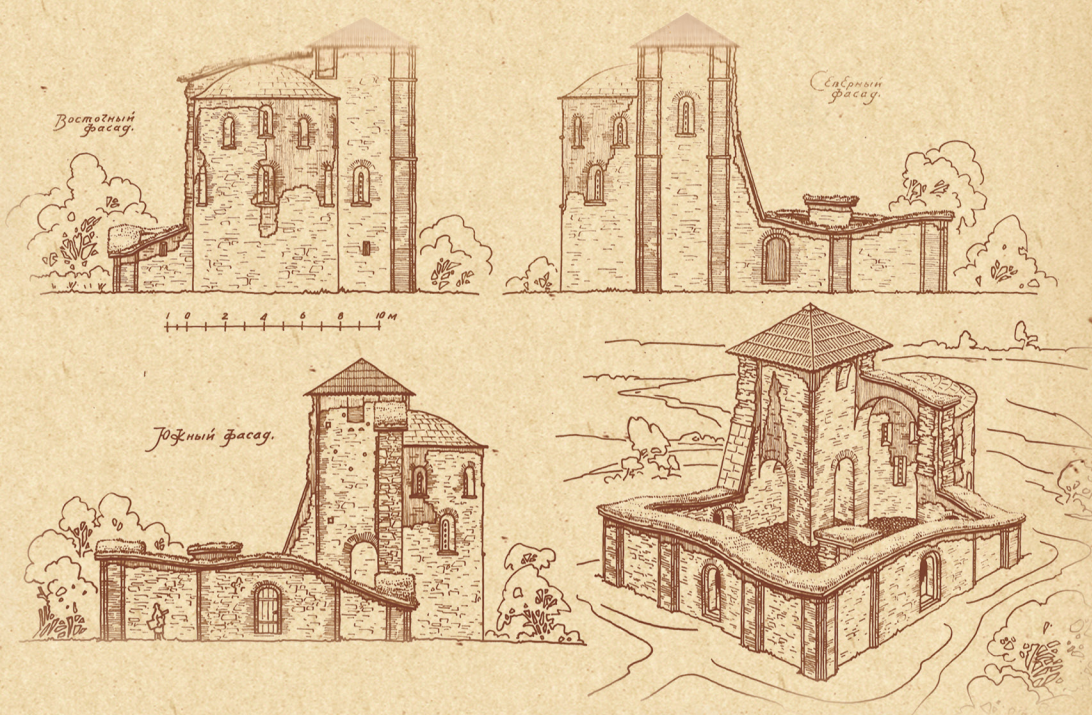




Government of the Novgorod Region



Investment Proposal to Build
Viking Park Hotel & Restaurant Complex
(as Part of the Construction of Rurik's
Stronghold Museum & Tourist Complex)



Veliky Novgorod
2013

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Dear friends!



Novgorod region is a place with rich history that goes back many centuries. Veliky Novgorod is Russia's oldest city; it is mentioned in the manuscripts at the first mention of Russia, 1154 years ago. One of the historical centres of

the Russian statehood is Ryurik's Stronghold, which is a territory at the junction of Veliky Novgorod and the Novgorod region at the Volhov river's estuary originating from Ilmen lake. This residence of the first ruler of Russia, Varangian prince Ryurik, was founded in 862.

Veliky Novgorod's unique cultural and historical heritage draws a great number of Russian and foreign tourists every year. The Novgorod Kremlin is here, the most ancient of the Russian stone fortresses in existence. At the Kremlin's heart there is the first Russian stone temple, St. Sophia Cathedral (XI century). For several centuries Veliky Novgorod was the connecting link between the middle-age Europe and Russia, the centre of international integration and trade.

A favourable geographic location of the Novgorod region between St. Petersburg and Moscow allows our region to offer our guests a wide range of opportunities for recreation and tourism. Rich historical heritage, unique landscape, and modern tourist infrastructure create favourable conditions for the development of cultural/educational, business, active and event tourism in our region.

Today, one of the top priority investment projects for tourism in the Novgorod region is the "Ryurik's Stronghold" tourist complex construction project. It is a multi-purpose project including the restoration of the historical landscape and cultural heritage structures

and creating the museum complex. In this publication you will find a detailed description of the investment proposal for the construction of the "Viking Park" hotel and restaurant complex, which is one of the crucial parts of the "Ryurik's Stronghold" project.

