BUSINESS PLAN

CONSTRUCTION OF “NARODNY” SHOPPING AND LEISURE CENTER, AT VOKZALNAYA ST. 58, KOMSOMOLSK-ON-AMUR CITY

Written by

NTK Close Corporation

Analyst Domanova Y.A.

1. SUMMARY

Project objective:

The project objective is the acquisition of gains during the execution of the constructional project of the public multiuse building – "Narodny" shopping and leisure center (hereafter referred to as shopping and leisure center), located in 50m north of the comprehensive school on Pirogova street, towards east-north of residence building on Voksalnaya Street, 56, 50m of the central district, in 200m south of Mining and Metallurgical Technical College, towards the direction of west-south of "Privokzalny" "bedroom" district, in 70m east-south of railway policlinic and hospital, as well as the municipal hospital complex. The constructional project of the shopping and leisure center will not only give the citizens of Komsomolsk-on-Amur the opportunity of purchasing of consumer goods and products, and also enjoying the family entertainment in the leisure center and the cinema.

There is a considered variant of the project execution by means of area leasing with the aim of profit taking.

Project proponent:

Owner - NTK Close Corporation,

Developer - NTK Close Corporation.

Project costs:

Total investment outlay is about 1200000000RUR, including all the construction costs and putting into operation. It should be noted that project proponent has invested equity funds in the following works:

- Acquisition of building land (due to results of independent evaluation made by "Prime Active Group", its market cost is 114mln.RUR);

- Purchasing of water supply networks (due to results of independent evaluation made by “Prime Active Group”, their market cost is 140ths.RUR.);

- Purchasing of the sewage networks (due to results of independent evaluation made by “Prime Active Group”, their market cost is 320ths.RUR.);

- Purchasing of the heating main pipeline (due to results of independent evaluation made by “Prime Active Group”, their market cost is 870ths.RUR.);

- Purchasing of telephone cable (due to results of independent evaluation made by “Prime Active Group”, their market cost is 160ths.RUR.);

- Conducting of the local market research of the services provided by the shopping centers in Komsomolsk-on-Amur;

- Development of architectural concept and shopping-technological concept of the project;

- Making of avant-project;

- Development of project documentation;

- Execution of examination of design solutions to check the conformance to the fire safety requirements, the calculation for the evaluation of people security assurance in fire condition for the adopted space-planning decisions, the development of proposal concerning the complex of additional fire precautions measures oriented to safe evacuation control in fire condition;

- Development of special technical requirements (STR) for the design of fire-fighting system;

- Execution of technical examination and expert report on STR for the design of fire-fighting system;

- Development of working documentation for water drawdown and slopes protection during the construction of the shopping and leisure center (contract № 3560(09) dated 2009.06.01, amount of contract is 368.16thous.RUR, contract with Far Eastern National University of Communication Lines, Khabarovsk);

- Development of concrete mix proportion using local building materials, the concrete grade should be B 40 (contract № 2-02 dated 2009.04.28., amount of contract is 370thous.RUR, with Stroygost Co., Ltd., Khabarovsk);

- Examining project documentation (Contract № 122 dated 2009.10.09., amount of contract is 882 095,92RUR, with Territorial State Institution "Common State Expertise of Project Documentation of Khabarovsk Region", Khabarovsk).

The determination of the project documentation market cost is being executed by independent valuators!

Sources of financing:

The sources of financing include: equity funds (own funds) of the project proponent – 20 %, China bank financing, by means of EPS Chinese contractor financing – 80%.

Marketing strategy:

Project marketing concept is oriented to economically active citizen – a medium class customer. The shopping and leisure center will provide the citizens and the guests of the city with great opportunity of combining purchasing and entertaining, buying quality goods of worldwide manufacturers, and also getting professional service. Currently many regional trading networks (and also some federal networks) appeared and are being fixed on the city market. There is wide range of franchising programs being presented, that gives an opportunity for tenants to occupy the center space.

Conducted market research and negotiations are indicative of the fact that by the end of its opening the shopping and leisure center will be fully occupied according to the tenant occupancy concept.

Currently the anchor tenants are stated, conducting negotiations with us and discussing the main terms of leasing contract. At the same time the other tenants are being selected to occupy the rest of the space of the shopping and leisure center.

ENTERPRISE PRESENTATION

Owner, developer: NTK Close Corporation.

Company info:

Full name: NTK Close Corporation

Registered address: postal code 681010, Komsomolsk-on-Amur, Vokzalnaya Street, № 58.

Postal address: postal code 681010, Komsomolsk-on-Amur, Vokzalnaya Street, № 58.

Tel: +7 (4217) 53-24-07, 53-44-73, факс 53-24-12.

TIN/KPP code: 2703040018 /270301001.

Current account: 40702810670050002011 Sberbank Far East Department, Khabarovsk, the Russian Federation

Correspondent account: 30101810600000000608.

BIC: 040813608.

Founding members of the Corporation, who possesses more than 5 % of share in charter capital of NTK Close Corporation:

- Mazunin N.A., Russian Federation citizen – 11.51%
- Mazunina V.I., Russian Federation citizen – 88.49 %.

Company's industry: Property investment.

Form of ownership: private ownership.

Legal form of organization: Close corporation.

Head of the enterprise: Mazunin Sergey Nikolaevich, Chief Executive Officer.

3. THE LOCATION OF INVESTEE

The Khabarovsk Territory – is one of the largest objects of the Far East. It is located in the centre of the Region to the latitudinal direction, which characterizes its advantageous economic geographic location (EGL). Alongside with that, its measures and economy specialization as a whole and of separate components are not fully appropriate to the existing conditions.

The Amur River plays a key role in the Khabarovsk Territory development. There is an immense territory of the Khabarovsk Territory and the Primorski Krai, the Amursk Region and the Chita Region, North-Eastern China in the zone of its waterway influence. It opens the shortest way to the sea of Okhotsk basin and to the Sakhalin.

The transport infrastructure of the Khabarovsk Territory is the key system in the Far East Region. Its transit functions are of great value not only in the regional, but also in all-Russian and international sphere. There are two railway main lines that run through the Region's territory – Trans-Siberian Railway and Baikal-Amur mainline, providing access to the main Pacific ports in Russia. There is an active ferry service between the continent railway system and Sakhalin.

After the second part of the bridge across the Amur River (Khabarovsk) and the "Chita-Nakhodka" road being put into operation, the Region's automobile transportation policy will be sufficiently improved, including transit traffic.

Diversified economy is a distinctive feature of the Khabarovsk Territory among the largest objects of the Far East. And it is impossible to separate out the only specialization as well as for the Primorski Krai (oceanic: fish industry, sea transport, shipbuilding and ship repair), Sakhalin (fish industry and fuel and energy complex), Kamchatka (fish industry), the Amursk Region (agriculture and hydropower engineering), Yakutia (mining industry). All these industries are developing in the Khabarovsk Region, but in small scale. The only distinction is the fast development of processing industries, among which the most powerful enterprises were civil and military engineering enterprises.

Since 1999 the Khabarovsk Territory belongs to the Russian Regions, the economy of which has been continuously developing up to the present moment.

The reasons are subject to the influence of some factor-groups, the main factors were as follows: diversified structure of economy, the level of involvement in the global economy, political stability.

This characteristic of the Khabarovsk Territory has become clear mostly thanks to Komsomolsk-on-Amur. Komsomolsk-on-Amur is an industrial centre not only in the Region, but also in the Far East.

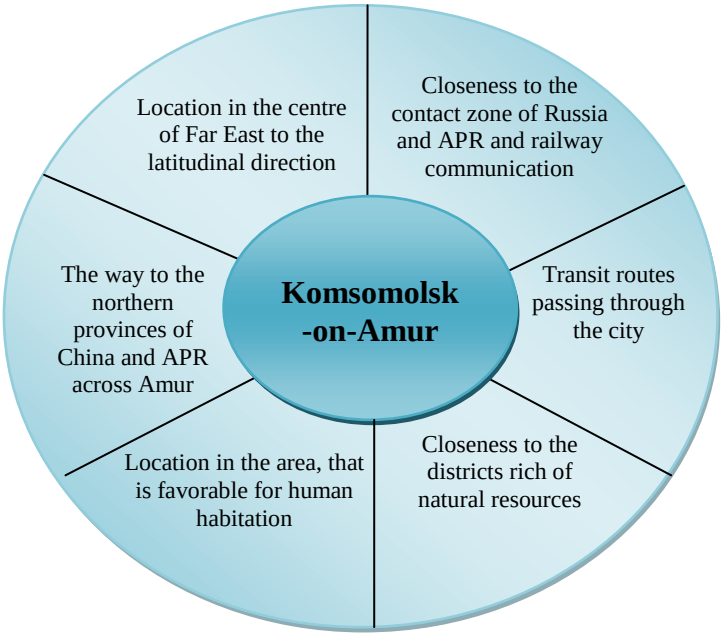
Only here there is a production of high-technology products (military airplanes and nuclear-powered submarine), metallurgical plant and oil-processing plant, civil mechanical engineering.

Komsomolsk-on-Amur is located on the left side of the largest far Eastern river, on 360km north-east of Khabarovsk, surrounded with high peaks. The city stretches along the Amur River for more than 30km. The city area is 325km^2. Amur feeder – Silinka, a small mountain river – divides the city into two parts – Central and Leninski administrative district. They are connected with the longest mainline of the city of about 7km length.

Advantageous economic geographic location (EGL) of the city is determined by its location in the centre of developed part of the Khabarovsk Territory and by some important strategic factors available. (Picture 3.1).

Thus, it is located in the centre of the south part of the Far East to the latitudinal direction at the intersection of roads, which are divergently radiate towards:

- Western direction – Baikal-Amur Mainline;
- North-western – waterway along the Amur River up to Nikolaevsk-on-Amur and then to the Sea of Okhotsk, automobile



Picture 3.1 – economic geographic location of Komsomolsk-on-Amut

road to DeKastri port, gas and oil pipelines from Sakhalin;

- Eastern – railway to ports of Vanino and Sovetskaya Gavan;
- South-western – the Amur River, railway and automobile roads to Khabarovsk, and then to the shore of the Pacific Ocean, to the ports of Vanino, Vladivostok and Nakhodka.

This provides the city with the way to contact zones of Russia, region and APR, and also creates the direct transport connections along the Amur River with the Northern provinces of China.

There are two airports in the city able to accommodate long-range passenger and freight aircraft. Convenient transport connections of Komsomolsk-on-Amur create favorable conditions for export potential development of the city. The city is supplied with all the main transportation vehicles – air transport, water transport, surface transport (railway, automobile). Komsomolsk-on-Amur is connected both with western and with eastern residential places of Russia and neighboring countries by means of railway. Every day tens of train sets depart from the city railroad station in various directions, including 6 passenger trains. The automobile roads network is mainly developed in the south of the Khabarovsk Territory. The Khabarovsk Territory is connected with the centre of Russia by means of federal highway – "Khabarovsk – Chita" M-58. To the north direction of Khabarovsk along the right bank of the Amur River the road is covered with asphalt up to Komsomolsk-on-Amur. There is automobile road along the BAMA route from Komsomolsk-on-Amur across Novy Urgal to Fevralsk with branch roads - Berezovy – named after Polina Osipenko and Novy Urgal – Chegdomyn – Sofiisk. The mail river line is the Amur River. It is boatable along its whole length. The navigation opening time is in May and the closing time is in October.

Despite of adverse climatic conditions, according to integrated assessment Geographical Institute (Academy of Sciences, Soviet Union), Komsomolsk-on-Amur is located in the favorable zone for human existing.

