

New hotel investment proposition

Business opportunity to build and operate a hotel in Riga airport in Latvia



1. SELLING PROPOSITION

We have identified a business opportunity of building a hotel in the Riga airport. Currently we own long-term land rental rights where the hotel will be built.

There are many strong advantages supporting this investment case:

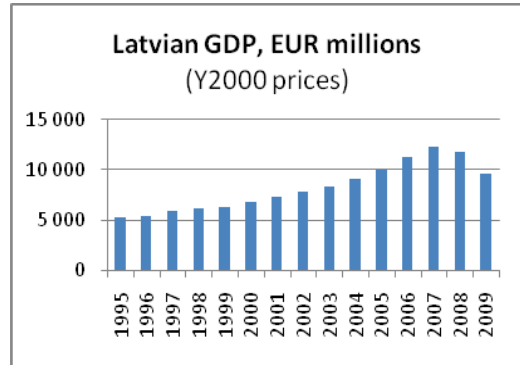
1. **Secured location in the airport.** Within 1-2 minutes' walk from the airport terminal entrance. Land rent rights for 50 years.
2. **Very limited supply of hotels near the airport.** Only 60 rooms within the radius of 3 km around airport, only 20 rooms in the airport area. Hotel capacity hasn't caught up with the rapid increase in passenger growth.
3. **Good pricing opportunities.** All nearest hotel's prices are normally above EUR 60.
4. **Rapidly increasing traffic in the airport.** With average annual growth rate of 30% since 2004 number of passengers now is above 4 million a year, ranking 82nd in Europe, one of the very few European airports showing growth of 10% in the year of crisis, the 2009.
5. **Low construction costs.** Salaries of workers in construction have fallen by as much as 30-50%. Hotel construction cost per m² estimate is EUR 750, much more competitive than costs of recently build other hotels EUR 1500 per m².
6. **Large clientele potential.** Clients will be locals, neighboring country citizens travelling through Baltic's most active airport, business conference participants and other.
7. **Airport location halfway between beach resort and Riga city.** Riga Airport is 12km from Riga city centre and 11 km till Jurmala beach resort.

2. LATVIAN MARKET

Overview

Latvia has a population of 2.25 million with 39% of the Latvian population living in the capital Riga Metropolitan Area. Largest ethnic groups are Latvians comprising 60%, Russians 27% and Ukrainians and Belarusians together 6%.

Latvian economy has undergone severe downfall of 22% of GDP since the peak year 2007. The drop is among the biggest in Europe but also the growth of around 10% for a couple of consecutive years before that was creating the economy overheating.



The good side of this market correction is:

- improved competitiveness due to lower cost of labor and locally produced products becoming export-competitive
- attitude to work, now people see that there is no free lunch

There is big supply and choice of employees due to rather high unemployment, although it is less in Riga. Lower labor cost will be sustainable for the next 3-5 years due to slower economy growth than previously and also due to increase in workforce due to demographic structure of younger generation entering labor market.

Future outlook

Economy bottom point is estimated to be the first half of 2010, actually export industries have been growing already in 2nd half of 2009 and in first 2 months of 2010 are 18% higher than in first 2 months of 2009.

Economic indicators are recovering and improving, previous discussions on possible currency devaluation are finished due to following:

- Bank of Latvia is in charge of exchange rate and it strongly supports stability of local currency.
- IMF and European Commission financial aid is in place.
- With exports increasing and imports drastically falling there is a current account surplus of 12% to GDP which ensures of increasing foreign currency reserves in Latvia.

And even if devaluation happens, it would also have a positive effect on tourism as local prices would be lower to foreigners, thus probably more inbound tourists. Economy growth is expected to start by the end of 2010 with 2-5% annual growth in next 3-4 years.

Statistics:

GDP 2009: EUR 18,9 billion
GDP 2009 (PPP): EUR 23,15 billion
GDP 2009 per capita (PPP): EUR 10,264

Unemployment:

Latvia: 17,1%

Riga: 12,8%

Inflation in 2009: 3,5%

Inflation in Q1, 2010: -3,9%

SEB Forecasts:

GDP growth 2010E: -2,8%

GDP growth 2011-2014: +2...+5%

Inflation in 2010E: -3,2%

Real salary change 2010E: -7%

3. RIGA & AIRPORT

Riga, Latvia

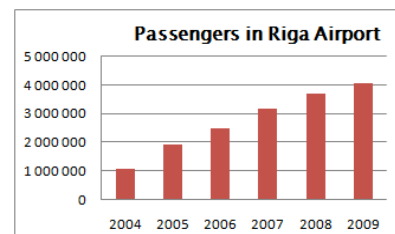
Riga, as the capital of Latvia, is the country's economic and political centre with 710,000 inhabitants in the city and 940,000 including suburbs, which makes it 3rd biggest city in the Baltic sea region (after Stockholm and Saint Petersburg).

