Doing Business in Russia
MAP OF OPPORTUNITIES

Economic report on promising investment niches in Russian regions
DEAR COLLEAGUES!
This report contains a series of documents devoted to investment opportunities in various regions of the Russian Federation. When selecting these opportunities – potential market niches – we focused on investment strategies, socio-economic development strategies and we analysed the primary sectors in the regions.

Henceforth every three months, we will be offering 2 promising market niches in 5 regions for your attention.

Furthermore, within each review we will be publishing information about the current macro-economic situation in Russia with commentaries by a team of analysts from one of the leading investments banks in the country.

With regard to the first review: we examined the potential investment opportunities in the Voronezh, Orenburg and Saratov regions, as well as the Primorsky Territory and the Republic of Khakassia.

A few interesting conclusions:

- industrial sanctions have revealed additional opportunities for Russian agricultural producers: both in terms of the sales market and in terms of future development. In the aims of development, the regional administrations have launched a number of diverse and broad packages to support entrepreneurs in the agricultural sector.
■ in these regions, and in many other regions, of Russia, there is a lack of high-class storage and office premises despite the sufficiently high demand.

■ The Primorsky Territory deserves special mention: the huge potential sales markets in the countries of the Asia and Pacific Region, together with the unprecedented state support measures (tax regime for new produce – one of the most favourable in the entire Russian Federation) present an excellent opportunity for both business creation and the development of existing business, for foreign investors as well.

We hope you find this material interesting and, perhaps, helpful in taking investment decisions.
ECONOMIC GROWTH
Annual GDP growth in the second quarter of 2014 exceeded expectations and amounted to 0.8%.

Key factors which supported this trend were the growth in housing construction and state investments (see fig. 1); increase in net export of gas to Europe and Ukraine (see fig. 2); and also the growth in goods and material reserves in a number of industrial sectors.

Fig. 1. Property market dynamics

Source: Rosstat, VTB Capital

Straight talk
Russian economy
Straight talk: Russian economy

At the beginning of the third quarter of 2014, the picture was similar: Industrial output partially made up for the downturn (see fig. 3).

Fig. 2. Gas and oil products export dynamics

Fig. 3. Industrial output and cargo turnover (rail) dynamics

Fig. 4. Net export and GDP dynamics

Source: Rosstat, VTB Capital
In accordance with forecasts, the rates of economic development in 2015 will be about 1.5%, and due to the effect of increased state investments, economic growth will enter into a more intensive phase of acceleration.

**BUSINESS DEVELOPMENT**

In June-July 2014, the reduction of fixed asset investments slowed down to 0.3% in year on year comparison, as opposed to 3.6% based on the results of the first five months (see fig. 1).

![Fixed asset investment dynamics](source)

Fig. 1. Fixed asset investment dynamics

A dominant positive factor for business was the active growth in residential construction. In the first quarter there was a lead in the demand for housing (see fig. 2).

![Housing construction dynamics](source)

Fig. 2. Housing construction dynamics

With the exception of the construction industry, the private sector has been reserved in terms of capital expenditure growth. One of the main reasons for this is a deterioration in funding conditions.

Due to certain well-known events, access to international capital markets has remained restricted, and furthermore the attraction of
borrowings on the local market is becoming more difficult due to growing interest rates.

**INFLATION**

As of the middle of August, the annual rate of consumer inflation have fallen to 7.4%, against a maximum this year of 7.8%, at the end of June.

The main reason for the reduction was lower tariff indexation (see fig. 1).

Fig. 1. Inflation and tariff indexation dynamics

As a result of this factor alone, the general Consumer Price Index was 50 points lower than it would have been otherwise.

Based on forecasts, at the end of 2014 the general CPI will be about 8% (see fig. 2).

Fig. 2. Slowdown in CPI growth expected in 2015

Furthermore, in 2015, when the consequences of trade restrictions are a matter of the past – the strong deflationary trend will be completely restored. By the end of 2015, the general CPI will slow down probably to 5%.
1. Key Features of the Voronezh Region

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2,328,959 PPL</td>
</tr>
<tr>
<td>Population of the neighbouring regions</td>
<td>14,203,033 PPL</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; office premises</td>
<td>RUB 9,000/sq.m/year</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; industrial and warehouse premises</td>
<td>RUB 36,000/sq.m/year</td>
</tr>
<tr>
<td>Average sale price of industrial land</td>
<td>RUB 1,600,000/ha</td>
</tr>
<tr>
<td>Average salary</td>
<td>RUB 21,825</td>
</tr>
</tbody>
</table>

2. Key Competitive Advantages of the Region

- The region is situated at the intersection of the "North-South" and "West-East" transport corridors;
- Large potential market capacity: 50 million people live within a radius of 500 km;
- The region is a focal point for Higher Education in the Central Black Earth Region, and historically has high scientific potential.
3. GENERAL FEATURES OF THE MACROECONOMIC SITUATION

PLACE AMONGST REGIONS (GRP)
- RUB 474.97 Bln | RUB 568.02 Bln | est.
- +11.4% | +9.3% | +3.5%
- 2011 | 2012 | 2013

3 | 24

Amongst the regions of the Central Federal District | Amongst the Russian regions
*according to 2012 data

INVESTMENT
- +10.8%
- 01-06.14 to 01.06.13
- In total, fixed capital investments for 2013 have also demonstrated growth.