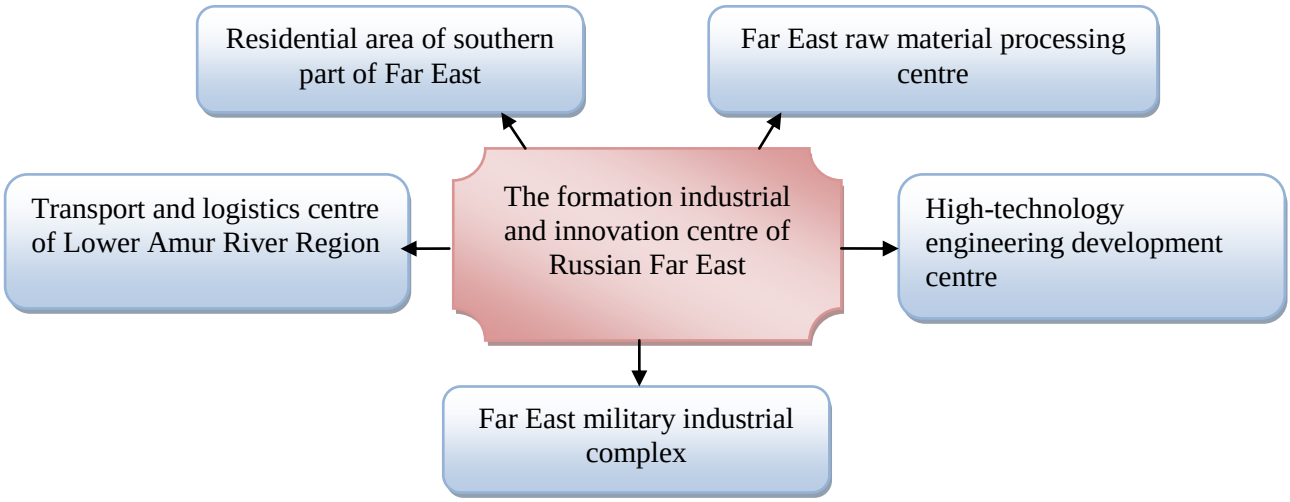
Today Komsomolsk-on-Amur is a large industrial, scientific and culture centre of Far East, and the third largest city in the region of the population with 270ths.people.

Within 22-50km there are large populated centers – town of Amursk (71,2ths.people), Solnechni (35,9ths.people), and more than ten small residential districts. The city borders on Komsomolsk Region, Solnechni Region and Amursk Region, отличающимися developed mining and timber industry.

The industrial agglomeration developed around Komsomolsk-on-Amur allowed to create Technoecopolis – "Komsomolsk-Amursk-Solnechni" on its basis, which became a component of the Federal target-oriented program – "Economic and Social development of the Far East and Transbaikalia" in 1996.

In the new classification of activities the employment pattern in Komsomolsk-on-Amur within the range of taken enterprises in 2008 seems rather diversified. Sufficiently decreased industrial sector still keeps its dominant position according to labor force – 40%. More than one third of employed are working at processing industry; 12,8% – with transport and communications; in social sphere – education and health service – 11 and 8,6%, accordingly; 8,1% are employed in construction; about every 6 % – in wholesale and retail, real estate transactions, hotels and restaurants, financial transactions. 2% of employed are working in the sphere of state administration and military security. Official employment statistics also includes small and medium enterprise workers, as well as individual entrepreneur, the biggest part are employed in trade industry.

In 2009 – 2010 Strategic plan of Komsomolsk-on-Amur development was worked out, according to which the city appears as industrial and innovation centre of Russian Far East. Schematically the mission of Komsomolsk-on-Amur is described on 3.2 and presupposes the following ways of its implementation: the development of high-technology engineering; the establishment of the regional raw material processing centre; the saving and development of the military-industrial specialization; the establishment of the transport and logistics centre of Lower Amur River Region; the establishment of regional residential centre.



Pattern 3.2 – The mission of Komsomolsk-on-Amur in perspective

According to the plan mentioned above for developing of the consumer market by means of complete meeting clients' requirements, providing them with safe and high quality goods and services in civilized way, and also for making-up principally new ways of market wholesale trade providing goods that are high-performance and high-demand on inner and outer market, the following factors are required:

- Supplying the consumer market with goods that meet quality and safety requirements;
- The expansion of networks to keep a position for small-scale retail trade and stores for socially unprotected population;
- The improvement of service culture, decrease of "hidden" turnover;
- The strengthening of regulatory and legal framework of trade development according to federal legislation;
- Creating of favorable conditions to ensure economical effectiveness and financial stability of consumer service and public catering enterprises;
- Creating of the physical distribution system on the basis of modern technologies;

- Expansion of electronic commerce via Internet;
- Creating of conditions for the construction of integrated service centers, providing a wide range of services connected not only with product purchase, but also with leisure time;
- The construction of the specific ongoing exhibition complex of regional significance;
- The development of staff training integrated system on the basis of specialized educational institutions, the modification of study programs in higher education institutions referred to the professions connected with management and economic management, paying special attention to the subjects connected with e-commerce, international transactions, logistic processes, customs clearance of cargoes;
- Implementation of special financing plan for the construction of warehouse terminals and purchasing of transport equipment at interest rate that corresponds to the international level;
- Development of the constructional project of the regional shopping-logistics center;
- Development of the project and subsequent development of timber yard in Komsomolsk-on-Amur, the creation of favorable conditions and stimulus for its application by timber companies.

Thus, according to the information mentioned above, Komsomolsk-on-Amur identifies the position of the Khabarovsk Territory being a developed industrial (mechanical engineering) region, producing high-technology production demanded on world and home market. It still retains rather high sotiocultural potential, constructive management, which is still remaining the supporter of the industrial specialization, innovation-based development, and also the development of different economy sectors of the city, and is has favorable economic data for investing.

4. DESCRIPTION OF INVESTEE

Project mission:

The construction of the Shopping and Leisure Center in Privokzalny micro district of Central district of Komsomolsk-on-Amur.

The business plan examines the variant of project execution - Leasing commercial space of the Shopping and Leisure Center with the aim of profit earning.

The description of the Shopping and Leisure Center:

The Shopping and Leisure center will be built at one of the busiest intersections of Vokzalnaya Street in the Central District. It will become the new dominating symbol among the surrounding buildings, representing an architectural element that has no parallels in the city.

The Shopping and Leisure Center will be perfectly visible on each side; there are many transport and transitional routes in the area of designed project. It is connected not only with the large quantity of nearby enterprises, institutions, small shops and residential areas, but also with urban public transport routes (autobus, tram), often used by local population.

Vokzalnaya Street is intense with public transport routes – The Shopping and Leisure Center is located close to the bus and train stops. There are general education school, Mining and Metallurgical Technical College, children's polyclinic, railway polyclinic, two hospitals in the centre. According to the data of local government authorities (2009) the average salary of a citizen is 18,7ths.RUR, i.e. 6% higher than the average Russian level, while the average age of the citizen is 29-36.

The Shopping and Leisure Center is an example of modern современной commercial real estate that successfully combines: supermarkets, shopping malls, and the group of office spaces, catering and entertaining facilities.

Besides the central location, the distinctive aspect of the project is the original technical solution of the facade, inner layout and design.

The completeness of the dimensions and architectural significance is achieved via the common facades design. The first floor is fully glazed. Upper floors are enclosed with inclined wall cut with transparent glass barriers of the staircases, which create simple compositional accents contrasting with mirror-like surface of the wall. The picturesqueness of the building silhouette is achieved with the help of the following peculiarity: the 4^{th} floor does not occupy the total area but just a part of it, thus the contours of the 4^{th} floor are associated with naval architecture via its free line and glazed spaces, reminding the citizens of their origin of a shipbuilder.

There is a large screen monitor built into the facade construction over the southern entrance, facing the intersection of Pirogova and Vokzalnaya Street, providing the possible viewing of advertising commercials within 100m.

The Shopping and Leisure Centre represents a six-storey building with the underground parking located on the floor -2 with 204 car spaces available, surface visitor parking with 135 car spaces and parking bay with 20 car spaces, erected by means of capital construction. Estimated total area of the Shopping and Leisure Centre is 40 000m^2 including underground visitor parking of 181 car space, total area is about 6 000m^2, gross lease area (GLA) is about 20 000m^2.

Three main entrances for visitors are located at the south-western facade. One of them is facing the intersection of Pirogova Street and Vokzalnaya Street, the other one is facing Pirogova Street. The third entrance located at the eastern part of the building provides the access for the visitors on the part of Vokzalnaya Street. All the entrances provide the access for the visitors to the first level of the Shopping Centre. The load platforms are located on the north-western side of the building.

The four ground floors of the Shopping and Leisure Center are unified with the atrium in the central part, providing the natural insolation of the center, shopping malls, food-court and the office section. The atrium creates the artificial

atmosphere of closeness and mutual effectiveness of each level in the Shopping Center.

For the sake of convenience there are escalators located in the zone of the atrium, and also lifts and stairs along the perimeter of the building.

At the underground floor -1 of the Shopping Center there are – foods supermarket (anchor tenant), supermarket of perfume and household chemicals, alcohol products and drugstore. There is also the developed area for automatic cash machine and payment terminal.

On the first floor there are: the shopping mall – perfume, bijouterie, presents, pieces of jewelry, accessories, branded clothes, shoes, beauty salon, mini-laundry, mini dry-cleaning, wardrobe for visitors etc. There will be a fountain mounted in the atrium and also the area provided for a special stage for various promotional events, celebrations and entertainments to be held, and also there will be a coffee house provided.

On the second floor of the Shopping Center the supermarket of household appliances and electronic devices (anchor tenant), the shopping mall including the shops of: jeans, sports clothes, branded clothes, shoes, pieces of jewelry, bijouterie, подарков, accessories, perfume, cosmetics etc.

On the third floor of the Shopping Center there is a modern multiplex cinema, food-court with 5 operators, family cafe, the area of audio-video production and books, children's playing area, billiards, toilets available for limited mobility people and parenting room. On the fourth floor of the Shopping Center there are office spaces that satisfy high standards, with open-plan rooms, natural daylight coming into. There are elevators and security provided for the office center. The office center is supposed to be supplied with natural lighting through the stained glass window, glass lamps and through the dome of the atrium.

Architectural and technical solutions for the Shopping Center provide various operating principles of the shopping, office and entertainment parts in the Shopping center.

Constructional part of the building – designed for making free solutions of floor-plan, to arrange areas free of load-carrying structure, the framed building layout, the building constructed to 9m grid. The cast-in-place floor slab, transverse and linear bracing in line with column space, act as a hard disk, which provides the stiffness for the whole structure. The Shopping Center represents a modern monolithic-frame building, class of building – II, fire resistance rating – II, the wear rating of the main structural components - II. The building consists of two underground levels and four over-ground level. The dimensions of the building in the axles: 99m×72m. The building frame is made of reinforced concrete, the building constructed to 9m grid. Above ground level is 25,8m, lower floor level - 8,5m.

The building foundation represents cast-in-place reinforced concrete slab in the thickness of 600mm with 9×9m cells and beams of section 850x1400mm. Underground outer walls are to be made of reinforced concrete with strong waterproofing layer.

Structural frame columns are made of cast-in-place square reinforced concrete, at the entry and along the perimeter of atrium – round concrete.

Floor structure is slab and beam floor made of reinforced concrete with cells of 9x9m "cut" with secondary beams into cells 3×3m. The thickness of floor slab is 120mm. The dimensions of the main ledgers of 9×9m are 750×450mm. The dimensions of secondary beams with cells of 3×3m are 550×250mm.

The atrium area is overlapped with special metal structures of 27×18m made of tube bars supposed to be glazed.