I hope that this publication will stir your interest not only toward the "Ryurik's Stronghold" investment project, but also to tourism development in the Novgorod region in general.

I am looking forward to partnering with you,

A stylized, handwritten signature in black ink, which appears to read 'Sergey Mitin'.

**Sergey Mitin,
Governor
Novgorod Region**

Ryurik's Stronghold (an ancient settlement site in Veliky Novgorod)

This ancient settlement was first mentioned in the chronicles of Novgorod in 1103 in connection with the stone church built by Prince Mstislav the Great. However, there is archaeological evidence proving that the stronghold appeared on this site 200 years earlier, i.e. in the late 9th century. In the historical works of historians of Novgorod the site of this ancient settlement located near the source of the Volkhov River began to be referred to as Ryurik's stronghold as early as the beginning of the 19th century. These were the first attempts to link the history of this site to the narration of the chronicles which states that in 862 AD Prince Ryurik was invited from overseas by people of Novgorod to establish the ruling dynasty of Russia which was brought to an end by Ivan the Terrible in the 16th century.

In recent decades research results have proven the correctness of these assumptions and made it possible to believe that it was Ryurik's stronghold which was regarded as 'the old town' in relation to Novgorod (the word 'Novgorod' literally means 'new town' in the Russian language). The latter came into existence downstream from the source of the Volkhov River in the middle of the 10th century. Here, on the first right-bank hill near the source of the Volkhov River, the first military, administrative and political



Overseas Guests by N.K. Rerikh 1901

centre of the Lake Ilmen area, a huge territory inhabited by Finno-Ugric and Slavic tribes, was set up at the turn of the 10th century. Varangians (Scandinavians) were also actively involved in creating it. The geographical location of Ryurik's stronghold was commercially favourable due to being a junction between two water trade routes: from the Baltic Sea to the Volga River (the so-called Eastern Waterway) and from the Varangians to the Greeks (see the map), which was one of the things that turned the stronghold into a place of residence of Russian princes.



Graphic Reconstruction of a 10th- century Slavonic Settlement

Archaeological excavations in Rurik's Stronghold

The site of the stronghold is located 2 km south of the historic centre of Veliky Novgorod. Currently, it is home to the remains of the Church of the Annunciation rebuilt in the 14th and 18th centuries as well as visible traces of ancient earthworks located in the part of the stronghold which faces the junction of the Volkhov River and the Sievers Canal (1797-1803). The site of the stronghold was first excavated by N.I. Polyansky, an archaeologist from Novgorod, in 1901. Nikolai Rerikh, a famous Russian archaeologist, artist and philosopher, organised archaeological excavations on this site in the summer of 1910 just before the 15th Congress of the Russian Archaeologists. Since 1975 the site has been excavated by the Institute for the History of Material Culture (St. Petersburg) under the guidance

European coins (including three treasure troves of dirhems), glass and crystal beaded necklaces, wall nuts, objects peculiar to Baltic and Scandinavian cultures (shell- and ring-shaped fibulas, iron grivnas with Thor's hammers, bronze charms with runic inscriptions, a silver Valkyrie figurine etc.), parts of scales, scale weights.

In 2003, the first birchbark letter (No. 950) was found on the site of Rurik's Stronghold. It isn't surprising that a prince's name is mentioned in the letter, considering the place where it was found. The archaeological excavations are accompanied by paleobotanical and osteological research. Apart from Russian archaeologists, their colleagues from Sweden, Germany and Great Britain are also involved in the excavations.



Birchbark Letter Found on the Site of Rurik's Stronghold (No. 950)

of associate of the Russian Academy of Sciences E.N. Nosov. The research results of the recent decades have shown that a settlement with a complex layout existed on the site of Rurik's Stronghold in the 9th-10th centuries. The settlement included the river bank hill fortified by means of earthworks and a moat (Rurik's Stronghold proper) as well as a large residential area (see the map).

Some occupation layers dating back to earlier times have been also discovered here. They include remains of a Neolithic encampment (2nd and 3rd centuries BC) and traces of an early iron age settlement (first half of the 1st century AD). Nevertheless, archaeologists take the greatest interest in the well preserved artefacts dating from the Viking Age, which is the period in Northern European history spanning the late 8th to the mid 11th centuries.

