroll and related expenses	108.000	111.240	114.577	118.015
EARNINGS BEFORE INTERESTS AND TAXES				
EBIT	20.498.130	44.432.310	47.966.393	34.225.536
INTERESTS				
Total interests	0	0	0	1.299.996
PROFIT BEFORE PROFIT TAX / LOSS				
Profit before profit tax / Loss	20.498.130	44.432.310	47.966.393	32.925.540
NET PROFIT				
Profit tax	1.844.832	3.998.908	4.316.975	2.963.299
Net profit / Loss	18.653.298	40.433.402	43.649.418	29.962.241

INTEREST RATE:	10,00%	10,00%	10,00%	10,00%
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SKOČIĐEVOJKA - TOTAL

opening (end of project) August 2011

LOAN REPAYMENT SCHEDULE

loan start July 2008

loan end

	2008	2009	2010	2011
Investments	-47.568.252	-34.380.719	-38.852.620	-32.440.371
Equity	25.125.000	0	0	0
Inflow from pre-sale	11.971.832	31.852.177	38.852.620	32.440.371
Loan draw down	10.471.419	2.528.543	0	0
Interests during construction period (incl. in investment)				2.887.500
Interests as expenses				1.299.996
Principal repayment				12.999.962
repayment %				100,00%
Remaining debt	10.471.419	12.999.962	12.999.962	0
Debt Service	0	0	0	14.299.958

total
-153.241.962
25.125.000
115.117.000
12.999.962
2.887.500
1.299.996
12.999.962
100,0%
14.299.958

IRR =

411,2%

ENTERPRISE VALUE

in current prices

EUR

SKOČIĐEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
NOPLAT	18.653.298	40.433.402	43.649.418	31.262.237
+ book value of sold assets	19.299.978	32.166.630	45.033.282	32.166.630
GROSS CASH FLOW	37.953.276	72.600.032	88.682.699	63.428.867
- capital expenditures	-47.568.252	-34.380.719	-38.852.620	-32.440.371
TOTAL	-9.614.976	38.219.313	49.830.080	30.988.496
WACC	9,7%	9,7%	9,7%	9,7%
Discount factor	1,000	0,912	0,831	0,758
Enterprise value	-9.614.976	34.840.343	41.408.612	23.474.650

NOPLAT = Net Operating Profit Less Adjusted Taxes

CASH FLOW

in current prices

EUR

SKOČIĐEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
Net profit	18.653.298	40.433.402	43.649.418	29.962.241
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+ equity	25.125.000	0	0	0
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- principal	0	0	0	-12.999.962
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in current prices

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SKOČIĐEVOJKA - RESIDENCES AND OTHER	2008	2009	2010	2011
ROI	24,8%	47,4%	57,9%	41,4%
Cumulated ROI	24,8%	72,1%	130,0%	171,4%
ROE	24,8%	47,4%	57,9%	40,5%
Cumulated ROE	24,8%	72,1%	130,0%	170,6%