Riga Airport

Fast developing Riga International Airport plans to become the air transport hub of the Baltic States and countries to the East from Latvia providing a good vehicle for business exchange and expansion between rapidly growing Russian and CSI markets and countries of Western, Northern and Central Europe.

Development since joining EU has been enormous, average growth rate per year of 31%, growing from 1 million passengers in 2004 until more than 4 million passengers in 2009. Now Riga ranks Nr. 82 biggest airport in Europe.

Riga airport was among the very few airports in Europe that had growth in 2009, a 10% growth in the year which has been the year of heavy recession in Baltic states. Riga airport is by far the biggest in Baltics as Tallinn served only 1 346 236 and Vilnius served 1 310 000 passengers in 2009. Population in Vilnius (Lithuania capital) is 560 thousand, in Tallinn (Estonia capital) 410 thousand.



Future outlook

In June 2008 IATA Long Term Passenger Forecast concluded that Riga Airport would reach 14-20 million passengers by 2032. They quoted "It is in our view that RIGA International Airport is poised for one of the most exciting periods in its development". Latvia has been very successful in building the bridge between east and west and has good prospects also in future.

To compare, in Finland there are 5, 35 million residents, of which in Helsinki, the capital, only 580 thousand. Nevertheless Helsinki airport has 12, 6 million passengers. Riga airport being the biggest in Baltics serves the Baltic market of 7 million inhabitants.

It is also planned that there will be train connection to the city centre that will provide higher convenience for guests in hotel near airport. The feasibility study is currently under preparation, further decisions can be expected by 2011.

Ryanair is considering to build technical maintenance base in Riga. Even so it is not decided, for any other airline company it would be attractive opportunity due to mainly following reasons:

- Riga will be significant traffic centre
- Cost of labor has significantly fallen in Latvia
- People in Latvia have very good technical education and experience



Riga airport

From Riga airport it is possible to go to 81 destinations. Following airlines operate in the airport: Airbaltic, Ryanair, Aeroflot, Czech Airlines, Finnair, Turkish Airlines, LOT Polish Airlines, Lufthansa, Norwegian Air Shuttle, Taron, Uzbekistan Airways, Windjet, Wizz Air, Smartlynx Airlines, VIP Avia and other.

„airBaltic”, Latvia’s national airline is based at RIX. With more than 60% market share and over 50 direct destinations they are by far the leading airline at RIGA International Airport. „airBaltic” are successfully developing a transfer hub at RIX, drawing traffic primarily from Vilnius and Tallinn but also from Scandinavia and Finland regional cities.

Top destinations of passengers are: UK, Sweden, Baltics, Finland, Norway, Germany, Ireland and Moscow.

New destinations being actively developed with more routes already for last two years are Central Asia and Caucasus, countries like Tajikistan, Uzbekistan and Kazakhstan.

Riga airport is becoming importance as a hub – the number of transit and transfer passengers continue to grow. In 2009 there was a growth of +300%, in 2010 the growth rate is approx +50%.

Riga airport business park

Plan of significant airport territory expansion has been presented, named Riga airport business park (Rixport) with total investments of EUR 400 million in exhibition centre, convention centre and office buildings. Currently the project is postponed until higher certainty on the economy.

Hotel capacity

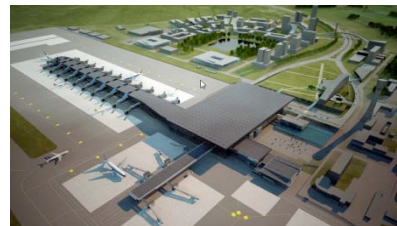
According to study of Economic Development Research Group in Boston in 1993 number of hotel rooms should be 240 – 520 when comparing to hotel rooms per passenger data in Paris/Orly and London/Gatwick airports (7600 – 16600 passengers per room within 6km radius)

Numbers are even higher in study done by HVS International in 2004 on American airports, 6000 passengers per room within 5 miles radius)



January - December, 2009

	Destination	Passenger number	Share, %
1	London	325 622	8%
2	Stockholm	239 895	6%
3	Vilnius	192 059	5%
4	Helsinki	173 872	4%
5	Oslo	165 222	4%
6	Tallinn	154 985	4%
7	Berlin	147 460	4%
8	Dublin	142 731	4%
9	Moscow	136 509	3%
10	Frankfurt	136 359	3%



4. HOTEL LOCATION

General

The hotel location would be in Riga, capital of Latvia, one of the Baltic states, country that was accepted in European Union in year 2004 and has faced significant growth since then until 2008.