A large amount of Viking military hardware and clothing was found during the archaeological excavations of the 9th-10th century layers. The other artefacts include some birchbark letters, a great number of lead seals of Russian princes, a number of Arabian, Byzantine and Western



Artefacts of Scandinavian Origin Found on the Site of Rurik's Stronghold



Artefacts Made of Glass and Stone

Project to Build Ryurik's Stronghold Museum & Tourist Complex

Nowadays Ryurik's Stronghold is a unique Russian historic site dating back from the Viking Age. It is not the first time that plans are being made to reconstruct a Viking settlement as an open-air museum. A number of similar projects have been successfully implemented before: Birka (Sweden), Hedeby (Germany), Ribe (Denmark) etc .

The implementation of this project involves different sources of financing: funds from the budgets of Veliky Novgorod, Novgorod District and Novgorod Region; funds from the federal budget, extra-budgetary funds and private investments.

The construction of Ryurik's Stronghold Museum & Tourist Complex is expected to be carried out in 2012-2018.

This project includes three stages:

1) building a landscape park on Ryurik's Stronghold Hill with Church of the Annunciation towering over the landscape (2010-2014),

2) building a museum complex, including an archaeological material storage building (depository) with laboratories, exhibition and conference halls, a visitor centre for tourists (2017-2018),

3) building Viking Park Hotel & Restaurant Complex (2014-2018).

According to the scientific conception of preservation and use of the cultural heritage site Ryurik's Stronghold approved by the Ministry of Culture of the Russian Federation, the total design area for the complex is