UNEMPLOYMENT RATE
- 4.7%
- in 2013
- In 2014 the trend toward a reduction in unemployment is observed.

CONSUMER INFLATION
- 5.4% | 7.1%
- 01-06.14 | in 2013

MANUFACTURERS PRICES
- 4.5%
- in 2013

In the current year, the positive dynamics of investments into primary capital in Voronezh region have continued due to a number of large scale investment projects. These include projects in the energy sector (construction of the NovoVoronezh APS-2), the agricultural sector (projects to develop dairy and meat herds), in transport (construction of a class “A” industrial and logistic hub, reconstruction of the M-4 “Don” highway), and in the field of health care and education.

BUSINESS INCENTIVES PROVIDED BY THE REGIONAL GOVERNMENT:

- reduction in profit tax from 18% to 13.5%, from 3 to 5 tax periods;
- reduction in property tax to a maximum level of 0.2% for 3 tax periods;
- 100% reimbursement of service payments for technological connection to the electricity network – no more than 10% of the sum of capital investments
- 100% reimbursement of payments for the construction of engineering and transport infrastructure facilities (based on construction documentation) – no more than 10% of the sum of capital investments.
- subsidised credit interest rate: subsidies from the regional budget are given to the investors at 2/3 of the Central Bank of the Russian Federation base rate.

1 In the current year, the positive dynamics of investments into primary capital in Voronezh region have continued due to a number of large scale investment projects. These include projects in the energy sector (construction of the NovoVoronezh APS-2), the agricultural sector (projects to develop dairy and meat herds), in transport (construction of a class “A” industrial and logistic hub, reconstruction of the M-4 “Don” highway), and in the field of health care and education.

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Voronezh region. Investment opportunities

Storage, distribution and processing of agricultural products

### KEY FEATURES OF THE INVESTMENT OPTION

| Compliance with regional development priorities | Yes
| Yields of agricultural crops in 2013 | 11,538 thousand tonnes
| Required storage capacity | 920 thousand sq.m.
| Potential annual market capacity | RUB 11 billion

### COMPETITIVE ENVIRONMENT:

At present, there is a minimum of 2 high-class 3PL level logistic centres operating in the region. The total floor area is 64.1 thousand sq.m. Individual complexes have been constructed for X5 Retail Group and “Magnit”. A small part of their floor space will be available for rent. There is also a large volume of warehouse premises with medium and small floor area, with a total available floor area of 100 thousand sq.m. However, potential demand clearly outstrips the current availability.

### WHY THE VORONEZH REGION:

- geographic situation – the region has “transit” status;
- potentially large amount of b2b clients: farms (which may also require “collective” high-tech processing capacities) and agro-industrial holding companies;
- potentially high demand in the b2c segment, should the wholesale market model be applied to the project.

### PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Industrial park</th>
<th>Liskinskii</th>
<th>Bobrovskii</th>
<th>Donskoi (planned)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>266.98 hectares</td>
<td>464.3 hectares</td>
<td>282 hectares</td>
</tr>
<tr>
<td>Energy supply</td>
<td>40 MW</td>
<td>110 MW</td>
<td>up to 30 MW</td>
</tr>
<tr>
<td>Gas supply</td>
<td>8.6 mln cubic m/year</td>
<td>40 cubic m/hour</td>
<td>+</td>
</tr>
<tr>
<td>Water supply/removal</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Railway / Highway</td>
<td>+</td>
<td>+</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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1. According to data provided by the Voronezh regional government and according to ASSI calculations, not taking into account animal production.
3. Based on a warehouse outsourcing standard of 10%, not taking into account fruit and vegetables imported into the region.
Production of starch syrup

KEY FEATURES OF THE INVESTMENT OPTION

<table>
<thead>
<tr>
<th>Feature</th>
<th>Yes²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with regional development priorities</td>
<td>Yes³</td>
</tr>
<tr>
<td>Yields of basic raw material crops in 2013</td>
<td>3 651 thousand tonnes</td>
</tr>
<tr>
<td>Product demand⁴</td>
<td>31.8 thousand tonnes</td>
</tr>
<tr>
<td>Potential annual market capacity⁵</td>
<td>RUB 477.28 million</td>
</tr>
</tbody>
</table>

COMPETITIVE ENVIRONMENT:

At present the general amount of starch syrup is imported into Voronezh region from neighbouring regions (from the Tula region in particular). There are no major manufacturers in the region.

WHY VORONEZH REGION:

- annual growth in harvest rates of raw material crops;
- forecast growth in consumption of Russian manufactured products containing syrup (bread, confectionary products, beer), also due to the sanctions;
- interest of the regional government to support a new area of manufacturing activity.

PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Industrial park</th>
<th>Liskinskii</th>
<th>Perspektiva</th>
<th>Bobrovskii</th>
<th>Donskoi (planned)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>266.98 hectares</td>
<td>146 hectares</td>
<td>464.3 hectares</td>
<td>282 hectares</td>
</tr>
<tr>
<td>Energy supply</td>
<td>40 MW</td>
<td>+</td>
<td>110 MW</td>
<td>up to 30 MW</td>
</tr>
<tr>
<td>Gas supply</td>
<td>8.6 mln cubic m/year</td>
<td>+</td>
<td>40 cubic m/hour</td>
<td>+</td>
</tr>
<tr>
<td>Water supply/removal</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

1 According to data provided by the Voronezh regional government and according to ASI calculations, not taking into account animal production.