First floor walls are made of aerated concrete. "Sandwich type" wall panels with mounted ventilated facade made of reinforced alucobond plastic for the upper floors insulation.

The structures of staircases, fliers and stairs platform are made of cast-in-place reinforced concrete.

The roofing is flat with internal downpipes along the monolithic roof slab made of roll materials with protective concrete layer.

The stiffness calculation of monolithic framework, flooring and staircases is executed by means of "Lira" program that confirms the building sustainability.

The project design provides the following systems to be installed:

- Heat supply and heating system,
- Individual Heating Plant,
- Ventilation and conditioning,
- Autonomous fire fighting system, fire tank,
- Pump plant,
- Fire-alarm system,
- Fire-alarm protection system,

- Power supply and electric lighting system, outdoor lighting system,
- Lighting protection and grounding,
- Automation system,
- Communication and alarm system,
- Building automation system,
- Water supply and drainage,
- Indoor and outdoor advertising alert etc.

The Shopping and Leisure Center represents a unified architectural complex combining the features of upgrading and planting with hard landscaping.

The planned land improvement consists of: the project of visitor parking with 135 car spaces, landscaping in the undeveloped area with grass-plot.

5. MARKETING

Nowadays the sphere of professional commercial activity is being developed rapidly in Russia. Originally the development took place in multi-million-strong cities, and then this extended to the cities with the population over 500ths.citizens, and now it is concerned the cities with the population about 300ths.people. It is caused by high consumer demand, and also the will of commercial operators to open shops in these cities.

There are several operating modern Shopping centers in large cities, the large amount of projects are in development and are going to entry into the market in the next two years.

As for the cities with the population of 300-700ths.people, here some modern forms of trading are being created, mainly there is a tendency for reconstruction of plants or out-of-repair department stores existing in the Soviet period.

Small Shopping Centers are often developed with the total area from 100 to 3000sq.m, as a rule, they are located in restructured buildings, often not quite suitable for commercial purpose.

Komsomolsk-on-Amur is also called “the city of youth”, for the reason that average age of the citizens is 29-36. Retail property market in Komsomolsk-on-Amur is also young. It can be said with confidence that the city is at the beginning of its development. There are few Shopping Centers in the city, but they cannot be classed among “civilized forms of trading”. TSUM was built in 50s and is facing hard times lately. During the last two years, the TSUM’s administration reconsidered the conception and allocated well-known federal and local network operators. But this establishment has no parking available for visitors. Singapore and Platinum shopping centers are located in the ex-garment factory buildings, so we cannot say much of convenience and wide range of services. These shopping centers can be referred to the category of “indoor market”. The shopping centers are frequently visited by the citizens, because of low prices, thus the goods quality corresponds with the price. The shopping center has no parking, and this is the circumstance of no small importance, this caused “the traffic chaos” near the shopping centers. There are “household products” stores being developed in the city, as well as in Khabarovsk. On the skirts of the city federal and local operators are developing the shops of “cash and carry” type in old sheds, workshops, storehouses – the examples are “Super Good”, “Eldorado”, “Gran”, “Bubble-Gum”. The new real estate type not used in other cities is being adopted: registration of first floor apartments as a non-residential property. This phenomenon can be observed everywhere, and not only along the building line, but also in “bedroom suburbs”. No lack of real estate, lack of reasonable credit resources, remoteness from the capital and European part of the country caused the unavailability of modern shopping and multifunctional centers, high-grade shopping malls that satisfy recent demands and have modern conception.

Therefore to make the sales area calculation we have to use the active commercial projects data.

Name of object	**Complex sales area, m²**
“Vega”	2 250
“Singapore”	5 000
“Platinum”	6 100
“TSUM”	6 000
“Premier”	1 600
Total:	**16 450**
Population size of Komsomolsk-on-Amur (thousand people)	**270 000**
Space area provision, square meter/thousand people	**61**

According to the countrywide regional statistics and the monthly publications of LLC Mall Publishing House dealing with “Mall’s” real estate and retail, the same arte in other cities of Russia are as follows:

City	Space area provision, square meter/thousand people
Samara	242
Yekaterinburg	239
Moscow	250
Perm	111
Kazan	359

Saint-Petersburg	285
Izhevsk	195

Thus it is hard to speak about demand saturation in the professional trade market in Komsomolsk-on-Amur. On the contrary, taking into consideration that the trade turnover in Russia doubled for the last three days, and the personal income is increasing in spite of the last major changes in global economy, whereas citizens are not ready for accumulation pretending to spend most of their means in shops, demand for the shopping and leisure center will increase. Taking into consideration that the unsatisfactory objects are prevailing in the city, nevertheless the objects are in demand among the visitors for the lack of other alternatives, so the reasons for construction of the shopping center are obvious.

Today we can single out the following objects: “Vega”, “Singapore”, “Platinum”, TSUM and “Premier”. The description is as follows:

TSUM was built in 50s, is facing hard times lately. During the last two years, the TSUM’s administration reconsidered the conception and allocated well-known federal and local network operators. But this establishment has no parking available for visitors. The following brands are exposed in TSUM: L’Etoile, Expert, Tom Farr, Personage, Victoria (regional toyshop chain)/

Singapore and Platinum shopping centers are located in the ex-garment factory buildings, so we cannot say much of convenience and wide range of services. These shopping centers can be referred to the category of “indoor market”. The shopping centers are frequently visited by the citizens, because of low prices, thus the goods quality corresponds with the price. The shopping center has no parking, and this is the circumstance of no small importance, this caused “the traffic chaos” near the shopping centers. The following brands are exposed in “Platinum”: 9 months, Expedition, Gloria Jeans, Krasny cub, soap manufacture, Glance, Baskin Robbins, Incanto, Wool Street, Tvoye, Wesland, Gota, Corleone (regional clothing chain). In the shopping center “Platinum”, in spite of large area,

there are less products by Victoria, Neznakomka, Corleone (local chain of leather accessories and bijouterie) compared with the other retail objects.

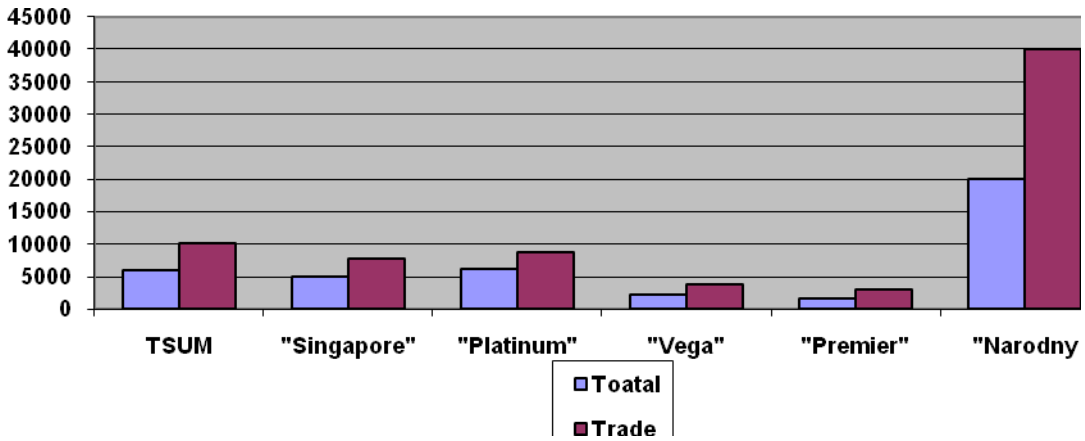
The shopping center “Vega” presents the ex-kindergarten building reconstructed, the architectural conception is difficult for the visitors’ perception, the lack of merchandising concept– all these factors refer the retail real estate to the category of “indoor market”. The following brands are exposed in the center: Zolotaya Rus (regional jewelry chain), Incanto, Snovidenie, Corleone, Neznakomka.

The shopping center has been facing hard times recently, frequent change of concepts, from the night club to the rollerdrome, the allocation of food products sales departments on the basis of soviet market trade, lack of brand boutiques, all these factors make the shopping center unpopular among the citizens, oriented to the neighboring householders.

In should be noted that there are “household products” stores being developed in the city. On the skirts of the city federal and local operators are developing the shops of “cash and carry” type in old sheds, workshops, storehouses – the examples are “Super Good”, “Eldorado”, “Gran”, “Bubble-Gum”. The new real estate type not used in other cities is being adopted: registration of first floor apartments as a non-residential property.

For illustration purposes, space area provision for the objects mentioned above and total and trade area ration data are listed in table 5.1.

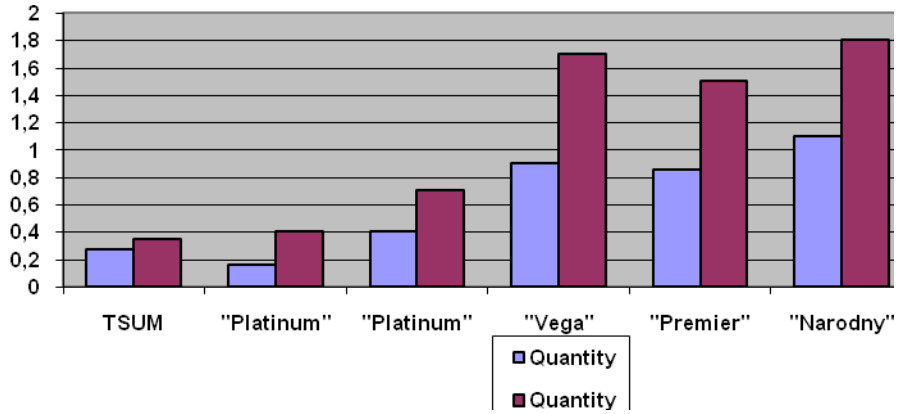
Table 5.1



According to the table 5.1 the designed shopping center has one of the best space occupancy rates.

The data concerning the provision of parking spaces for the shopping centers is listed in table 5.2.

Table 5.2.



According to the data analysis concerning the provision of parking spaces for the shopping centers, it may be concluded that for each 100m² of the total area there are approximately 0,5 parking spaces on the average. However it is preferable to evaluate the parking spaces provision rates in the living area. To our opinion, it the rate for each 100m² in 1,8 – 2m/m of the living area would be enough, and there is no sense in excessive capital expenses for the construction of large parking.

Summary data on large shopping objects in Komsomolsk-on-Amur is listed in table 5.3.

Table 5.3

№	Name of the shopping center	Address	Brief description
1	“Vega”	Vasyanina street	1. Number of storeys 3 2. Total area 3700m² 3. Leasable area 2250m² 4. Anchor tenants: “Zolotaya Rus” 5. Escalators – N/A 6. Elevators - N/A 7. Parking - surface
2	“Singapore”	Lenina avenue	1. Number of storeys 4 2. Total area 7663m² 3. Leasable area 5000m²

			4. Anchor tenants: “V-Lazer, 5. Escalators – N/A 6. Elevators – one elevator available 7. Parking - surface
3	“Platinum”	Lenina avenue	1. Number of storeys 4 2. Total area 8726m² 3. Leasable area 6100m² 4. Anchor tenants: N/A 5. Escalators – N/A 6. Elevators– N/A 7. Parking - surface
4	TSUM	Mira avenue	1. Number of storeys 3 2. Total area 10040m² 3. Leasable area 6000m² 4. Anchor tenants: “L’Etoile”, “Expert” 5. Escalators – N/A 6. Elevators – N/A 7. Parking - surface
5	“Premier”	Gamarnika street	1. Number of storey 2 + basement storey 2. Total area 2908m² 3. Leasable area 1600m² 4. Anchor tenants: Rollerdrome 5. Escalators – N/A 6. Elevators – N/A 7. Parking - surface

To our opinion the main shopping mall rivals are the three shopping objects: “Singapore”, “Vega”, “TSUM”, though they are of another class and it is not quite correct to compare them as rivals.