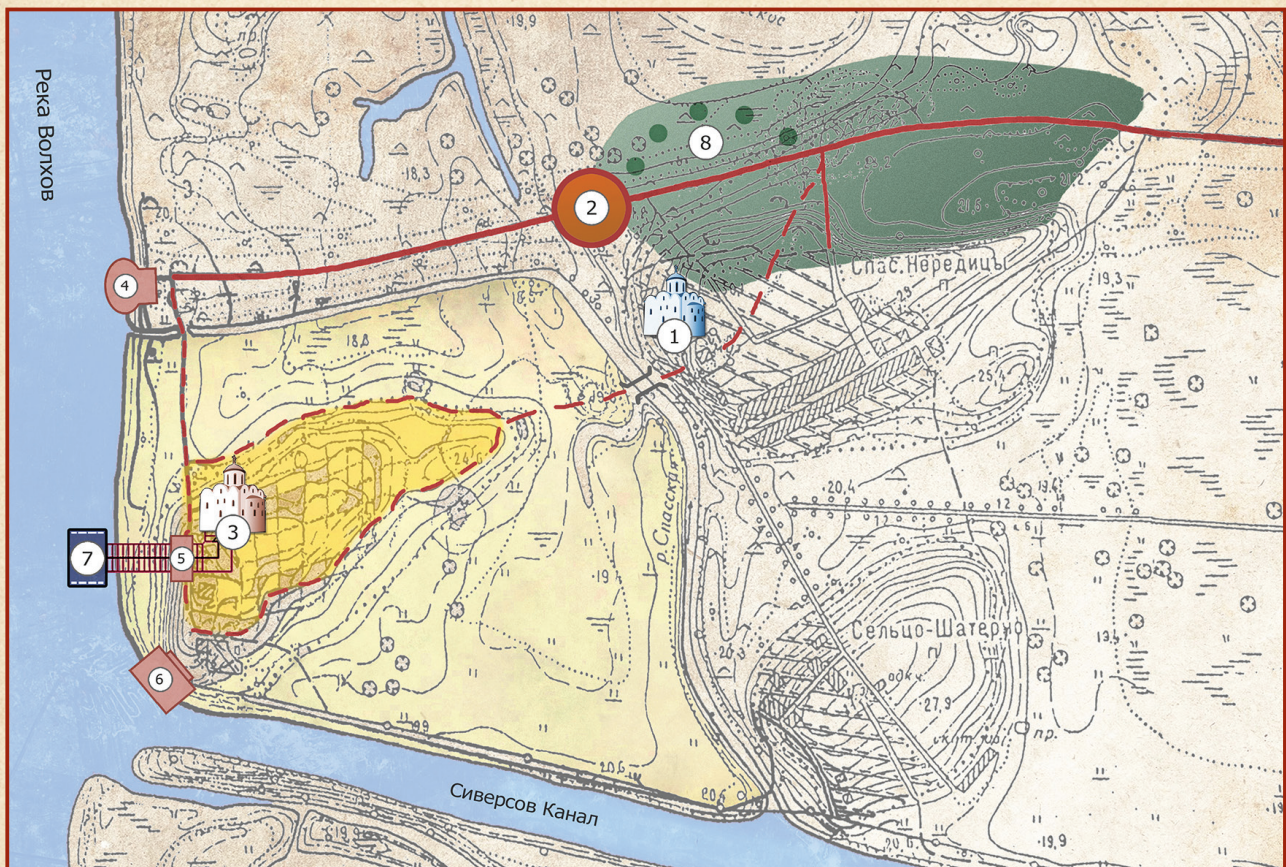


Ryurik's Stronghold Today

230 ha, including a 40 ha museumification zone and a 60 ha investment area, 7.8 ha of which are to be used for constructing Viking Park Hotel & Restaurant Complex, and 52.2 ha for future investment projects relating to tourism and holiday industry (a leisure centre, an amusement park, a spa complex, a camping site etc.).



Knyazhiy (Prince's) Stone



Legend

1-Church of Our Saviour's Transfiguration on Nereditsa Hill (1198), remains of an 18th century bell tower

2-New museum complex, a car park

3-Church of the Annunciation (12th-14th centuries)

4,5,6- Observation sites

7- Wharf

8- Sites for building tourist infrastructure

- Roads
- Hotel complex
- Museumification zone
- New museum complex, a car park

Area Zoning for Building Ryurik's Stronghold Museum & Tourist Complex

Investment Project Viking Park Hotel & Restaurant Complex

Viking Park Hotel & Restaurant Complex is to be built in two stages. The first stage includes construction of four cottage villages (Swedish, Danish, Norwegian, Russian) for 60 persons each. The villages will be linked by means of a common infrastructure. Every village will have the following three cottage types:

- the 1-st type for two persons (one bedroom),
- the 2-nd type for four persons (two bedrooms),
- the 3-rd type for eight persons (four bedrooms and two additional beds, when using the space under the sloping roof).

Every village will have 10 cottages of the 1st type, 6 cottage of the 2nd type and 2 cottages of the 3rd type. Most of the cottages will be arranged in groups of two to six in compliance with the fire safety requirements.