Distances and driving time

Hotel will be located in the airport territory;

- airport is 12 km from the Riga city centre (15-20 min drive in off-peak hour)
- and 11 km from the Jurmala beach resorts (15 min drive, no peak times)

Jurmala is a best resort town in Baltics; it has a 33 km stretch of white-sand beach, and a population of 55,580, making it the 5th largest city in Latvia. Jurmala and Riga airport are connected with a bus service.

Public transport

One bus line between Riga city center and Airport Terminal. Journey time ~30minutes from the city center.

Taxi, car: Several taxi companies are serving Riga International Airport. Average journey time to the city center ~15-20minutes (rush-hours up to 40min).

International bus: 3 carriers in total jointly with Riga Airport have provided its passengers with bus stop at Riga International Airport from major cities of Estonia and Lithuania. Journey time from Tallinn (300km) approximately 5 hours, Vilnius (300km) approximately 4, 5 hours.

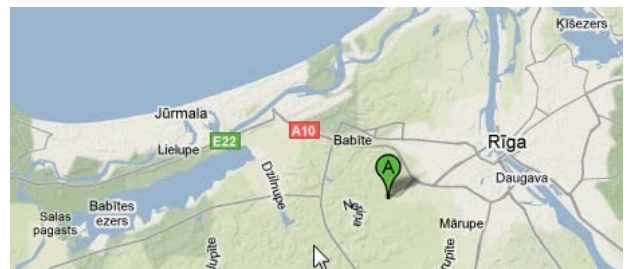
Future plans envisage construction of a railway line from Riga airport to the city.

Location in the airport

Hotel will be within a 1-2 minutes' walk from the airport terminal exit.

Nearby entertainment

In the airport territory there is fashion factory outlet. Within 5-6 km radius there is one of the best shopping malls „Spice”, sport centres (Brazil beach volley, Bowling, Tennis hall, gym and other).



* „A” mark in maps is planned hotel location.



** Green „A” mark is airport exit, red - is Hotel location

5. COMPETITION

There is very limited competition as only 3 hotels with total of 63 rooms were identified in 3 km radius. Buildup of hotels has not caught up with the rising traffic of passengers in Riga airport. Below is an overview of potentially competing hotels.

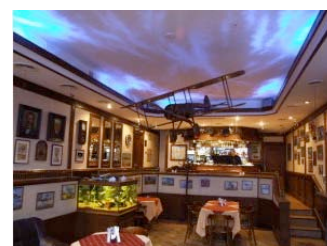
Overview of hotels nearby:

Hotel	Distance from airport	Number of rooms	Price per room, EUR
Sky High Hotel	In airport	20	70 - 80
Best western Mara hotel	2,7 km	24	58 - 65
Old Captain Hotel	2,4 km	19	300
Riga Airport Hotel ABC	4,4 km	60	32 - 44



Sky high Hotel– Located on the territory of Riga Airport, Sky High Hotel offers free parking and air-conditioned rooms with free LAN access.

A fitness room (free of charge), a small indoor pool, a sauna with infrared cabin, and tennis courts (1 indoor, 2 outdoor) are available. There is also a conference room. Number of rooms: 20. Web: www.airport-hotel.lv



Best western Mara hotel – The hotel has eight rooms all fully equipped with a TV and DVD set and a well-prepared kitchen to make a full meal for your family.

The Best Western Hotel Mara provides a 24-hour front desk, non-smoking rooms, rooms for disabled guests, luggage storage, room service, conference rooms, airport shuttle, laundry, dry cleaning, ironing service, internet throughout the hotel and free onsite parking. The hotel also has sauna, BBQ facilities, tennis courts and a golf course. Number of rooms: 24. Web: www.hotelmara.lv



Old Captain Hotel – The 5-star Old Captain hotel provides non-smoking rooms, rooms for disabled guests, family rooms, airport shuttle, laundry, dry cleaning, ironing service, free internet in all the hotel rooms and free nearby parking. It is in a quiet location.