In whole, all other conditions being equal, as many people would attend each shopping center, as much trade area would be built. The most important thing there is no aggressive competition between the projected shopping center and the other real estate projects in Komsomolsk-on-Amur.

Thus, high quality real estate is at its beginning of development, and the projects that represent it are 10 -15minutes drive from the shopping center. Undoubtedly, the shopping the retail objects are supposed to divide the visitors among themselves, though the competition between them would not exceed minimum standards.

Also it should be noted that the sphere of professional trade has been developed rapidly in Russia. In the near term the “old-fashioned” shopping centers would be driven out by the modern shopping centers.

As for the retail real estate development, Komsomolsk-on-Amur fall behind from Moscow and other large cities in Russia, this means that the shopping center would be in demand.

The analysis of lease rates of the main competitors the shopping center lease offers.

Lease rates analysis is made by means of direct questioning of the administrators and by means of “secret shopper” questioning method. The questioning data is listed in table 5.4.

Table 5.4.

Lease rates (VAT and operation costs included), RUR.				
Item	TSUM	Singapore	Vera	Narodny
Shoes	800	1200	1000	1650
Women’s wear	800	1400	100	1500
Men’s wear	800	1400	1000	1500
sporting goods	800	1200	1000	1300
Underwear	800	1200	1000	1300
Perfumery	600	1200	1000	1250
Presents (souvenirs)	600	1400	1000	1300
Leather accessories	800	1200	1000	1300
Jewelry	800	-	1000	1500
Optician’s	-	-	1000	
Drugstore	-	-	-	1100
Flowers	800	-	1000	
Cellular communication	-	1400	-	
Audio, video books	800	1200	1000	
Textile	800	1200	1000	1300
Entertainment for children	600	1200	-	1100
Beauty salon	-	-	-	900
Food-court	-	-	-	700
Restaurant, cafe	600	1200	1000	650
Automatic cash terminal	800	1400	1000	
Payment terminal	800	1400	-	
Toy store	800	1400	1000	1650

Travel agency	-	-	-	
Tobacco	-	-	-	
Vines	-	-	-	1350
Cinema	-	-	-	700
Billiards-club	-	-	-	700
Bowling-club	-	-	-	800

The project a broad range of advantages that gives a lot of preferences compared with the other projects in the sphere of retail real estate and the opportunity of establishment in the reality of lease rates. It should be noted that as you can see in table 5.4, the project has large “reserves” to increase lease rates that would provide even more advantageous financial indicators for the project payout.

Project advantages:

- The Object has a unique location – at the key intersection of Komsomolsk-on-Amur, Vokzalnaya Street, and there are two lanes of traffic on each side of Pirogiva Street. The intersection is considered to be “the gates” into the “bedroom” Privokzalny micro-district of the central district in the city, and it has additional high rates for transient traffic.
- Public transport intensity has high traffic density rates (tram – 2 routes, bus – 13 routes).
- The shopping center is located nearby public transport stops.

The traffic level is provided in table 5.6.

Table 5.6

Time	Number of vehicles	Number of pedestrians
Working days	26 412	16 002
Day-offs	28 070	16 485

- The conception of the shopping center is created by the leading Russian consulter, based on analysis of the global and local experience in the sphere of development, in the context of which the designing and construction is being executed, the selection of tenants the complex operation.

- According to its function the shopping center is multifunctional, resulted from the developer's intention to minimize the possible risks between the real estate of different use: different services, entertainment and trade. Despite of this fact, the project conception includes all the requirements of different users according to the following parameters: requirements to the site location (Central Street of the city), the building shape and planning (escalators, insolation), traffic and pedestrian availability, clear division of the stream of people, availability of a large uploading stage.

- The atrium available in the shopping center, that creates artificial atmosphere of closeness and mutual effectiveness of all the levels in the shopping center. The visitors prefer to enter the shops or other floors when they are effectively visible; this effect is achieved via interior space openness (atrium) and ease of access (escalators).

- The spaces of a new building (that of the shopping center) are more attractive for the future tenants compared with the reconstructed buildings, because that they are designed according to all the requirements and standards.

- The future visitors of the shopping center could not only purchase goods and services, but also spend their leisure time in the shopping center (cinema, entertainment center, food-court).

- The marketing concept of the project is oriented to economically active citizen – a medium class customer.

- The shopping center is differs from the neighboring shopping objects and shops, it is noted for its original facade concept and inner planning.

- Tenant selection is executed by professional organization in accordance with the pre-developed shopping and technological concept that attracted rather serious federal, regional and local tenants.

- The development of the retail market and retail property market is favorable to the construction of modern shopping centers, similar to the future shopping center.

The following facilities are provided for the tenants' convenience:

- Loading area with uploading docks available;
- Elevators and lift mechanisms available for goods lifting;
- Warehouses and storerooms available;
- The capability of specific finishing in the atrium;
- All the engineering systems available;
- The creation of individual microclimate in the leased premises;
- Communication services available (telephone, Internet);
- Development of the common advertising strategy;
- Shops and goods advertisement spaces available;
- Organization of the central operation and security service.

When all the constructional works finished, the shopping center will be put into operation. Moreover tenant selection should be executed during the designing and construction. By the day when put into operation there should be no less 80 % of operating leased spaces in the shopping center.

Today many federal trade chains (not only capital's) are entering the regional market. There is a large amount of franchising programs being presented; this gives us confidences in usage capacity of the shopping center.

The undertaken market research, brokerage and negotiations confirm the fact that the shopping center will be fully occupied by its opening time in accordance with the concept of tenant's occupancy.

Anchor tenants possess the major part of goods and services, complying with consumers' demands, and designed to form the main stream of visitors, i.e. we managed to create natural stream that makes the shopping malls fully occupied with the visitors and exclude non-demanded.

Today the anchor tenants are already specified (food supermarket with the workshops for semi-prepared foods and culinary products manufacturing – floor "-1", household appliances and electronics supermarket – floor "+2", multiplex – floor "+3"), negotiations were held and the main terms and conditions of the treaty were specified. At the same time the active tenant selection for the rest spaces is being made.

Tenant selection for the shopping center is based on the following aspects:

Trading aspect.

According to the real estate market analysis data the examples of the successful shopping centers are the shopping centers, anchor tenants of which stand large-size food shops, household appliances and electronics shops, household products hypermarket. According to the held research of federal chain tenants and negotiations with them, the following chains are regarded as anchor tenants: the food supermarket chain "UNIMART", "Super Good", "Tri Tolstyaka", "Sambery", regional household appliances and electronics chain "TECHNOSILA", "V-LAZER", "M-VIDEO", "Kontur Budushego", "Eldorado".

Entertaining aspect.

In order to draw more visitors to the shopping center along with the shopping operators there are various entertaining enterprises in the shopping centers, such as restaurants, cafes, cinemas, bowling clubs, leisure-time entertainments.

Bowling clubs and cinemas are real “anchors”, because, first, they occupy sizeable area, second, they provide an additional stream of visitors to the shopping center. According to the market research data and held negotiations the following multiplex is regarded as a tenant – “Kinocity”, St.Petersburg, and “KidsPlay” company.

6. CONCEPT.

Due to the local analysis of the shopping center we may confirm the reasonability of the construction on the analyzed site. The recent tendencies showed constant increase of the Russian’s welfare. This made the conditions for sufficient growth of famous and high-quality products. Financial crisis significantly decreased Russians’ purchasing power, however positive trends planned at the 3rd quarter 2009 and the features of Russian market confirm that by the expiration date of the construction the demand for goods and services will recover, and the prices for these goods and services will inevitably increase. Leading analysts considered the demand growth is connected with the fact that due to growth of pay grade level the people need to improve the living standards.

The similar shopping centers established the reputation as the most attractive for the visitors, because of the most important factor for the consumers – the assortment, i.e. choice. The retail location analysis shows that there are no other large shopping centers on this territory, and available shopping malls cannot compete with the designed project, neither on area nor on assortment and services.

On the basis of marketing research we have developed the concept of the shopping center – the main visitors of the shopping center would be the citizens at aged 8-25, and also married couples aged 25-50.

In account of the total area and location of the shopping area, it is recommended to place the food goods, household products, sportswear, perfumery and cosmetics, household electronics and electrical goods, clothes and shoes for all classes of people, public catering, provision network services and leisure service. Small service shops should be provided in the shopping center (pharmacy, paper shop etc.). The absence of modern large constructional objects in the market and rather high economic security of the most population have an effect on the project prospect, let us predict the increase of rental cost and liquidity which attract a large number of consumers, at the same time with fundamentally different quality of cooperation with other companies.

The calculation of parking places.

The concept of the shopping and leisure center presupposes the founding of a larger parking.

The required parking space calculation is made according to Regional Construction Norms of the Khabarovsk Territory "The norms of parking and garage allocation in the Khabarovsk territory" № 120 dated 2004.05.05, appendix – table. Calculation data is listed in table 6.1.

Table 6.1

Item	Calculation unit	Number of calculation units	Norm 1 parking space per calculation unit according to Territorial Constructional Standards	Required number of parking spaces
1.	Shopping premise	19690m²	100m² of sales area	19690:100 = 197
2.	Office premise	150office workers	15-25m/worker.	150:(15-25) = 10-6
3.	Restaurant premise	370seats	7-10seats	370:(7-10) = 63-37
TOTAL:				**270-240**

“Narodny” shopping center is equipped with the underground parking with 181 car space and the surface visitor parking with 155 car spaces, thus the visitors can use the parking services specifically designed for 336 vehicles, i.e. car spaces supply makes more than 130 %.

7. PRODUCTION PLAN

The general designer of the project is a foreign corporation and LLC Infrastroi, the Russian corporation, license of the federal construction agency and housing and public utilities -7-27-01-26-0-2712007641-007669-1, contract № 69 dated 03.05.2007. According to the above mentioned contracts, the designer undertakes obligations on preparing and carrying out expert examination of the construction documents – design and working documents of “Narodny Shopping and Leisure Center, Komsomolsk-on-Amur, Vokzalnaya street, 58”.

The general contractor of the project “Shopping and Leisure Center” is a foreign company. According to the general contractor contract, the contractor undertakes obligations on constructional works in compliance with design documentation.

8. ORGANIZATIONAL PLAN

Development plan for the shopping center

It should be noted that the construction of the shopping center is anticipated to begin in 2011. Herewith the expected date of putting into operation: 2012, with expected funding gap.

The ground area on which the shopping center is to be located as mentioned is in private ownership.

The shopping center construction permit got at _____, expiration date _____. There is relevant design documentation available, which is necessary for the construction.

It also should be noted that NTK close corporation is the initiator of this investment project, in the future it is planned to transfer the real estate into investment trust for operation and management with the aim of tax optimization, reduction of the payback period of the investment project and repayment of borrowings.

The main technical characteristics of the capital construction object are listed in table 8.1.

Table 8.1

Item	Indicator	Values
1	Plot area	16 855m^2
2	Building area	7 730,68m^2
3	Gross building area	40 306,71m^2
4	Total structural volume	194 953,50m^3

Today according owner's assessment the shopping center is 11 % complete (according to the amount of expenses).

General and shortened constructional schedule is provided in table 8.2

Table 8.2

Item	Construction stages	1 quarter 2011	2 quarter 2011	3 quarter 2011	4 quarter 2011
1	Excavation works	+			
2	Installation of base slab	+			
3	Construction of the building		+		

	substructures				
4	Construction of the building superstructure		+	+	
5	Building engineering		+	+	+
6	Finishing works			+	+
7	Completion				+

The pictures visually describing the current situation on the site are attached in appendix 3 and 4.