The first project stage includes construction of a restaurant centre, which will serve four different types of cuisine in the same building with common cooking facilities and consist of the following items:

- 1) a Russian restaurant (max. number of seats 100),
- 2) a Norwegian seafood restaurant (max. number of seats 70),
- 3) a Swedish buffet (max. number of seats 100) (This self-service buffet is of great importance for the entire project as it will serve breakfasts, which are traditionally included in the cost of accommodation),
- 4) a Danish bakery and coffee shop (max. number of seats 34).

The second project stage is expected to include

the construction of the following items:

- 1) the 5th cottage village (English village) and an economy-class hotel for 120 persons,
- 2) a camping site,
- 3) a pub for 36 persons designed to imitate a Viking ship,
- 4) a large event venue,
- 5) a recreational area with an amusement park and entertainment venues for children,
- 6) a leisure centre (including a congress centre with an auditorium and a runic library), craft workshops (authentic traditional costumes and traditional souvenirs), a souvenir shop.

The cost of accommodation in Viking Park will include the following services:

- 1) a parking lot under 24-h security surveillance,
- 2) Wi-Fi in all the cottages,
- 3) room service,
- 4) transfer from the railway/bus station of Veliky Novgorod,
- 5) a safe at the reception,
- 6) a luggage room,
- 7) a library and DVD rental,
- 8) entertainers for children.

Chargeable additional services:

- 1) a reference number for obtaining a Russian tourist visa,
- 2) rental of sports gear, toys and play sets,
- 3) laundry service,
- 4) guided tours in foreign languages,
- 5) transport service, transfer from the railway station of Chudovo.