2 Complies with the investment strategy of the Voronezh Region (approved by the Regional Plan of the Voronezh region of the 01.08.2013, No. 605 – P)


3 Based on an assessment of the level of manufacture of syrup-based food products (including beer) for 2013.

4 Not taking into account import beyond the region due to the lack of such production in the region.
Investment opportunities
Orenburg region

1. KEY FEATURES OF THE ORENBURG REGION

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2,008,566 PPL</td>
</tr>
<tr>
<td>Population of the neighbouring regions</td>
<td>19,396,593 PPL</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; office premises</td>
<td>RUB 7,265 sq.m/year</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; industrial and warehouse premises</td>
<td>RUB 2,500 psq.m/year</td>
</tr>
<tr>
<td>Average sale price of industrial land</td>
<td>RUB 4,870,000 /HA</td>
</tr>
<tr>
<td>Average salary</td>
<td>RUB 21,598</td>
</tr>
</tbody>
</table>

2. KEY COMPETITIVE ADVANTAGES OF THE REGION:

- high level of gas availability in the region;
- significant amount of agricultural land (more than 6 million hectares);
- important hub in the construction of the "Western Europe – Western China" transport corridor.

1 Including Kazakhstan border regions.
3. GENERAL FEATURES OF THE MACROECONOMIC SITUATION

GRP¹

RUB 553.3 Bln | RUB 629.4 Bln

+5.1% | +2.5% | +0.1%
2011 | 2012 | 2013

INDUSTRIAL PRODUCTION VOLUME

+2.5% | -3.4%
01-09.14 to 01-09.13 | 2013

A decrease in industrial production volume has been observed in 2013

CONSUMER INFLATION

5.5% | 6%
01-09.14 | in 2013

PLACE AMONGST REGIONS (GRP)

6 | 21

Amongst the regions of the Volga Federal District | Amongst the Russian regions

MANUFACTURING INFLATION

7.5% | 7.3%
01-09.14 | in 2013

In 2014 in general, an increase in inflation rates is expected.

UNEMPLOYMENT RATE

3.8% | 4.9%
01.14 – 08.14 | in 2013

4. BUSINESS INCENTIVES PROVIDED BY THE REGIONAL GOVERNMENT:

- reduction of profit tax from 18% to 13.5%, for a period of 3 calendar years;
- exemption from tax on newly created property for a period of no more than 5 years;
- introduction of a beneficial rental rate (50%) for property belonging to Orenburg region (with the exclusion of land plots);
- collateral for the investors’ obligations in the form of property belonging to Orenburg region.

¹ 20% of the GDP of the region is formed on the basis of foreign trade activities (Kazakhstan)

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Beef cattle industry

1. KEY FEATURES OF THE INVESTMENT OPTION

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with regional development priorities</td>
<td>Yes¹</td>
</tr>
<tr>
<td>Sales within the region in 2013</td>
<td>RUB 6.02 billion</td>
</tr>
<tr>
<td>Potential annual market capacity¹</td>
<td>RUB 13.3 billion</td>
</tr>
</tbody>
</table>

2. COMPETITIVE ENVIRONMENT

According to data provided by the Ministry of Agriculture of the Orenburg region, Beef cattle production is carried out by approximately 200 medium and small enterprises (including Rural Farm Collectives). Breeding stock for specialised meat breeds in Orenburg Region is provided by four livestock farms and 25 breed stock reproducers.

WHY THE ORENBURG REGION:

- high level of feed resources in the region;
- additional measures envisaged to support agricultural producers on the part of the regional government, in particular guarantees and subsidies;
- “Orenburg Beef Cattle” agro-industrial cluster is being established at a regional level. One of the goals is to achieve a three-fold increase in the numbers of beef cattle brood herds. The regional government intends to support the development of the sector (as one of the most developed, including throughout the other regions of the Russian Federation), in order to support the food security of the country.

3. PROPOSED PRODUCTION SITES:

List of accessible investment sites in the Orenburg region is shown here: orbinvest.ru/investment/map/

¹ According to data provided by the Orenburg regional government and ASI calculations.
² Complies with the strategy for investment development of the Orenburg Region (approved in Government Decree of Orenburg Region of the 14.02.2014 №95-P) files.orenburg-gov.ru/MPR/09/02_09_233_5_75-%D0%9F%BF_14.02.2014_1.pdf
³ Taking into account export beyond the Orenburg Region by means of road transport at a distance of no more than 400 km, not taking into account export support programmes within the developing cluster.
Production of components and service for agricultural equipment

KEY FEATURES OF THE INVESTMENT OPTION

1. Compliance with regional development priorities
   Yes

2. Sales within the region in 2013
   RUB 1.2 billion

3. Share of domestic manufacturers in total sales
   48%

COMPETITIVE ENVIRONMENT

One of the main competitors is the American company, John Deere, which opened a factory in Orenburg in 2005. All other companies represented in the region are sub-dealers of Russian and foreign manufacturers.