According to its amortization period the shopping and leisure center refers to the amortization group (the real estate usage period more than 30years).

Environmental protection

During the constructional works the waste is formed up from the drives of the building machinery (BM) and truck transport, caused by the main manufacturing activity affecting the environment, and also during installation and finishing works (Operation of high-speed reducing station, welding works and painting). There is a wide range of methods for environmental protection during the construction arrangements and during the period of construction, the methods are as follows:

- Atmospheric air protection;
- Land conservation;
- Environmental protection against waste;
- Surface and ground water protection against waste;
- Environmental protection during the construction arrangements;
- Environmental protection against production and consumption waste.

It is planned to install the ready mix station on the site. The temporary water supply system on the site is supposed to be provided from the public waterworks system. The forming waste is collected at the site before being sent to professional organization for dumping, utilization and processing.

In order to minimize the waste there are special places for waste accumulation, waste containers, and the waste is removed to the solid domestic waste landfill. Temporary storage is available according to the existing sanitary and ecological requirements. There will be short-term pollution during the period of construction. According to the calculation of the section “Environmental protection methods” in the design documentation, the atmospheric emissions resulted from the constructional process are characterized as permitted (maximum permitted emissions).

The devastation of solid soil inflicted at the site would be neutralized by the completion.

Logistic and maintenance support

The mission of the shopping center’s directory is to create high quality service. For this purpose it is necessary to supply the shopping center with all the required manufacturing equipment, means of communication and safety.

The professional manufacturing equipment will be used in the shopping center for the provision of services. The equipment and fittings meet all the standards specified for modern shop equipment.

Engineering support facilities

- *Heating, ventilation and conditioning system*

The heating and conditioning facilities of the building are provided with the help of central plant air conditioning system, with water circuit based on the two built-in dual-purpose lithium bromide absorption machine, operating by the heat pump cycle using the thermal value of natural gas. It is planned to use urban network as a backup heat supply source.

The heating and conditioning system in the shopping center would be installed with the help of fan coils connected according to the scheme of the dual-purpose lithium bromide absorption machine. Such scheme allows to operate the system both centrally (by temperature changing of the dual-purpose lithium bromide absorption machine circuit), and locally (by changing the productivity of fan coils).

Warm air heating equipment will be used for the heating system.

The modern air heating system, ventilation system and conditioning system in the shopping center are the jointly operated systems. All these systems are called the environmental control system which is able to set not only the temperature parameters, but also the parameters of humidity, air purity and air changes. The heating is achieved by air warming in the air intake system up to the defined working temperature (18° – 24°), and also by temperature variation up to the set level, for this purpose it is necessary to install fan coil units; these fan coil units operate in the air heating mode by means of cooling circuit (water) at the local Individual Heating Plant (IHP) or central heating system (standby).

It is necessary to equip the used air system with the fan coils both with cold (conditioning) and hot (heating) water line, operating in summer and winter time. After being heated or cooled in the air inlet units, the air is delivered through air ducts.

The ventilation in the shopping center consists of the following systems:

1) Storey inlet ventilation – suspended ventilation unit – its efficiency is about 10ths.m^3/h; the ventilation units are mounted in ceiling space, providing inlet air preparation (purification, cooling/heating, delivery to the consumers).

2) Storey general exhaust ventilation consisting of exhaust ventilation units. General exhaust ventilation is characterized by its high degree of automation – quick response of the air quality sensors. The automation system of the general combined exhaust and inlet ventilation makes it possible to adjust the air balance between large spaces depending on the number of visitors.

3) Local exhaust ventilation units built in cooking spaces (restaurant and café's kitchen, kitchen in the food-court area and food preparatory workshop), in the engineering building rooms (individual heating plant, transformer substation), in amenities (bathroom units, shower cubicles, smoking areas).

The integrated system of central conditioning and ventilation consists of: story central inlet ventilation units (air-intake unit), chilling machine, local fan coils, heat/cold supply air duct and circuit.

There are no "dead-leg areas" in the ventilating and conditioning system, the system provides the necessary air change coefficient and temperature maintenance both on shopping and total area.

The calculation principle of the conditioning costs is as follows:

- When calculating of ventilation system the storey space is taken as total area for the calculation.
- Currently the additional engineering calculations are being performed in order to minimize the amount of equipment and to optimize the quantity of systems provided in the developmental works today, and also the air duct length.
- The air change coefficient and air exchange cubic capacity in the working area of food-court is much higher than due to the existing standards and regulations.

- *Water supply and sewage system*

The two input of the city cold water conduit, located at Vokzalnaya Street, are used as water supply. The water supply system is designed as the down distribution, with floor-by-floor offsets. Main and sectional conduits (hot and cold water), sewage pipelines (sanitary and storm water drain) are made of polypropylene pipes.

The additional water supply contour (65/50°C) mounted at the two dual-purpose lithium bromide absorption machines, BROAD BZ-250 XDH, is used as a source of hot water supply, total productivity is 260m^3/h.

The design project provides a separate public water supply system and fire-fighting water conduit.

For the necessary water height in inner fire line we use pressure-holding pumps installed in the pumping plant. The inner fire pipelines are made of steel gas-water pipes.

For collecting and pumping of sewage effluent formed at the first basement floor (bathroom units, shower cubicle, food preparatory workshops, and washing plants in the supermarket) we arrange pumping plants at the second basement floor. Every pumping plant is equipped with two pumps (operating and standby).

Storm water is collected from the roof (3, 4 floors) via intake head equipped with heating coils for frosting prevention. Storm water drain is installed indoor. Storm water collection from the roads is made through the surface water conduit with storm water inlets equipped with storm water gratings. Storm water runoff goes to the existing city storm sewer laid along the Vokzalnaya Street.

- *Power supply*

Power is received from the main and standby power supply – bus section I and II 6 kV ПС 110/6 kV of «К» and «Beregovaya» substations.

The connection of power receivers to the building of the shopping center according to the power receive scheme meet the requirements of customer contract demand (3800kW), as well as the safety requirements to the 1 class of power receivers according to its energy saving.

The substation of the shopping center is designed as a double-transformer substation 2×2500kVA with two backup bus sections 0,4kW, without automatic transfer circuit breaker. The loading of 1st category is to be connected through the fast-acting automatic transfer circuit breaker.

The transformer substation is completed with dry-type transformer (the power is 2500kVA for each).

The transformer substation is located in the attached engineering building, in isolated room in the presence of duty personnel. The transformer substation rooms - 6/0,4kV are completed with automatic fire-fighting operational system and fire alarm system.

The main load of electrical consumers is proportionally connected to the both bus sections РУ-0,4kV. The maximum available load of the transformer substation is defined by the power of transformers and its non-reserved power makes 5000kVA.

The transformer substation parameters are selected according to the prospective development of adjacent territory, with the connection possibility due to the voltage level of 0,4kV.

For the compensation of reactive energy and fulfillment of quality conditions, we install controlled capacitor banks on the low-voltage side, with voltage of 500kVA for each bus section with 0,4kV. The installation of static compensators on the side of 0,4kV allows to decrease costs and to unload the power transformers from inductive component of the consumed energy.

- *Electrical equipment and lighting*

For indoor power supply we designed switch boards on each floor, the switch boards installed in separate rooms are available for maintenance personnel only (2 switch boards per storey with zoning of the north and south side of the building).

The switch boards are allocated overlapped and carry the load from main bus bar wired from transformer substation РУ-0,4 ТП of the shopping center.

For the customers' security there is a separate section specially designed for the customers of the first security factor, the section is connected through the automatic circuit breaker from the inlets of the transformer substationРУ-0,4kV. The switch boards are connected according to the main power supply diagram.

The following essential consumers are connected to the section of the first security factor:

- Domestic heating plant;

- Electric control center with the building automation equipment and MEP equipment;

- Network centers with server rooms and weak current management systems;

- Fire-fighting systems (automatic fire alarm system, automatic fire-fighting units, fire screen electric drives);

- Escape lighting;

- Refrigerating units power supply.

Essential services, such as: automatic fire alarm system, security alarm system, head-end equipment, access control equipment, escape lighting are also equipped with their autonomous power supply (uninterrupted power supply - UPS and built-in rechargeable battery).

There are underfloor ducts with proofed closed boxes (modular wiring) in the rooms allowing the relocation of engineering equipment because of the change of production cycle (shopping spaces, leisure areas) and in plug-in rooms allowing the electric wiring reorganization when in service.

For working lighting in common areas it is necessary to use energy-saving luminous tube lamps. Within the space of bowling, billiards, café and restaurant we use combined lighting with incandescent lamps.

For additional localized lighting – display and counter lighting, aesthetic lighting, sign lighting it is necessary to use metal halogen lamps.

The outdoor lighting is designed for the adjacent territory lighting, luminous advertisement, and also for making accent on the shape of the building.

- *Installation of telephones*

  The external telecommunications networks are manufactured and laid at the expense of NTK Close Corporation according to the technical conditions provided by OJSC Dalsvyaz.

  The installation of telecommunication networks provides quick net connection, connection to the urban telephone network and access to the internet.

  For the satellite master-antenna television we install satellite and urban TV antenna on the roof of the building connected to the TV sockets by means of power equipment and splitters.

- *Video surveillance system*

  Video surveillance system provides twenty-four-hour observation and continuous automatic recording of the video information received from the installed TV cameras. TV cameras provide the review of operating environment:

- The perimeter and approach roads;
- Entries and exits;
- Lobbies, hallways, corridors;
- Underground parking.

- *Fire and safety alarm system*

  The project provides the integrated protective service by “Orion” of the company “Bolid” used for processing, transferring, displaying and recording of fire loop condition alerts.

The safety alarm system is planned to be developed on the basis of integrated combined safety system equipment by “Orion” sharing with automatic fire alarm system. We should pay attention to the safety of visitors and the staff working in the shopping center or nearby.

- *Building automation system*

For the combined automation of engineering systems in the whole building we will use building automation system realizing the concept of “intellectual building”. The control board provides the function of interactive control of engineering systems and conformance to preset parameters of the controlled systems.

Principles and standards of finishing

The principles of finishing presuppose various approaches; each approach is used due to the agreement between the tenant and the lessor.

- *Space finishing at the expense of tenant*

This approach means the lease of gross leasable areas with no “fine” finish, final finishing is executed at the expense of the tenant and according to his project. The areas are leased according to the following standard of shell and core fit-out:

- Shopping area: thermal contour, open plan of the shopping area, flat waterproof floor with the heating system, naked walls, operating ceiling;
- Utility rooms: flat waterproof floor with the heating system, naked walls, operating ceiling;
- System assembly (in the shopping area and in the utility rooms): ventilation system, conditioning system for the shopping area (main routes without end-use devices), heating system, sewerage and water supply system, fire-fighting system, security and fire alarm;
- Electricity: terminal only (without interconnection wiring).
- This approach provides less fine finish expenses for the lessor, but includes the expenses incurred by the tenant, dealing with the lease rent - less expense than when leasing with the fine finish.

- *Finishing anchor area at the expense of the tenant, fine thread and total areas at the expense of the lessor*

In this case anchor areas are leased according to “shell&core” standard and “fine” finish is executed by their independent projects subject to their technologies. For this period there is a “leasing vacation”.

In the project calculation we accept the term that the anchor areas are transferred according to the standard “shell&core”, subject to its technology concept by the approved decision of the lessor, and the final finish is executed at the expense of the tenant.

The rest areas are finished according to the common interior design developed for the shopping center. In the case when franchise raises special demands to the design they pay for the finishing works at their expenses.

The signing contracts with the anchor tenants at an early stage of designing allowed make the project oriented to the technologies of concrete tenants.