Hotel Room Capacity:		
Cottage Type	Number of Cottages /Hotels	Number of Persons
1-st type (2 persons)	50	100
2-nd type (4 persons)	30	120
3-rd type (8 persons)	10	80
Hotel	1	120
Total:	91	420



Viking Park Cottages

Using Viking Park Corporate Identity

The instructions for use of Viking Park corporate identity were issued in 2012 at the request of the Administration of the Novgorod Region. Viking Park logo is based on a Scandinavian rune.

The shape of the logo makes it possible to use it as a basis for Viking Park ornamental patterns, which can have a wide range of applications: business documentation, advertising materials, interior decorating etc. On business documentation the patterns can be used not only as a background, but also for making a spot gloss and watermarks. Another possible application of Viking Park ornamental pattern is cloth decoration.



•Викинг•Парк•
— Курортный•Отель —

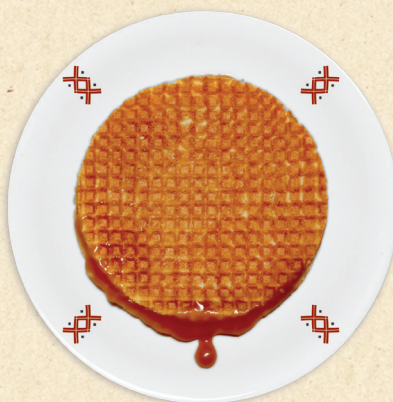
Viking Park Logo



Lanyard with a key



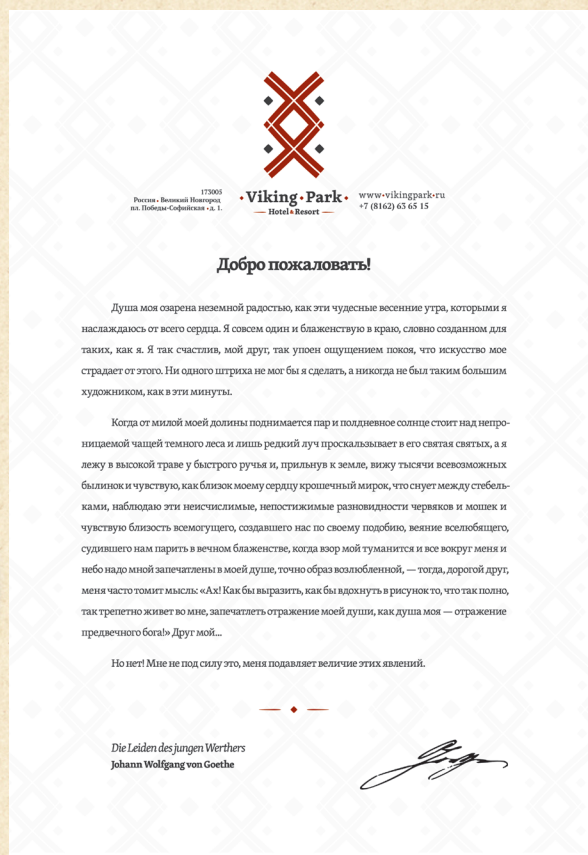
Business card



Plate



Napkin



Headed paper



Pen

Using Viking Park Corporate Identity

Projected Profit and Loss Statement for Viking Park up to 2021

Estimates	2014	2015	
Calendar Days	365	365	
Max. Capacity (night/cottage)	26 280	26 280	
Sold Cottages/Nights	10 024	12 029	
Occupancy %	0,38	0,46	
Average Selling Price	5 920	5 460	
Average Revenue per Cottage	814 490	912 229	
Occupancy Ratio (persons) – max. 1.58	1,34	1,37	
Number of Guests/Breakfasts	28 301	32 959	
Total Revenue from Entire Complex	109 926 084	125 174 187	
Revenue from Selling Accommodation Facilities	58 643 297	65 680 492	
Labour Costs + Taxes	8 518 205	8 944 115	
Direct Expenses	8 019 200	8 500 352	
Profit from Selling Accommodation Facilities	42 105 892	48 236 025	
Revenue from Meal Sales	25 060 415	28 277 629	
Revenue from Beverage Sales	8 394 287	9 775 948	
Revenue from Selling Services and Other Products	8 394 287	9 775 948	
Total Revenue from Restaurants	41 848 990	47 829 526	
Cost of Food	7 518 125	8 483 289	
Cost of Beverages	1 930 686	2 248 468	
Cost of Other Products	2 098 572	2 443 987	
Labour Costs + Taxes	22 821 909	23 963 004	
Other Restaurant Expenses	1 075 000	1 150 250	
Profit from Restaurants	6 404 698	9 540 528	
Total Revenue from Other Services	9 113 798	11 312 169	
Revenue from Souvenirs Sales	3 117 878	3 910 379	
Revenue from Equipment Rental	3 597 552	4 469 005	
Revenue from Additional Services	2 398 368	2 932 785	
Costs of Other Services	8 429 702	9 522 023	
Costs of Souvenirs	2 494 303	3 128 304	
Equipment Depreciation	3 270 502	4 062 732	
Direct Expenses for Additional Services	1 844 898	2 255 988	
Labour Costs + Taxes	820 000	75 000	
Profit from Other Services	684 095	1 790 145	
Revenue from Rental Services	320 000	352 000	
Total Operating Profit from Entire Complex	49 514 685	59 918 698	
Costs of Management	7 800 000	8 580 000	
Administrative Personnel Labour Costs	8 249 472	9 074 419	
Marketing and Sales Expenses	3 600 000	3 960 000	
Sales Personnel Labour Costs	1 499 904	1 649 894	
Costs of Engineering Support	9 000 000	9 900 000	
Engineering Personnel Labour Costs	1 953 000	2 148 300	
Heating and Hot Water Supply	11 000 000	12 100 000	
Water Supply and Waste Water Disposal	1 155 000	1 270 500	
Electric Power Supply	7 300 000	8 030 000	
Property Insurance	1 300 000	1 300 000	
Total Undistributable Costs	52 857 376	58 013 114	
Total Operating Profit Before Interest	-3 342 691	1 905 585	
Loan Interest Payment	0	0	
Loan Repayment	0	0	
Total Profit Before Taxes (EBITA)	-3 342 691	1 905 585	
Profit Tax 20%	-668 538	381 117	
Other Taxes	0	0	
Total Profit	-2 674 152	1 524 468	

In order to assess the economics of the project, the calculation of the annual profit growth has been made on the assumption of constant prices and an 8% increase in the annual occupancy in 2015, a 4% increase in 2016 and a 3% increase in the following years. The occupancy growths results in a simultaneous increase in the occupancy ratio.