WHY THE ORENBURG REGION:

- the regional government is interested in localising the production of components for agricultural equipment in order to reduce the growing costs of agricultural producers due to maintenance and basic repair.
- proximity of the Kazakh market.

PROPOSED PRODUCTION SITES:

List of accessible investment sites in the Orenburg region is shown here: orbinvest.ru/investment/map

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1 According to data provided by the Orenburg regional government and the Territorial Institute of the Federal Statistics Service for the Orenburg region.

2 Complies with the strategy for investment development of the Orenburg Region (approved in Government Decree of Orenburg Region of the 14.02.2014 №95-P) files.orenburg-gov.ru/NPA/0102_57_733_5_85-6066BF_14.02.2014_1.pdf
Investment opportunities
Primorsky Territory

KEY FEATURES OF THE PRIMORSKY TERRITORY

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1,938,516 PPL</td>
</tr>
<tr>
<td>Population of the neighbouring regions</td>
<td>3,965,246 PPL</td>
</tr>
<tr>
<td>Average rental price for class “A” office premises</td>
<td>RUB 7,910/sq.m/year</td>
</tr>
<tr>
<td>Average rental price for class “A” industrial and warehouse premises</td>
<td>RUB 4,205/sq.m/year</td>
</tr>
<tr>
<td>Average sale price of industrial land</td>
<td>RUB 520,000/HA</td>
</tr>
<tr>
<td>Average salary</td>
<td>RUB 31,634</td>
</tr>
</tbody>
</table>

KEY COMPETITIVE ADVANTAGES OF THE PRIMORSKY TERRITORY:

- significant export potential;
- beneficial location close to the economic centres of the Asian Pacific Region;
- well-developed infrastructure constructed in preparation for the APEC summit;
- attractive tax regimes, promising growth of territories with advanced development, accompanied by conditions for business and investment activities which are unique in Russia²

¹ Land borders, including the Heilongjiang province, not taking into account the border territories with the DPRK.
² The Federal Law on Territories with Advanced Socio-Economic Development in Russian Federation draft can be found here: static.consultant.ru/obj/file/doc/fz_161014.pdf
3. GENERAL FEATURES OF THE MACROECONOMIC SITUATION

PLACE AMONGST REGIONS (GRP)

2 | 25

Amongst the regions of the Far Eastern Federal District
Amongst the Russian regions
*according to 2012 data

FOREIGN INVESTMENT

$1.7 Bln
4.2 times growth
2013 to 2012

UNEMPLOYMENT RATE

6.8% | 7.1%
09.14 | in 2013

RUB 603.1 Bln
+2.1%
2013 to 2012

CONSUMER INFLATION

5.7% | 6.3%
01-09.14 | in 2013

MANUFACTURING INFLATION

1.9% | 5.8%
01-09.14 / in 2013

4. BUSINESS INCENTIVES PROVIDED BY THE REGIONAL GOVERNMENT:

- For projects in the manufacturing sphere:
  - Profit tax concessions: 0% for the first 5 years and 10% for the following 5 years;
  - Property tax concessions: 0% for the first 5 years and 0.5% for the following 5 years;

- For projects in the service sphere:
  - Profit tax concessions – 13.5% for 10 years;
  - Property tax concessions: 0% for the first 5 years and 0.5% for the following 5 years;

- Government guarantees in accordance with the legislation of the Primorsky Territory

The Primorsky Territory ranks first in population size, in pace of investment growth and in small enterprises gross revenue within the Far Eastern Federal District

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Production of autocomponents

1. KEY FEATURES OF THE INVESTMENT OPTION

| Compliance with regional development priorities | Yes¹ |
| Volume of cars and auto components sales within the territory in 2013 | $4.82 billion |
| Amount of cars produced at the Sollers factories in the Far East (including joint ventures) in 2013 | 95,000 units |

² Complies with the investment strategy of the Primorsky Territory (confirmed in Government Act of the Primorsky Region of the 23.12.2013, No.495 – PA) invest.primorsky.ru/images/TextDoc/Invest_Str_Prim.pdf
³ Provision of “Greenfield” land sites for rental with the possibility of subsequent purchase. Planned commencement of operations – 2017.
⁴ In the territory of Vladivostok. Planned commencement of operations – 2017.

2. COMPETITIVE ENVIRONMENT

There are no autocomponent producers in the Primorsky Territory

WHY THE PRIMORSKY TERRITORY:

■ developing automobile cluster;
■ large-scale tax concessions and other benefits;
■ prospective sales market for automobiles imported from Japan and used within the region;
■ opportunities of significant increase in the efficiency of operations for businesses established within the Territory of Advanced Socio-Economic Development.

3. PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Industrial park</th>
<th>Nadezhdinskii³</th>
<th>SEZ⁴ for Industrial Manufacturing in Vladivostok</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>782 hectares</td>
<td>49,200 sq.m in building</td>
</tr>
<tr>
<td>Energy supply</td>
<td>50 MW</td>
<td>+</td>
</tr>
<tr>
<td>Gas supply (2018)</td>
<td>14.2 cubic m/hour</td>
<td>+</td>
</tr>
<tr>
<td>Water supply/removal</td>
<td>Up to 160 cubic m/hour</td>
<td>+</td>
</tr>
<tr>
<td>Railway</td>
<td>Highway</td>
<td>+</td>
</tr>
</tbody>
</table>
Procession and conserving of fish and seafood

KEY FEATURES OF THE INVESTMENT OPTION

1. Compliance with regional development priorities: Yes
2. Fish and seafood export in 2013: $825.2 million
3. Processed fish and seafood export: $163.4 thousand

COMPETITIVE ENVIRONMENT

Within the Primorsky Territory there are 30 small and medium canning factories in operation, the entire production is mainly sold on the internal market. There is a need for a large-scale competitive fish processing plant with the potential for subsequent export.