9. PROMOTION OF SHOPPING AND LEISURE CENTER

The main principle of promotion provides the organization of two stages: promotion for tenants and the promotion for future customers. Since these stages have their independent issues, each stage has its peculiarities.

- *Promotion for the tenants*

- Stage 1. "The stage of the signing contracts with anchor tenants":

- Creation of style and image design. Giving the name to the shopping center. Promotional conception for the promotion and design of the interior.
- The development of image brochure. Printing.

- Stage 2. "After signing the contract with the anchor tenants":

- Creating a web site, regular web site refreshment;
- Press Conference planning;
- Creating informative reasons for sponsored articles and interview program development. Business paper selection;
- Developing of advert and the program for business publishing.

- *Promotion for the tenants*

- Stage 3. "4 months before the opening":

- Advertising articles and interview program. Selection of popular edition in press, radio and TV;
- Development of advertising slogan;
- Outdoor advertising program, in the zone of the shopping center influence;
- Discount and lottery program, which are held together with the tenants.

- Stage 4**.** "Opening day":

- Opening festival (1 day). Held together with the anchor tenants.

- Stage 5. "3 months after the opening:

- Creating of event publications.

- Developing the Saturday and Sunday program.

- Stage 6**.** "A one-year life in the shopping center":

- Developing of program cycles and special events including their budgets for a year. Corrective actions due to product groups subject to sales promotion.

10. FINANCIAL PLAN

The business plan is calculated in accordance with the following assumptions and conditions:

- The shopping center construction is to be financed using bank credit;

- Amortization is made in accordance with Russian Accounting Standard 6/01;

- Expenses for administrative personnel (overhead costs and labor costs) are in proportion to the total investment of the company investment activity.

Table 10.1 "Project assumptions"

Key assumptions	
Date of the project beginning	1 quarter 2011
Putting into operation (Starting)	1 quarter 2012
Lead time	one year
VAT refund	**according to the Tax Code of the Russian Federation**
Profit tax	20%
VAT	18%
Property tax	2,2%
Insurance premium	20% (since 2011 – 33%)
Land tax	1,5% (of cadastral value)
Ground-lease rental rates	9 thous.RUR/year
Financing structure	
The funds of the project proponent	20%
Borrowed funds	80%
Obtaining of the bank credit	1 quarter 2011
Fill rate	95 % since the 4 quarter 2012
Lease rate indexation:	

Anchor tenants	5% per year
Cinema	5% per year
Other tenants	5% per year
rate on credit	10%
Discount rate	
Capitalization rate	
Repayment of interest on bank credit before starting	Due to the delay of payment on bank credit before starting (1 year)

Project costs:

Project costs include capital investment for construction. These costs are provided in the financing schedule.

The total costs of the project make 1bln.RUR.

Sources of financing:

The shopping center construction will be financed at NTK Close Corporation equity funds, and the debt funds offered by the co-investor in the amount of 20% and bank loan – 80%.

Before obtaining the targeted credit the project was financed at NTK Close Corporation equity funds in the amount of 200mln.RUR. The interest rate in the calculation is bases on 10%.

The following indexes of effectiveness are accepted:

Discounted Payback Period (DPP), Net Present Value (NPV), Internal Rate of Return (IRR).

For the assessment of production and economic activities change (risk assessment) on the main financial and economic indicators of the business-plan, we have performed a **project sensitivity analysis.**

The key indicators of the sensitivity analysis are: Discounted Payback Period (DPP), Net Present Value (NPV) and Internal Rate of Return (IRR).

Critical parameters the impact of which is analyzed in this section include:

1. Discount rate changes;
2. Leasable spaces occupation;
3. Lease rate changes;
4. Construction costs change;
5. Overdue lease payment;
6. Capitalization rate change.

The impact of these parameters is calculated by means of new value substitution into the financial-economic model of the business-plan and by determination of new key indicators.

The variant of project execution: the shopping center space leasing during the 10 years after starting.

11. CALCULATION OF PROCEEDS

The project revenues consist of the following components:

- Retail space proceeds;
- Advertising and marketing proceeds;
- Credit funds;
- VAT refund by tax authorities.

❖ Lease payment is calculated according to three components:

1) <u>Constant component of lease payment</u>.

In order to determine retail space we have selected spaces according to the retail market trends, and subject to the range of goods, lease rates level of such objects and the worked-out retail concept.

Thus there have been developed about 20thous.m^2 of leasable spaces, according to which the total payment for the first year of working would make about

207 843.24thous.RUR./year (excluding VAT). The annual increase of constant component of the lease payment is about 5%.

2) *Exploitation payment*, which includes the costs connected with exploitation of public spaces at the site and adjacent territory, and also the services providing undisturbed and normal operation of the shopping center.

The leasable space monthly payment amount during the first year of working is about 270RUR. per m^2 (including VAT). The calculation based on annual indexation is provided in *appendix 1*. Thus the exploitation payment amount as a whole for the first year of working made 54683.96thous.RUR (excluding VAT).

3) *Variable component of lease payment*, determined according to meter indication.

These costs are not included into the revenue side of the budget, since these costs are to be paid by the tenants to the municipal service providers. Annual indexation is to be set by the tenant according to the budgetary policy of service providers.

- Advertising and marketing proceeds is determined according to the following calculations:
  - *Advertizing LED display on the shopping center:*

LED screen is considered to be advanced system of higher quality used for information display, and also expands the opportunities of outdoor advertizing, and thus within short time brings modern marketing system to the advanced level.

The transmission time is up to 30seconds, working hours 08:00 – 22:00, work level 70% (0,7). Thus it is possible to make 1 680 transmissions a day, 120 broadcasting per hour, that is 50 400 projections a month.

The services market cost for video commercial in Komsomolsk-on-Amur is 3.00 RUR, i.e. 50400 * 0.003thous.RUR. = 151.2thous.RUR/month * 0.7 =106thous.RUR. * 12 months = 1 272thous.RUR/year (including VAT)

- *Indoor radio advertising in the shopping center:*

The indoor radio is used to make the trade mark recognizable; improve the clients' loyalty, create an effective advertising platform, prolong the duration of stay in the shopping center, stimulate the publicity, and enlarge purchasing power, the rate of impulse buying and other problems.

When implementing this type of advertisement we set the time of transmission up to 30 seconds, working hours are 08:00 – 22:00, and work level is 75% (0.75). Thus it is planned to make no less than 1680 transmissions a day, 120 broadcastings per hour, i.e. 50 400 soundings per month.

The services market cost for video commercial in Komsomolsk-on-Amur is 5.00 RUR, i.e. about 252thous.RUR/ month*0.75 = 189thous.RUR.*12 months = 2 268thous.RUR/year (including VAT).

- *Promotion actions in the shopping center:*

The objective of such activities is to persuade visitors to make a purchase at the moment without putting off; or to inform the prospective purchaser about the trade mark/service provided in the shopping center.

When implementing this type of advertisement we plan to organize 2 promotion actions every month. According to the data provided by marketing and advertising companies the cost of promotion action is about 7.5thous.RUR. i.e. 24 actions/year * 7.5thous.RUR = 180thous.RUR/year (including VAT).

- *Outdoor advertisement in the shopping center:*

"The chief assets" of outdoor design are shop-windows. Proper designing of shop-window is a powerful method for sales, because it has valuable characteristics – appealing and interactive. The shop-window plays a very important role – presents an assortment and quality strategy, and also draws attention of target buyers, creating the image of elite object of consumer interest or the active object on the contrary. The shop-windows will be installed on the first floor:

- On the side of Vokzalnaya Street, dimensions 63*35m = 200m^2

The services market cost for square meter in Komsomolsk-on-Amur is 1.2thous.RUR/month, i.e. 200m ^{2} * 1.2thous.RUR = 240thous.RUR/month* 12 months = 2800thous.RUR/year (including VAT).

- On the side of Pirogova Street, dimensions 45 *3.5m = 130m^2

The services market cost for square meter in Komsomolsk-on-Amur is 1thous.RUR/month, i.e. 130m ^{2} * 1thous.RUR. = 130thous.RUR/month* 12months = 1560thous.RUR/year (including VAT).

And also the tenant may have an opportunity of advertisement positioning (party wall) on the facade. This is a bright and appealing type of advertisement and it fulfills a function of localization, it is rather popular and is widely used. Such advertisement is allocated on the façade of the shopping center.

- On the side of Vokzalnaya Street the following dimensions are allowed 85 * 9m = 765m^2

The services market cost for square meter in Komsomolsk-on-Amur is 1thous.RUR/month, i.e. 765m^2 * 1thous.RUR. = 765thous.RUR/month* 12months = 9180thous.RUR/year (including VAT).

- On the side of Pirogova Street the following dimensions are allowed 54 * 9m = 486m^2 * 0.6thous.RUR/month = 291.6thous.RUR/month * 12months = 3500thous.RUR/year.

The services market cost for square meter in Komsomolsk-on-Amur is 0.6thous.RUR/month, i.e. 486m^2 * 0.6thous.RUR = 291.6thous.RUR/month* 12months = 3500thous.RUR/year (including VAT).

Thus marketing and advertising revenue will approach about 20760.00thous.RUR/year (including VAT) or 17593.22thous.RUR/year (excluding VAT). The annual indexation of this revenue is 5 %.

❖ Credit funds

It is expected that we will need the credit funds in the amount of 1000000.00thous.RUR, over 120months 10%per annum. Delay payment of the principal is one year. For the guaranteed refund it is planned to pledge the building of the shopping center. Then the cumulative funds flow resulted from retail activity

will be used for paying the principal debt, this will allow shortening of the repayment period. This calculation is provided in the financial model, appendix 2.

❖ VAT refund by tax authorities

On finishing the construction of the shopping center it is expected to draw up VAT refund paid to the contractor before. It is supposed that these funds are to enter in account of NTK Close Corporation according to Tax Code of the Russian Federation.

The received amount of about 152542.00thous.RUR will be used for paying of loan issued during the first year. The rest will be also included during the VAT calculating and refunding in the next years of NTK activity.

12. CALCULATION OF COSTS

✓ *Transaction (operational) costs*

Transaction costs include the following expenses:

- Maintenance costs;
- Operating costs;
- Land tax.

All the maintenance expenses are calculated according to the typical operation conditions of the shopping center operation for today. The account of expenses is listed below. The calculation is based on updating of operation costs, beginning from the second year subject to indexation amount claimed by service providers.

1) Labor costs

Due to the calculation of labor costs it is expected that the managing staff of the shopping center will be the Management Company, according to the regulations and retail experience the following personnel structure is provided below (Table 12.1):

Table 12.1

No	Position	Labor costs (ths.RUR)
1	Chief Executive Officer	50
2	Chief Financial Officer	35
3	Economist	25
4	Chief Accountant	35
5	Accountant	20
6	Marketing Director	30
7	Marketer	20
8	Advertising and PR Manager	18
9	Chief Engineer of Leasing Department	25
10	Leasing Manager	15
11	Head of Legal Department	35
12	IT – Technician	25
13	Human Resources Manager	15
14	Operational Director	35
15	Head of Operational Service	25
16	Chief Engineer	30
17	Security Manager	25
18	Assistant	15

Thus the payroll will be 487thous.RUR/month or 5736.00thous.RUR/year. The total premiums will make 1887.00thous.RUR/year. It is planned to make annual indexation of the salary in the amount of 10%.

2) Water supply and drainage

Due to the calculation of consumers the required volume of water supply is as follows:

- Cleaning: it is planned to use a floor-cleaning machine with the tank capacity of 170 liters. One cleaning of the shopping center requires 2 fillings. According to the schedule it is required to clean the shopping center 3 times. It means that the water supply volume makes 1020 liters/day or 400m^3/year.