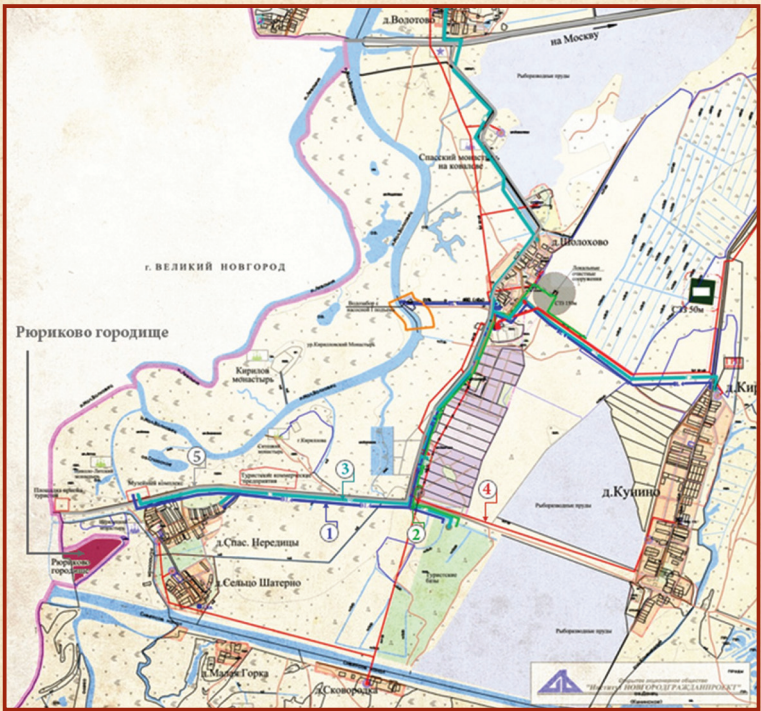
2016	2017	2018	2019	2020	2021
365	365	365	365	365	365
26 280	26 280	26 280	26 280	26 280	26 280
13 232	13 893	14 588	15 026	15 476	15 786
0,50	0,53	0,56	0,57	0,59	0,60
6 453	6 760	7 082	7 564	8 078	8 711
1 185 898	1 304 488	1 434 936	1 578 430	1 736 273	1 909 900
1,39	1,40	1,40	1,40	1,40	1,40
36 784	38 901	40 846	42 072	43 334	44 200
152 101 624	164 667 778	177 618 618	190 212 051	203 909 775	218 034 255
85 384 640	93 923 104	103 315 414	113 646 956	125 011 651	137 512 816
9 391 321	9 860 887	10 353 931	10 871 628	11 415 209	11 985 970
9 350 387	10 285 426	11 313 969	12 445 365	13 689 902	15 058 892
66 642 932	73 776 791	81 647 515	90 329 963	99 906 540	110 467 955
31 883 684	33 890 145	35 584 652	36 652 192	37 751 758	38 506 793
10 910 529	11 538 473	12 115 397	12 478 859	12 853 225	13 110 289
10 910 529	11 538 473	12 115 397	12 478 859	12 853 225	13 110 289
53 704 743	56 967 092	59 815 447	61 609 910	63 458 207	64 727 371
9 565 105	10 167 043	10 675 396	10 995 658	11 325 527	11 552 038
2 509 422	2 653 849	2 786 541	2 870 138	2 956 242	3 015 367
2 727 632	2 884 618	3 028 849	3 119 715	3 213 306	3 277 572
25 161 155	26 419 212	27 740 173	29 127 182	30 583 541	32 112 718
1 265 275	1 391 803	1 530 983	1 684 081	1 852 489	2 037 738
12 476 154	13 450 566	14 053 505	13 813 138	13 527 102	12 731 939
12 625 041	13 351 662	14 019 245	14 439 823	14 873 017	15 170 478
4 364 212	4 615 389	4 846 159	4 991 544	5 141 290	5 244 116
4 987 671	5 274 731	5 538 467	5 704 621	5 875 760	5 993 275
3 273 159	3 461 542	3 634 619	3 743 658	3 855 967	3 933 087
10 618 430	11 225 246	11 782 758	12 133 991	12 495 761	12 744 176
3 491 369	3 692 312	3 876 927	3 993 235	4 113 032	4 195 293
4 534 246	4 795 210	5 034 970	5 186 019	5 341 600	5 448 432
2 517 814	2 662 725	2 795 861	2 879 737	2 966 129	3 025 451
75 000	75 000	75 000	75 000	75 000	75 000
2 006 611	2 126 416	2 236 487	2 305 832	2 377 257	2 426 302
387 200	425 920	468 512	515 363	566 900	623 589
81 512 897	89 779 694	98 406 018	106 964 295	116 377 799	126 249 785
9 438 000	10 381 800	11 419 980	12 561 978	13 818 176	15 199 993
9 981 861	10 980 047	12 078 052	13 285 857	14 614 443	16 075 887
4 356 000	4 791 600	5 270 760	5 797 836	6 377 620	7 015 382
1 814 884	1 996 372	2 196 009	2 415 610	2 657 171	2 922 889
10 890 000	11 979 000	13 176 900	14 494 590	15 944 049	17 538 454
2 363 130	2 599 443	2 859 387	3 145 326	3 459 859	3 805 844
13 310 000	14 641 000	16 105 100	17 715 610	19 487 171	21 435 888
1 397 550	1 537 305	1 691 036	1 860 139	2 046 153	2 250 768
8 833 000	9 716 300	10 687 930	11 756 723	12 932 395	14 225 635
1 300 000	1 300 000	1 300 000	1 300 000	1 300 000	1 300 000
63 684 425	69 922 867	76 785 154	84 333 670	92 637 037	101 770 740
17 828 472	19 856 826	21 620 864	22 630 625	23 740 762	24 479 045
0	0	0	0	0	0
0	0	0	0	0	0
17 828 472	19 856 826	21 620 864	22 630 625	23 740 762	24 479 045
3 565 694	3 971 365	4 324 173	4 526 125	4 748 152	4 895 809
0	0	0	0	0	0
14 262 778	15 885 461	17 296 691	18 104 500	18 992 610	19 583 236