WHY THE PRIMORSKY TERRITORY:

- considerable resource base;
- opportunity to supply the Asian Pacific Region markets;
- large-scale tax concessions and other benefits;

PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Site</th>
<th>Slavyanka urban settlement</th>
<th>Sukhodol bay</th>
<th>Pyat Ohotnikov bay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>50 hectares</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Energy supply</td>
<td>N/A</td>
<td>Up to 50 MW</td>
<td>N/A</td>
</tr>
<tr>
<td>Gas supply</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Water supply/ removal</td>
<td>N/A</td>
<td>N/A</td>
<td>4–5 thousand cubic m</td>
</tr>
<tr>
<td>Railway</td>
<td>Highway</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

1 According to data provided by the government of the Primorsky Territory and ASI calculations.
2 Complies with the investment strategy of the Primorsky Territory (confirmed in Government Act of the Primorsky Region of the 23.12.2013, No.495 – PA)
3 invest.primorsky.ru/images/TestDoc/invest_Str_Prime.pdf
4 Nearby Sukhodol bay, coastal area in the region of Vinogradni.
**Investment opportunities**

**Saratov region**

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**Key economic and social indicators:**
- Population: 2,496,552 PPL
- Population of the neighbouring regions: 13,814,920 PPL
- Average rental price for class “A” office premises: RUB 12,000 sq.m/year
- Average rental price for class “A” industrial and warehouse premises: RUB 3,000 sq.m/year
- Average sale price of industrial land: RUB 1,500,000 /HA
- Average salary: RUB 21,560

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**Key competitive advantages of the region:**
- Relatively low land price;
- High level of electricity supply in the region;
- Complete gas supply to residential areas and businesses.
3. GENERAL FEATURES OF THE MACROECONOMIC SITUATION

GRP

RUB 477.35 Bln | RUB 515.6 Bln | RUB 560 Bln
+5.9% | +2.5% | +3%
2012 | 2013 | 2014

PLACE AMONGST REGIONS (GRP)

7 | 28

Amongst the regions of the Volga Federal District | Amongst the Russian regions
*according to 2012 data

INVESTMENT

+8.2%
01-10.14 to 01-10.13

UNEMPLOYMENT RATE

3.9% | 5.2%
09.14 | in 2013

CONSUMER INFLATION

5.9% | 6.4%
01-09.14 | in 2013

MANUFACTURING INFLATION

3.2%
in 2013

4. BUSINESS INCENTIVES PROVIDED BY THE REGIONAL GOVERNMENT:

- For 5 tax periods:
  - Exemption from transport tax;
  - Reduction in profit tax from 18% to 13.5%;
  - Reduction in property tax from 2.2% to 0.1%;
- Rental payment of 1% of the cadastral value of land which is the state property of the Saratov region, as well as land upon which state ownership has not been demarcated, or otherwise has not been established within Federal law, in compliance with the types of permitted use.

CONTACT PERSON

for investment activities:
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Deputy Minister for Economic Development and Investment Policy,
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grechihoa@saratov.gov.ru
Pharmaceutical products manufacturing

1. KEY FEATURES OF THE INVESTMENT OPTION1

<table>
<thead>
<tr>
<th>Compliance with regional development priorities</th>
<th>Yes1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales within the region in 2013</td>
<td>RUB 9.23 billion</td>
</tr>
<tr>
<td>Potential annual market capacity2</td>
<td>RUB 22 billion</td>
</tr>
<tr>
<td>Share of domestic manufacturers in total sales</td>
<td>8%</td>
</tr>
</tbody>
</table>

2. COMPETITIVE ENVIRONMENT

Amount of sales is mainly defined by items produced by leading foreign and Russian manufacturers. Domestic manufacturers are represented by a limited selection of medical items (medical items to compensate for potassium and magnesium deficiency in the organism, production of medical immuno-biological items)

WHY THE SARATOV REGION:

- The regional government intends to create modern pharmaceutical production to replace imports and to provide the support for entrepreneurs;
- High potential of the regional market;
- Absence of large-scale manufacturing enterprises in the region.

3. PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Площадка</th>
<th>Saratov district, 1.3km south east of Dubki settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Общая площадь</td>
<td>26 hectares</td>
</tr>
<tr>
<td>Электроэнергия</td>
<td>6 100 kW</td>
</tr>
<tr>
<td>Газ</td>
<td>Up to 5.3 mln cubic m/year</td>
</tr>
<tr>
<td>Водоснабжение/отведения</td>
<td>140 cubic m/day</td>
</tr>
<tr>
<td>Ж/д</td>
<td>автодорога</td>
</tr>
</tbody>
</table>

1 Based on data provided by the government of the Saratov region and ASI calculations.
2 Complies with the strategy for socio-economic development of the Saratov Region confirmed in Government Decree of the Saratov Region, of the 18.07.2012 No.420 — P
3 Taking into account export beyond the Saratov region by road transport at a distance of no more than 400km.
Storage, distribution and processing of agricultural products

KEY FEATURES OF THE INVESTMENT OPTION

<table>
<thead>
<tr>
<th>Compliance with regional development priorities</th>
<th>Yes²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross harvest of agricultural crops in 2013</td>
<td>5.789 million tonnes</td>
</tr>
<tr>
<td>Potential need for warehousing³</td>
<td>926 thousand sq.m.</td>
</tr>
<tr>
<td>Potential annual market capacity</td>
<td>RUB 2 780 million</td>
</tr>
</tbody>
</table>

COMPETITIVE ENVIRONMENT

At present there are only two large scale logistics centres operating in the Saratov region: in Saratov and in Engels. The total class “A” warehouse area does not exceed 75 thousand sq.m.

WHY THE SARATOV REGION:

■ free market percentage – no less than 80%
■ location of the region at an intersection of major transport corridors: Euro-Asian “North-South” corridor and Euro-Asian “West-East” corridor, and also in direct proximity to the “Western Europe – Western China” corridor which is now under construction.

PROPOSED PRODUCTION SITES:

The potential sites in Saratov region can be found here:
mininvest.saratov.gov.ru/invest-map2/IPI_region_14-10-14.zip

¹ Based on ASI calculations, not taking into account animal production.
² Complies with the strategy for socio-economic development of the Saratov Region (confirmed in Government Decree of the Saratov Region, of the 18.07.2012 No.420 – P)
docs.cntd.ru/document/F92923044
³ Based on a warehouse outsourcing standard of 20%, not taking into account fruit and vegetables imported into the region.
Investment opportunities
Republic of Khakassia

1. KEY FEATURES OF THE REPUBLIC OF KHAKASSIA

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>534,079 PPL</td>
</tr>
<tr>
<td>Population of the neighbouring regions</td>
<td>6,110,291 PPL</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; office premises</td>
<td>RUB 6,000 sq.m/year</td>
</tr>
<tr>
<td>Average rental price for class &quot;A&quot; industrial and warehouse premises</td>
<td>RUB 2,280 sq.m/year</td>
</tr>
<tr>
<td>Average sale price of industrial land</td>
<td>RUB 2,000,000 /HA</td>
</tr>
<tr>
<td>Average salary</td>
<td>RUB 27,865</td>
</tr>
</tbody>
</table>

2. KEY COMPETITIVE ADVANTAGES OF THE REGION:

- high level of energy supply in the region due to relatively low electricity tariffs (in particular, thanks to Sayano-Shushenskaya HEP – the most powerful power station in Russia);
- significant mineral and raw material potential, including high level of timber resources.
3. GENERAL FEATURES OF THE MACROECONOMIC SITUATION

![GRPA](image1.png)

**GRP**

RUB 113.08 Bln | RUB 130.68 Bln

+5.1% | +5.4%

2011 | 2012

**Investment**

+47.1%

01-09.14 to 01-09.13

**Consumer Inflation**

6.3% | 5.4%

01-09.14 | in 2013

**Place Amongst Regions (GRP)**

10 | 68

Amongst the regions of the Volga Federal District | Amongst the Russian regions

*according to 2012 data

**Unemployment Rate**

6.5% | 6%

c 01.14 to 09.14 | in 2013

**Manufacturers Prices**

-2.8%

in 2013

In 2014 a growth in manufacturers prices has been observed.

4. BUSINESS INCENTIVES PROVIDED BY THE REPUBLICAN GOVERNMENT:

- for 5 tax periods:
  - exemption from transport tax;
  - reduction in profit tax from 18% to 13.5%;
  - reduction in property tax from 2,2% to 1,1%;

- beneficial rates for property owned by the Republic of Khakassia;

- state guarantees:

- tax credits for investors

- public funding

- subsidies and grants

In total, the results of the first 9 months of 2014 have demonstrated a decrease in manufacturing production, agriculture and the volume of construction work. Growth of investment in 2014 is caused by completion of the new unit of Abakanskaya Thermal Electric Power Station.

**Contact Person**

for investment activities:

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Deputy Minister of the Economy,
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env@r-19.ru
Distribution centre for agricultural production with vegetable storage

KEY FEATURES OF THE INVESTMENT OPTION

<table>
<thead>
<tr>
<th>Compliance with the development priorities of the republic</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross harvest of agricultural crops in 2013</td>
<td>382 thousand tonnes</td>
</tr>
<tr>
<td>Potential need for warehousing</td>
<td>94.1 thousand sq.m.</td>
</tr>
<tr>
<td>Potential annual market capacity</td>
<td>RUB 214.7 million</td>
</tr>
</tbody>
</table>

COMPETITIVE ENVIRONMENT

At the present moment there are no high-class logistics and warehousing facilities in the republic. The approximate floor area of the available warehousing (without special equipment and the relevant facilities for storage and partial processing of agricultural produce) is no more than 44 thousand sq.m.

WHY THE REPUBLIC OF KHAKASSIA:

- free market share – no less than 50% (at gross evaluation, up to 90% in expert reviews);
- intensive development of agriculture in the republic – and consumer services sector.
- high demand for republican production in the neighbouring regions.

PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Site</th>
<th>Chernogorskiia industrial park</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>40 hectares</td>
</tr>
<tr>
<td>Energy supply</td>
<td>+</td>
</tr>
<tr>
<td>Gas supply</td>
<td>+</td>
</tr>
<tr>
<td>Water supply/removal</td>
<td>+</td>
</tr>
<tr>
<td>Highway</td>
<td>+</td>
</tr>
</tbody>
</table>

Additional benefits for residents:

- free connection to the electricity network for the period of construction;
- exemption from rental payment for land during the construction.

---

1 Based on data provided by the government of the Republic of Khakassia and ASI calculations, without taking into account animal production.
3 Based on a warehouse outsourcing standard of 30%, taking into account fruit and vegetables imported into the territory of the region.
4 More details at www.chernogorskimtitle.php
Republic of Khakassia. Investment opportunities

Lumber production enterprises

KEY FEATURES OF THE INVESTMENT OPTION

<table>
<thead>
<tr>
<th>Feature</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with the development priorities of the republic</td>
<td>Yes</td>
</tr>
<tr>
<td>Sales in the region in 2013</td>
<td>RUB 24.1 million</td>
</tr>
<tr>
<td>Amount of imported produce into the region in 2013</td>
<td>RUB 86.7 million</td>
</tr>
<tr>
<td>Potential annual market capacity</td>
<td>RUB 135.7 million</td>
</tr>
<tr>
<td>Share of domestic manufacturers in total sales</td>
<td>35%</td>
</tr>
</tbody>
</table>

COMPETITIVE ENVIRONMENT:

At the present moment only 5 large scale lumber enterprises are in operation. The major part of the production is imported from neighbouring regions.

WHY THE REPUBLIC OF KHAKASSIA:

■ For the first 9 months of 2014, there has been more than twofold increase in housing construction compared to the similar period in 2013.
■ The republic has a significant volume of timber resources ready for processing.

PROPOSED PRODUCTION SITES:

<table>
<thead>
<tr>
<th>Site</th>
<th>Chernogorskii industrial park</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total floor area</td>
<td>40 hectares</td>
</tr>
<tr>
<td>Energy supply</td>
<td>+</td>
</tr>
<tr>
<td>Gas supply</td>
<td>+</td>
</tr>
<tr>
<td>Water supply/removal</td>
<td>+</td>
</tr>
<tr>
<td>Highway</td>
<td>+</td>
</tr>
</tbody>
</table>

Additional benefits for residents:
■ free connection to the electricity network for the period of construction;
■ exemption from rental payment for land during the construction.

1 Based on calculations by the ASI and the Ministry of the Economy of the Republic of Khakassia.
2 Complies with the investment strategy of the Republic of Khakassia (confirmed in Governmental Decree of the Republic of Khakassia of the 24.12.2013, No.127-P)
invest-19.ru/assets/files/docs/prezBlum/invest_strategy_kh_2020.zip
3 Taking into account the rates of housing construction for 2012-2013.
4 More details at www.chernogorsk.com/title.php
1. PRODUCTION OF AUTOCOMPONENTS

A new Schaeffler autocomponent plant was opened in Zavolzhye industrial zone of Ulyanovsk Region on 10th October.

The plant produces LuK clutches and parts for INA gearboxes marked “Made in Russia” using two production lines. By the end of 2014, the production of TAROL bearings is planned to be launched, and in 2017, five types of autocomponents and one type of product for the industry will be produced locally.

“Overall, more than two billion rubles will be allocated to the project. These funds will not only permit the organization of a unique product line, but will also solve the problem of unemployment in Ulyanovsk: over 450 modern jobs will be generated”, - Sergey Ulyanov, the Governor of Ulyanovsk Region said at the opening ceremony.

The new plant meets the highest safety and environmental standards. The company applied its own developments in production management, transport and logistics when constructing the plant. In addition, Schaeffler pays special attention to training: some employees have already been trained at the company’s enterprises in Germany, France, Hungary, Slovakia, and the UK.

2. PHARMACEUTICS

On 1 October, the Russian company R-Pharm closed the deal on the purchase of the Pfizer plant in the German city of Illertissen.

R-Pharm operates within the entire territory of the Russian Federation, the countries of the former Soviet Union, USA, Japan, and Turkey. The acquisition of businesses in Germany is one stage in the implementation of our strategy to build an international pharmaceutical company”, - Alexey Repik, the Chairman of the Board of Directors of R-Pharm Group said when commenting on the deal.

Plant employees moved from Pfizer to R-Pharm under the terms of their existing employment contracts. The plant will continue contract production of Pfizer drugs, until the end of 2018. At the same time, they plan to launch their own medicines production.

On 21 October, the Teva plant, a new venture of the Yaroslavl pharmaceutical cluster, was opened in the Novoselki industrial park.

Teva owns 75 plants manufacturing high quality innovation products in different countries. The company has invested $ 65 million in the construction of the plant in Russia. “This is a new stage in the regional pharmaceutical cluster development into which about $ 350 million has already been invested. These investments are proof of a favorable investment climate in our region”, - Sergey Yastrebov, the Governor of Yaroslavl Region said at the opening ceremony.