- Required measures for the sanitary public places are – 37m^3/day or 13320 m^3/year.

The water supply fare in Komsomolsk-on-Amur is 15.38RUR/m^3 (excluding VAT). These expenses would be (400 + 13 320) * 15.38RUR = 211.01thous.RUR/year.

Required expenses for drainage system are as follows:

- Cleaning drainage - 10% of the consumed volume, i.e. 40m^3/year;

- Lavatory water drainage - 100% of its consumption or 13320m^3/year.

The specified fare is 6.34RUR/m^3 (excluding VAT), thus annual drainage expenses are (40 + 13 320) *6.34 = 84.7thous.RUR/year.

The indexation of operating costs is specified in the amount of 15% annually.

3) Power supply

Due to the calculation of the required power supply in public places of the shopping center the consumption is expected to be 553kW/h.

The fare is specified in 2010 in the amount of 3.53RUR (excluding VAT), thus annual power supply expenses (public places and main operating equipment) are – 553kW/h * 24h/day*365days* 3.53RUR = 17100.31thous.RUR.

Power supply costs for lighting, supporting and capital equipment required for trading activities and rendering of services are to be paid by tenants according to the consumed power. During the last 5 years the annual fare indexation for energy resources is 15%.

The financial model of the project includes annual indexation of 15 %.

4) “Climate system” operation

For visitors, staff and service personnel convenience there would be provide the climate control system in the shopping center.

Foe heat supply during the winter period it is planned to install two heat-exchangers:

- Heat-exchanger 1, power 0.78 Gcal/h;
- Heat-exchanger 2, power 0.78 Gcal/h.

The consumption during the heating period (223days) will be ((2 * 0.78) + 0.78) * 24* 223 = 12 523.68Gcal. Tariff fare for 1 Gcal in Komsomolsk-on-Amur is 1008.92RUR (excluding VAT). So, 12523.68Gcal * 1008.92RUR = 12635.39thous.RUR/year.

Subject to the pump capacity of 75kW/h, using the coefficient = 0.7, we have - 75 * 0.7 * 24 * 223 = 280980kW/h. Power fare in Komsomolsk-on-Amur is 3.53RUR (excluding VAT), thus 280980kW/h * 3.53 = 991.86thous.RUR/year.

Thus, in order to provide comfortable conditions during the winter time the following expenses are required – 13627.25thous.RUR/year (excluding VAT).

For cold supply in the shopping center it is planned to install 3 chilling machines, total capacity is 950kW, using the coefficient = 0.7. The engineering calculation states that the time required for conditioning is 120 days.

950kW * 24 *120 *0.7 * 3.53RUR = 6706.66thous.RUR/year (excluding VAT).

Subject to the pump capacity of 75kW/h, using the coefficient = 0.7, we have - 2*75 * 0.7 * 24 * 120 * 3.53 = 1067.47thous.RUR/year. Thus, in order to provide comfortable conditions during the summer time the required expenses are as follows – 7774.13thous.RUR/year.

Thus, to keep the climate conditions in the shopping center the annual expenses will be about 21401.38thous.RUR/year (excluding VAT). The indexation is 15%, the same as for the energy resource.

5) Communication

It is planned to connect 10 telephone lines. According to OJST Dalsvyaz rates the user charge is 5.75thous.RUR/month or 69thous.RUR/year (excluding VAT).

Telephone cable maintenance: 3.9thous.RUR/month or 46.8thous.RUR/year (excluding VAT).

Thus, annual communication expenses will be 115.8thous.RUR. The indexation is not included into the project because during the last three years the rates provided by OJSC Dalsvyaz haven't been changed.

6) Technical maintenance and replacement expenses

Taking into account that the shopping center is a new building, technical maintenance expenses are minimal - 60thous.RUR/month, excluding VAT. According to our calculations this amount is enough to execute minimal repair works in order to keep the building in perfect condition, thus during the first year of operation the following amount is to be paid: 720thous.RUR. The further annual indexation of technical maintenance is 10%.

7) *Elevators and escalators operation*

Elevators and escalators operation costs are calculated according to the current tariff rates for equipment maintenance by Mitsubishi. Maintenance costs for an elevator – 2500RUR/month excluding VAT, for an escalator or moving sidewalk – 2500RUR/month excluding VAT. Thus, for these purposes the following expenses are required:

- 9 elevators * 2.5thous.RUR * 12months = 270thous.RUR/year (excluding VAT);

- 6 escalators * 2.5thous.RUR * 12months = 180thous.RUR/year (excluding VAT).

Total expenses for handling machinery operation will be 450thous.RUR a year including annual indexation of 10%.

8) *Removal of hard domestic waste*

According to the project documentation, vol. "Environmental measures list", part 3 includes the waste calculation and waste removal methods, waste generation areas. According to the calculations made within the shopping center area 2064t/year 1750m^3/year of waste will have to be generated and removed.

The tariff rate provided by LLC “Stalker Corporation” for 2010 = 380RUR/m^3 (excluding VAT). Thus, annual waste treatment expenses will be 380RUR/m^3 * 1750m^3/year = 665thous.RUR (excluding VAT). Indexation is 5%.

9) *Security and law enforcement*

In order to provide law enforcement inside the shopping center it is planned to perform the security service: 5 officers, during 16 hours/shift and two twenty-four hours post – main surveillance panel with 2 officers and loading dock with 2 officers.

Thus, the security expenses will be:

- 5 officers * 50RUR/hour * 16 hours * 365 days = 1460thous.RUR/year (excluding VAT);

- 2 posts for 24-hours surveillance and monitoring * 40thous.RUR/month * 12 months = 960thous.RUR/year (excluding VAT).

Thus, expenses for law enforcement will be about 2420thous.RUR annually (excluding VAT). Annual indexation is 10%.

10) *Advertisement and promotion*

According to the memorandum of lease it is required to pay for official opening introductory advertisement 10% of the fixed lease rate, thus expenses foe advertisement and promotion will be 1926.25thous.RUR/year and to be paid be tenants in the amount of 100%, so they are not included into operation costs.

Ventilation and conditioning systems maintenance

This is an action plan directed towards keeping normal operation of the ventilation system in the shopping center. Regularly executed works include: parameters adjustment, examination of starting devices, system switching, according to the defined operation condition, parameters control and electric motor operation, and space examination in order to define air exchange rate, preventive-maintenance, cleaning of air ducts and fans, replacement of broken or damaged parts, leakage sealing and indentation filling and so on.

According to the data provided by the service department of LLC “Kholodok” the expenses for above-listed services will be 50thous.RUR/month or 600thous.RUR/year, annual indexation no more than 10%.

12) *Cleaning*

Daily cleaning works include: dry and wet cleaning of flooring (both hand method and by means of floor-cleaning machines and vacuum cleaners), dust removal from open horizontal and vertical surface, furniture, washing and disinfection in lavatories, washing of elevator cabs and escalators, waste generation and removal.

According to the data provided by different cleaning companies the service expenses are:

- Daily cleaning of public places – 25RUR/m^2, i.e. 25RUR * 8000m^2 * 12months = 2400thous.RUR/year (excluding VAT);
- Seasonal snow cleaning of roof – 6RUR/m^2, i.e. 6RUR * 7000m^2 * 5 (average annual snowfall/times) = 210thous.RUR/year (excluding VAT);
- Washing of glass surface – 20RUR/m^2, i.e. 20RUR * 3500m^2 * 2 (times per year) = 140thous.RUR/year.

Annual indexation is 10%.

13) *Land tax*

The calculating with the detailed description is provided in Table 12.2

Table 12.2

<table>
<tr><td colspan="4">1. Land plot area, square meters</td><td>12954.60</td></tr>
<tr><td colspan="4">2. Site location: Komsomolsk-on-Amur, Vokzalnaya Street, 58</td><td>-</td></tr>
<tr><td colspan="4">3. Estimated area</td><td>-</td></tr>
<tr><td colspan="4">4. Plot (quarter) cadastral number:</td><td>27:22:030104:67</td></tr>
<tr><td colspan="4">5. Cadastral value indicator, RUR/square meter</td><td>2021.20</td></tr>
<tr><td colspan="4">6. Cadastral value of property, RUR</td><td>26 183 837.52</td></tr>
<tr><td colspan="4">7. Land tax rate, in percentage of cadastral value, %</td><td>1.5</td></tr>
<tr><td colspan="2">The validity period of land tax rate</td><td rowspan="2">Land tax rate, RUR/sq.m.</td><td rowspan="2">Multiplying coefficient for the land tax rate</td><td rowspan="2">Discount, %</td></tr>
<tr><td>From</td><td>Till</td></tr>
<tr><td>01.01.2010</td><td>31.12.2010</td><td>30.32</td><td>-</td><td>-</td></tr>
</table>

Year	Amount of land tax/year, RUR.	Amount of land tax/quarter, RUR.	Total amount/year, RUR.
2010	392757.56	98189.39	392757.56

Thus, according to the table the amount of land tax due and payable in local budget will be 392.76thous.RUR annually.

The operating expenses for the first year of operation are summarized in Table 12.3.

Table 12.3

No	Operating expenses	Amount (thous.RUR/year)	Annual indexation (%)
1	Labor costs (salary)	5 736.00	10
2	Insurance fees	1 887.00	-
3	Water supply	211.01	15
4	Drainage	84.7	15
5	Power supply	17100.31	15
6	Climate control system	21401.38	15
7	Communication	115.8	-
8	technical maintenance and replacing	720	10
9	Elevators and escalators operation	450	10
10	Hard waste removal	665.00	5
11	Security and law enforcement	2420.00	10
12	Ventilation and conditioning systems maintenance	600	10
13	Cleaning	2750	10
14	Land tax	392.76	-
15	TOTAL	54 683.96	

✓ *Tax payments and amortization*

For the project execution we use the common taxation system and the corporation pays taxes according to the following rates:

- Profit tax rate - 20 %;
- Value added tax rate - 18%;
- Property tax rate – 2.2%;

The detailed explanation on tax burden is give below.

1) Value added tax (VAT)

NTK Close Corporation activity is oriented to operate the shopping and leisure center (the shopping center) and includes the following VAT taxable transactions according to the clause 146 of Tax Code of the Russian Federation:

1. Leasing of trade space
2. Paid advertisement positioning

Related to the above mentioned activities, VAT is charged according to the cost of services including:

- Lease rate constant;
- Operating costs;
- Proceeds from advertising and marketing.

VAT is charged according to cl. 166 Tax Code of the Russian Federation. This will now be explained with the reference to the financial model of 2012:

1) Tax unit:

Proceeds from lease constant make: 207843.24thous.RUR/year. VAT rate is 18%. VAT from lease proceeds is:

207843.24thous.RUR * 18% = 37411.78thous.RUR/year.

Proceeds from operating costs make: 54683.96thous.RUR/year. VAT rate is 18%. VAT from operating costs proceeds is:

54683.96thous.RUR/year * 18% = 9843.11thous.RUR/year.

Proceeds from advertisement make 17593.22thous.RUR/year. VAT rate is 18%. VAT from advertising proceeds is:

17593.22thous.RUR/year * 18% = 3166.78thous.RUR/year

Total VAT from proceeds in 2012 will make:

37411.78thous.RUR/year + 9843.11thous.RUR/year + 3166.78thous.RUR/year = 50421.67thous.RUR/year.

According to the cl.166 of Tax Code of the Russian Federation NTK Close Corporation has the right to decrease the tax amount charged on tax account stated in cl.171 of Tax Code of the Russian Federation.