Building Transport and Engineering Infrastructures

The design institute Novgorod-grazhdanproekt has developed design and estimate documentation for building transport and engineering infrastructures for the museum and tourist complex. The design and estimate documentation, which has undergone a state examination, is based on the scientific conception of preservation and use of Rurik's Stronghold. 16.48 million roubles from the regional budget have been

allocated for developing the documentation. According to the documentation, the transport infrastructure costs 237.7 million roubles. The cost of the engineering infrastructure amounts to 485.66 million roubles. The costs of building the transport and engineering infrastructures are to be covered by means of funds from the federal target program Development of Domestic and Incoming Tourism in the Russian Federation (2011-2018).

Breakdown of the costs of building the transport and engineering infrastructures	
Type of works	million roubles
Engineering infrastructure	
Total	485,662
including	
Preparatory works	26,378
Gas supply networks	151,158
Power supply networks	67,723
Water supply networks	82,998
Sewage networks	86,429
Temporary establishments	42,266
Other costs (design works, construction compliance monitoring, surveying, contingency reserve etc.)	28,710
Transport infrastructure	
Construction of a motor road to the complex (Class IV, length 6290 m)	237,775



MAP SYMBOLS

- 1 – Water main
- 2 – Sewage
- 3 – Gas pipeline
- 4 – Power supply networks
- 5 – Motor road

Layout of Transport & Engineering Infrastructures of Rurik's Stronghold

Project Financing

Total Project Cost: 3 248.25 million roubles

1) Federal budget:

- construction of the engineering and transport infrastructure: 723.4 million roubles,
- construction of the museum complex: 287.0 million roubles.

2) Budget of the Novgorod Region:

- museumification conception, design and estimate documentation for the engineering and transport infrastructures of the complex: 19.2 million roubles,
- setting up the memorial sign Prince's Stone: 2.35 million roubles,
- design for reconstructing the motor road Volotovo-Sholokhovo-Seltso: 1.0 million roubles,
- reconstruction of the motor road Volotovo-Sholokhovo-Seltso: 52.9 million roubles.

3) Budget of Veliky Novgorod:

- setting a floating quay, site improvements: 3.7 million roubles.

4) Loan funds from the International Bank for Reconstruction and Development:

- restoration of the Church of the Annunciation: 43.7 million roubles.

5) Funds of Novgorodenergo Company

(north-western branch of Interregional Distribution Grid Company):

- construction of the off-site utilities: 15.0 million roubles.

6) Private investments:

- construction of the hotel and restaurant complex: 2 100.0 million roubles.

* It must be noted that the current estimate of the private investments in the construction of the Viking Park Hotel & Restaurant Complex is approximate. As no design and estimate documentation for the construction of the complex is available at the moment, the estimate is based on the expert evaluation of the construction volume and prices for 2010.

Estimated hotel room capacity: 420

Estimated number of restaurant seats: 340

Total area of collective accommodation facilities: approx. 18 400 m²

Number of new jobs: 250



Expected Benefits

The benefits of the project implementation include:

- an increase in the number of Russian and foreign tourists due to meeting the demands which have never been met before
- a diversification and increase in the level of services, which the hospitality industry provides to the Russian and foreign tourists
- a bigger contribution of tourism into the development of the Novgorod Region
- new jobs in tourism and hospitality industry of the Novgorod Region as well as in the related economy sectors

The following goals and targets will be achieved:

- 1) a 6.6% increase in the hotel room capacity of the collective accommodation facilities
- 2) a 19-fold increase in the volume of investments in the fixed capital of the accommodation facilities
- 3) a double increase in the volume of chargeable tourist and hotel services

4) 300 new jobs

5) a 30% increase in the number of Russian tourists, a triple increase in the number of foreign tourists

Considering the fast growth in automotive, family, health & relaxation tourism in the domestic market, the major target group for Ryurik's Stronghold Museum and Tourism Complex is likely to be Russian families with children travelling in their cars. The project involving historic sites will also allow development of educational and patriotic tourism by attracting schoolchildren, students and members of living history clubs.

Owing to the great importance of Ryurik's Stronghold for the world cultural heritage, particularly for the culture of Northern Europe, the target group of the project also includes the so-called descendants of Vikings, i.e. tourists from Sweden, Denmark, Norway and Great Britain.







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