Initially the plant will be packing products from the company’s European plants. In a year’s time, it will start full-cycle production of solid dosage forms with a potential to double capacity in the short term.
3. LOGISTICS

On 26 September, the first regional logistic agro-centre was opened in the Omsk Region.

The wholesale and distribution centre based around the Agrokultura plant plans to buy vegetables from local producers. It will process the vegetables, and sell them on directly to retail chains. Over 150 thousand tons of vegetables, fruits and herbs are planned to be sold annually through the agro-centre. The total amount of investment in the facility has amounted to 130 million rubles.

Viktor Nazarov, The Governor of the Omsk Region, when speaking at the grand launch, commented: "Now, Federal retail chains will be provided with Omsk products in contemporary packaging and our vegetable producers’ sales will be guaranteed".

Vladimir Sedelnikov, the founder of Agrokultura, said that the wholesale and distribution agro-centre will enable local producers become competitive not only in the region but in the Siberian Federal District as well.

Vitaly Ehrlich, the Head of the regional Ministry of Agriculture and Food has major plans for the development of the agricultural cluster: “We have already approved the concept of agricultural cooperatives which will take into account the interests of manufacturers, retail chains, processors, and customers”.

A vegetable store designed for the long-term storage of more than 10 thousand tons of produce will be commissioned in the second quarter of 2015.

4. MEET CATTLE BREEDING

A new large livestock complex was opened on 28 October in Krasnoyarsk Region.

The complex is located near Krasnoyarsk and is designed for 400 cows and 400 calves. When it reaches full project capacity, the production volume will produce up to 6 tons of milk per day and 800 tons of meat per year. In addition to the two barns interconnected with the milking house, 5 km of road and 10 km of transmission lines have also been laid. Investment in the construction of the complex, together with the infrastructure, has amounted to 139 million rubles.

"We have combined all the good practices of modern livestock farming in the design of the complex. The technology used allows milk production at the most affordable price", - commented Vladimir Uglov, the head of the company. Through its distribution network development, the company will be able to maintain the retail price of the products below the average level.

The livestock complex was built with unique energy-saving technology using biological heat of animals.
Acknowledgements

The Agency for Strategic Initiatives would like to thank everyone who took part in the collation, analysis and preparation of information relating to the potential investment opportunities and market niches in regions of the Russian Federation, as well as the Russian macroeconomic situation. Without your commitment, responsibility, professional commentaries and remarks, as well as constant support, this report would not have seen the light of day.

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Olga Shatokhina,
Head of Public-Private Partnership Division for Investments and Strategic Projects of the Agency for Strategic Initiatives to Promote New Projects
Doing business in Russia: map of opportunities

Macroeconomic indicators

5 Russian regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Gross regional product, million RUB</th>
<th>Gross regional product per capita, RUB</th>
<th>Foreign direct investments (thousand USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voronezh region</td>
<td>133 586.6</td>
<td>346 568.2</td>
<td>568 613.0</td>
</tr>
<tr>
<td>Primorsky Territory</td>
<td>186 623.3</td>
<td>470 679.2</td>
<td>555 018.2</td>
</tr>
<tr>
<td>Orenburg region</td>
<td>213 138.2</td>
<td>458 145.4</td>
<td>629 369.8</td>
</tr>
<tr>
<td>Saratov region</td>
<td>170 930.5</td>
<td>376 169.4</td>
<td>477 352.4</td>
</tr>
<tr>
<td>Republic of Khakassia</td>
<td>41 727.5</td>
<td>96 039.8</td>
<td>130 685.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Population, thousand people</th>
<th>Average annual employment, thousand people</th>
<th>Average cash income per capita (per month), RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voronezh region</td>
<td>2 360.9</td>
<td>2 334.8</td>
<td>2 329.0</td>
</tr>
<tr>
<td>Primorsky Territory</td>
<td>2 006.5</td>
<td>1 953.5</td>
<td>1 938.5</td>
</tr>
<tr>
<td>Orenburg region</td>
<td>2 093.5</td>
<td>2 031.5</td>
<td>2 008.6</td>
</tr>
<tr>
<td>Saratov region</td>
<td>2 591.2</td>
<td>2 519.3</td>
<td>2 496.6</td>
</tr>
<tr>
<td>Republic of Khakassia</td>
<td>533.8</td>
<td>532.3</td>
<td>534.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Fixed asset investments, million RUB</th>
<th>Fixed assets (gross book value, end of year), million RUB</th>
<th>Share of profitable large and medium sized businesses and organizations, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voronezh region</td>
<td>28 652.4</td>
<td>125 825.5</td>
<td>182 334.3</td>
</tr>
<tr>
<td>Primorsky Territory</td>
<td>28 498.6</td>
<td>208 208.6</td>
<td>203 189.2</td>
</tr>
<tr>
<td>Orenburg region</td>
<td>39 993.1</td>
<td>103 648.2</td>
<td>151 250.2</td>
</tr>
<tr>
<td>Saratov region</td>
<td>40 434.8</td>
<td>80 040.8</td>
<td>117 645.8</td>
</tr>
<tr>
<td>Republic of Khakassia</td>
<td>10 327.7</td>
<td>22 109.1</td>
<td>38 130.6</td>
</tr>
</tbody>
</table>
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