Taxes-deductible are the taxes presented to a taxpayer when purchasing goods (works, goods), and property rights within the territory of the Russian Federation. Besides taxes-deductible are also the taxes presented to a taxpayer by contractor agencies during the capital construction, installation (mounting) of the main facilities, and also the taxes presented to a taxpayer for goods (works, services), purchased in order to conduct construction and assembly works.(item 6 cl.171 of the Tax Code of the Russian Federation).

According to the financial model of 2012 the VAT presented to the operating services providers is 7469.68thous.RUR/year (cost of services excluding VAT – 54683.96thous.RUR/years * 18%).

These calculations allow define VAT payable:

50421.67thous.RUR/year – 7469.68thous.RUR/year = 42951.99thous.RUR/year.

The similar method of VAT charging and payment is valid during all the time stated in the financial model.

When calculating VAT in 2011 and 2012 there are some nuances.

Let us examine the order of VAT calculation and payment in 2011.

There is no tax unit in the form of proceeds from leasing, and also proceeds from advertisement in 2011, thus, there is no VAT charged.

In 2011 it is planned to pay 1000000.00thous.RUR including VAT of 18% to the contracting agency that conducts the capital construction. Thus VAT amount presented by the contractor will be: 1000000.00thous.RUR * 18/118 = 152542.37thous.RUR.

The amount of “input” VAT exceed the amount of output (charged) VAT, that gives the conclusion that NTK Close Corporation has the right to refund VAT from the budget according to the cl.176 of the Tax Code of the Russian Federation.

According to this clause, after VAT declaration received the tax authority examines whether the amount of VAT is reasonable by means of cameral tax inspection. Provided that there are no violations of taxation and revenue legislation, within seven days after the completion of inspection the tax authority should adopt tax refund decision. Time of cameral tax inspection is three months after tax filing. If the decision is favorable the refundable VAT amount is to be received on NTK Close Corporation’s clearing account in the 1st quarter of 2012.

The refundable VAT amount upon taxpayer’s application may be included into the pending payable amount.

This situation is described in paragraph “VAT” in 2012. Payable VAT made:

Output VAT 42951.99thous.RUR, VAT refundable from the budget: 152542.00thous.RUR.

Thus, VAT payable in 2012 is 0.00RUR.

Remaining amount of VAT refundable from the budget is:

152542.00 – 42951.99 = 109590.01thous.RUR.

This amount may be used for repayment of a credit part in 2012 and the interest rate according to it charged in 2011.

2) Income tax

NTK Close Corporation activity oriented to the shopping center operation is taxable according to the common taxation system.

The calculation of profit is executed according to the scheme provided in the chapter 25 of the Tax Code of the Russian Federation. The tax unit is the proceeds received by the organization – i.e., the proceeds reduced by the amount of expenses. The income is the proceeds from the realization of goods (works, services) – according to the clause 249 of the Tax Code of the Russian Federation. Sales income, lease proceeds, and also advertising proceeds. In order to define the

income it is required to consider the income excluding VAT (item 1 clause 248 of the Tax Code of the Russian Federation).

Let us explain the methods of defining the income with the reference to the given financial model during the first year of operation:

- Lease proceeds and operating costs are 207843.24thous.RUR + 54683.96thous.RUR (excluding VAT);
- Advertising proceeds for the same period is 17593.22thous.RUR.

Thus the taxable proceeds from the organization activity during the first year is: 207843.24thous.RUR + 54683.96thous.RUR + 17593.22thous.RUR = 280120.42thous.RUR.

In accordance with the law and in order to calculate income tax the organization has the right to reduce the income by the amount of expenses (excluding VAT). The expenses are reasonable and document supported costs paid by the taxpayer. The expenses include:

- Operating costs;
- the charged and paid interest (item 2 p. 1 cl. 265 of the Tax Code of the Russian Federation);
- Amount of amortization (item3 p.2 cl. 253 of the Tax Code of the Russian Federation);
- Amount of taxes and receipts (item1 p.1 cl. 264 of the Tax Code of the Russian Federation).

According to the financial model in the first year the expenses, reduced income include:

- Operating costs (excluding VAT) – 54683.96thous.RUR;
- Interest on credit – 80041.43thous.RUR;
- Amortization – 28248.60thous.RUR;
- Property tax – 180022.61thous.RUR;

Thus, the expenses are: 54683.96thous.RUR + 80041.43thous.RUR + 28248.60thous.RUR + 18022.61thous.RUR = 180996.60thous.RUR.

Thus, income taxation base is as follows: amount of income 280120.42thous.RUR – amount of expenses 180996.60thous.RUR = 99123.82thous.RUR. The amount of income tax is calculated according to the Tax Code of the Russian Federation, the rate is 20%, so the amount is: 99123.82thous.RUR * 20% = 19824.76thous.RUR. The similar method of calculation is used for the future actions.

In 2011 - 2012 the income tax amount will differ from the above mentioned calculation method. In 2011 NTK Close Corporation cannot lease the spaces because this is a construction period, there are no taxable income received, but there are credit expenses.

As a result in 2011 NTK Close Corporation has losses, the amount of losses is equal to the output tax amount for using the credit funds. The loss is 95416.66thous.RUR. The losses received by the organization can be carried to full extend (item 2 cl. 283 of the Tax Code of the Russian Federation, item 32 cl. 1 Federal Law-№58 dated 2005.06.06). The tax loss must not exceed 10 years following the tax period during which the loss was got (p.1 item 1 cl. 283 of the Tax Code of the Russian Federation). The losses received in 2011 can be carried to 2012. In this case the taxable base will be: 280120.42thous.RUR – 180996.60thous.RUR – 95416.6thous.RUR = 3707.16thous.RUR. The income tax amount in 2012 will be: 3707.16thous.RUR * 20% = 741.43thous.RUR.

3) Property income

The tax unit of property tax for Russian enterprises will be suitable for movable and immovable assets, accounted as main facilities in accordance with the accounting procedure (item 1 cl. 274 of the Tax Code of the Russian Federation). The taxable base for the income tax is defined as average annual value of the property approved tax unit (item 1 cl. 375 of the Tax Code of the Russian Federation). The tax rates are determined according to the law of the Russian Federation and may not exceed 2.2% (item 1 cl.30 of the Tax Code of the Russian Federation). According to the Law of the Khabarovsk Territory “about regional tax

and tax reduction in the Khabarovsk Territory" №308 dated 2005.11.10 the fixed rate is 2.2% (cl.2 dated 2010.07.28 №24).

The tax basis is calculated duo to depreciated book value of fixed assets, calculated as the difference between the original value and the accumulated amortization (OV = OV=AA).

Property tax calculation base is defined according to the regulations in p.4 cl. 376 of the Tax Code of the Russian Federation:

1) Firstly it is necessary to calculate the property remaining cost for the 1st day of every month and the last day of each month during the taxable period (the 1st of January, the 1st of February,….the 1st and the 31th of December);
2) Then sum over the values of the remaining cost for the 1st day of every month and add the remaining value to the 31st of December during the accounting year;
3) The amount should be divided by the number of months during the accounting period, increased by 1. Thus, in order to calculate the property tax, the sum of remaining cost values should be divided by 13.

The property tax unit will be the building of the shopping center. The estimated original value of the building is 847458thous.RUR. The example for the taxable base calculation is provided in the table below 12.4.

Table12.4

Period	Original value	Amortization	Remaining value
January 1	847458.00	0	847 458
February 1	847458.00	2 354	845 104
March 1	847458.00	4 708	842 750
April 1	847458.00	7 062	840 396
May 1	847458.00	9 416	838 042
June 1	847458.00	11 770	835 688
July 1	847458.00	14 124	833 334
August 1	847458.00	16 748	830 980
September 1	847458.00	18 832	828 626

October 1	847458.00	21 186	826 272
November 1	847458.00	23 541	823 918
December 1	847458.00	58 895	821 563
December 31	847458.00	28 249	819 209

The sum of the remaining values by the 1st day of every month is 10833338thous.RUR. At the end of the first year the calculation base will be: 10833338thous.RUR/13 = 833334thous.RUR.

Thus, the amount of output property tax will be: 833334thous.RUR * 2.2% = 18333.35thous.RUR.

Amortization

Amortization means the transfer of values (the instrument of labor). The instrument of the capital consumption is amortization accumulated and spent on maintenance or construction, the production of new capital. The amount of amortization is included into the losses. The amortization is calculated in the form of the part of original value. The regulatory value for this part is named as amortization quota.

The creation of new projects by means of construction is one of the methods of including into organization. New buildings, as a rule, are included into capital funds, and the expenses are paid by means of amortization according to the cl.17 of the Accounting Regulations 6/01 “Accounting for fixed assets” approved by the order of the Ministry of Finance № 26 dated 2001.03.30).

The method of accumulation is a linear method. The annual amount of amortization is calculated via the linear method according to the original value and amortization quota estimated due to the useful life of this object. The useful life is calculated by the organization during the accounting, according to the

classification of capital funds, included into the amortization groups approved by the Government Regulation of the Russian Federation dated 2002.01.01 № 1.

The amortization should be executed at the 1st day of every month, following the month the object was taken on account, and this action should be executed till the object cost is fully paid. The building of the shopping center refers to the property with the use life exceeding 30years (the 10th group).

In order to calculate the amortization quota in percentage to the original value we use the following calculating method:

1) Calculate the use life in months:

30years * 12months = 360months

2) Amortization quota in percentage (a month) = 1/360 *100 % = 0.27777%

3) The amortization amount per month will be: original value of the object (excluding VAT) 847458thous.RUR, thus the amortization will be: 847458thous.RUR* 0.2777777 % = 2354.05thous.RUR.

4) Total amount of amortization per year will be: 2354.05thous.RUR * 12months = 28248.6thous.RUR.

13. RISK DESCRIPTION AND CORRECTIVE ACTIONS

The list of serious risks and corrective actions are provided in table 13.1 below.

Table 13.1

No	Type of risk	Prevention measures
1	Construction price appreciation	- Conclusion of fixed-price delivery contract; - Purchasing the main and expensive materials, and equipment beforehand, to prevent the price increase.
2	Unability to conclude the agreements according to the estimated lease rates	- Conclusion of preliminary agreements during the design stage and the beginning of construction with the fixed leased rates and indexation of the lease rate;
3	Unability to provide the	- Searching for tenants, beginning from the stage of

	required level of space occupation by the opening day (less than 80%)	designing and not drag out till opening day within the time limits defined in the management-plan; - Conclusion of preliminary agreements with the condition of advance payment; - All the agreements with the anchor tenants should be concluded before the finishing of "detail design".
4	Increase of overdue lease payment received from the tenants	- Lease contracts should provide security deposit, advance payments, strict overdue sanctions.
5	Problems with the citizens concerning uploading in immediate proximity to residence buildings	- The cargo transport will be uploaded via load lock with the platform installed nearby, that will decrease the noise level near the residence units (these actions are provided in the project).
6	The construction of new modern shopping centers with lower lease rates	- Conclusion of preliminary agreements at the designing stage and the beginning of construction with the fixed lease rates and indexation;
7	Delay in the execution of works and quality non-conformance	• Financial responsibility for time limits and quality of work (sanctions stated in the agreements with suppliers and contractors); • Working with the trusted contractors; • The planning of works and deliveries of materials and equipment.
8	Tax risks	• Conduct of an audit; • Organization of safe agreements and net transactions
9	Currency risks	• Conclusion of lease contracts in nominal dollars with the minimal exchange rate • Conclusion of delivery contracts in nominal dollars with fixed exchange rates; • Conclusion of delivery contracts in rubles.

The impact of the above mentioned risks will be explained and provided in the sensitivity analysis.

Thus, this investment project can be "economically viable" according to the estimated turnover. The invested funds are refundable; this goes to prove that the project has investment potential and all the invested funds refundable.