The hotel also has several features and activities extended to you, including, a sauna, karaoke, a Jacuzzi, a Turkish steam bath, BBQ facilities and a golf course; all at your disposal. Web: www.oldcaptain.lv



Riga Airport Hotel ABC – The Hotel ABC Restaurant provides a 24-hour front desk, non-smoking rooms, rooms for disabled guests, room service, conference room, airport shuttle, ironing service, car rental, free internet in all the hotel rooms and free onsite parking. The hotel also offers sauna, fitness center, a children's playground, an outdoor swimming pool and many outdoor sports like hiking and cycling. Web: www.hotelabc.lv



6. HOTEL DESCRIPTION

There is a market niche for a hotel in the airport territory since current competition is very weak - only 60 rooms within the radius of 3 km around airport and only 20 rooms in the airport area. Hotel capacity hasn't caught up with the rapid increase in passenger growth. All nearest hotel's prices are normally above EUR 60, thus no fierce price competition either.

Stars: Most optimal for more visitors would be 3-star hotel, however 4-star hotel can also be considered. Lower than 3-star is not considered due to very good location.



Price target: Optimal pricing range to ensure high occupancy would be EUR 40-60 per night, with a EUR 70 price for better quality/service rooms in peak times
EUR 40-60

Premises: Land size is 6440 m² of which approximately 2500 m² occupies existing building. Land rental rights are until 01.06.2048. With old building staying, the space of new hotel could take 5,500 m². But if existing building is demolished, space can be increased up to 14,000 m². It is allowed to build up to 9 floor building.
Premises: 5500 m²
Rooms: 150-190

Assuming the new hotel occupies approx. 5,500 m² which is a 7 floor building with approx. 750 m² in one floor, it will allow for 150 – 190 rooms depending on whether it is 3 or 4 star hotel. Assumed space per room is 22 m² for 3-star and 26 m² for 4-star hotel.

Concept: Exact concept will depend on the operating hotel to be consistent with its worldwide concept and strategy. The concept shall be defined to target the clientele set further in this memo. Considered free parking opportunity would be a big plus.

Marketing: Given the close to airport location and newly built hotel, it will be marketed in most of the internet portals, tourism agencies and special agreements will be sought with the airport and airlines.

Investments Salaries of workers in construction have fallen by as much as 50-70%, so current total construction costs would be 50-60% of the costs in year 2008.

We assume hotel construction base cost of EUR 750 per m², much more competitive than costs of hotels being built 2-5 years ago achieving in average EUR 1500 per m². In addition we add EUR 400-500 cost per m² for 3-4 star interior and design. Thus total investment estimate is EUR 6,3 – 6,9 million. Exact financing structure will be defined later.

7. CLIENTELE

There are number of reasons why a customer may well prefer the hotel in the airport territory:

1. Transit passengers (overnight and day-sleep) There were aprox 500 thousand persons as transit passengers in Riga airport in 2009.
2. More sleep time and no hassle with taxis for the early flights
3. City centre is still close – 15-20 minutes drive in off-peak time
4. Will rent a car in the airport and thus convenient return of the car
5. Airport is closer to the beach resort than driving from the city
6. Early/ late arrival and departure and short stay in Riga, more convenient closer to the airport
7. Parents with young kids who want their kid to have longer sleep, less hassle
8. Easy to check-out the hotel for those who have not booked a hotel
9. Flight delay or cancellation, a full night or just a couple of hours sleep will be possible at a lower rate
10. Some people more cautious after the volcano ash incident leading to cancelled flight issues

Customers would be of various profiles:

1. Any customer who has above preferences/ issues
2. Lithuanians and Estonians coming to Riga by car for the early flights, or maybe even Latvians living further from Riga.
3. Business people coming to business meetings either in city or near airport.
4. Flight and cabin crew people

8. LATVIAN TAX SYSTEM

Current tax rates are following:

Value added tax – current VAT is 21%, which is higher than 5% in year 2008, but now Parliament reviews the suggested decrease of the rate to 10%.

CIT – corporate income tax is 15%. Effective tax rate will be less due to accelerated depreciation rules for the CIT purposes e.i. double depreciation expense used in calculations of taxable income.

Capital gains tax – 10% tax is withheld in case of capital gains and dividends.

Salary taxes – are comprised of employer's social tax of 24,09%, employees social tax of 9% and 26% individual income tax

9. ANNEX: PLOT CHARACTERISTICS

