



FAR EAST INVESTMENT
AND EXPORT AGENCY

Investment Opportunities in the Russian Far East

Roundtable with Indian Business Community



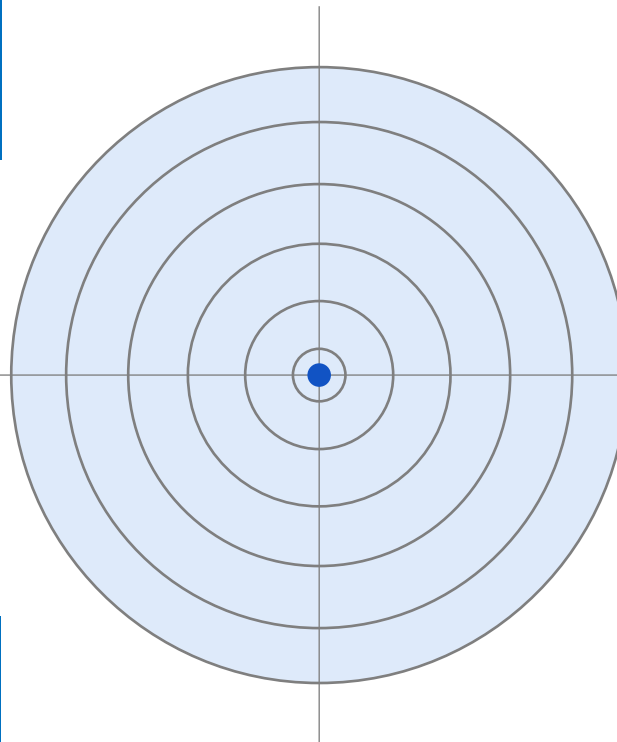
March 16, 2017

Beneficial tax regime

**Streamlined regulations
& procedures**

**Low cost and high
return on investment**

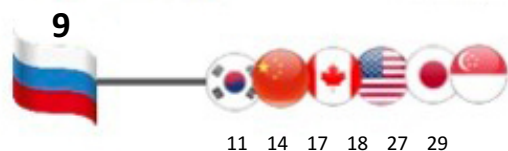
**State-provided
infrastructure, labor,
low-cost financing**



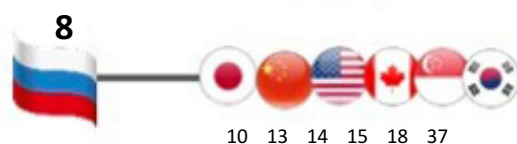
STATE SUPPORT IN THE RUSSIAN FAR EAST CREATED THE MOST FAVORABLE BUSINESS ENVIRONMENT IN ASIA

Taxes

Corporate profit tax, %



Tax on wages, %



Administrative procedures

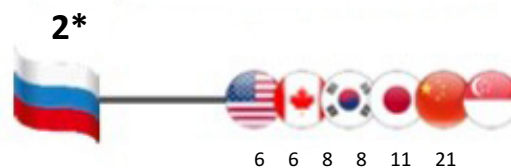
Building permit, days



Power grid connection, days

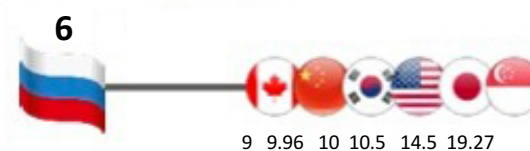


Customs clearance, days



Utilities costs

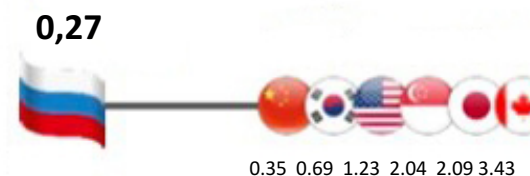
Power, ¢/kWh



Natural gas, USD/m³

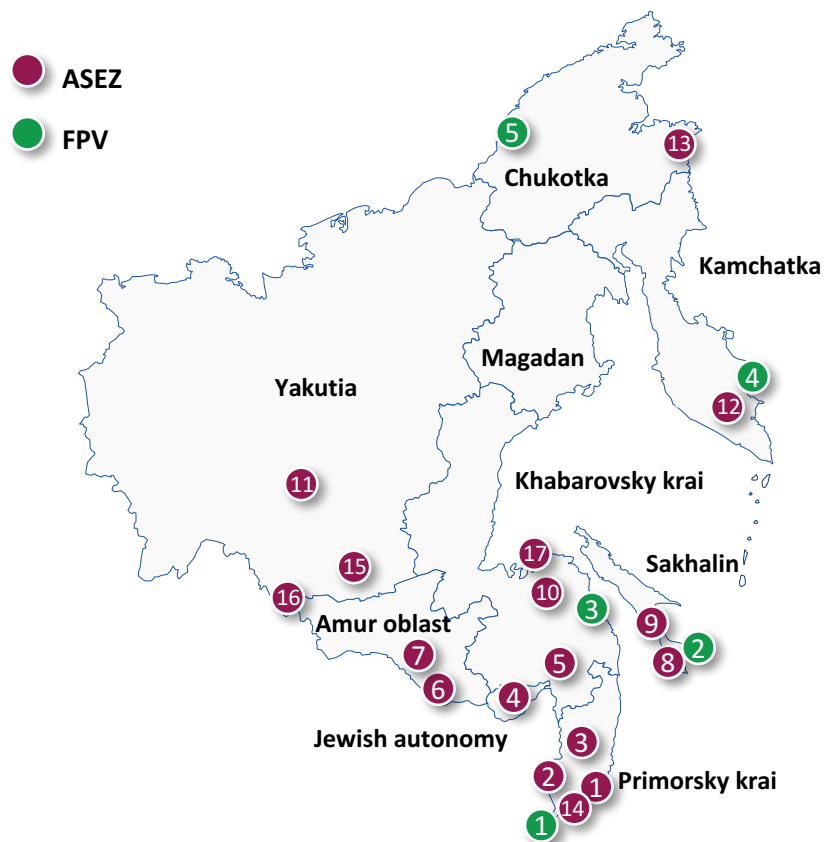


Water, USD/m³



* Note: Free Port of Vladivostok, since October 1, 2016

ADVANCED SPECIAL ECONOMIC ZONES AND FREE PORT OF VLADIVOSTOK



ASEZ

- | | |
|-----------------------|-----------------------|
| 1. Bolshoi Kamen | 10. Komsomolsk |
| 2. Nadezhdinskaya | 11. Kangalassi |
| 3. Mikhailovskiy | 12. Kamchatka |
| 4. Amuro-Khinganskaya | 13. Beringovskiy |
| 5. Khabarovsk | 14. Neftekhimicheskii |
| 6. Priamurskaya | 15. Yuzhnaya Yakutia |
| 7. Belogorsk | 16. Svobodnenskii |
| 8. Yuzhnaya | 17. Nikolaevsk |
| 9. Gorniy Vozdukh | |

FPV

- | |
|---------------------------------------|
| 1. Vladivostok
(16 municipalities) |
| 2. Korsakov |
| 3. Vanino |
| 4. Petropavlovsk-Kamchatskiy |
| 5. Pevek |

Advanced Special Economic Zones (ASEZ)

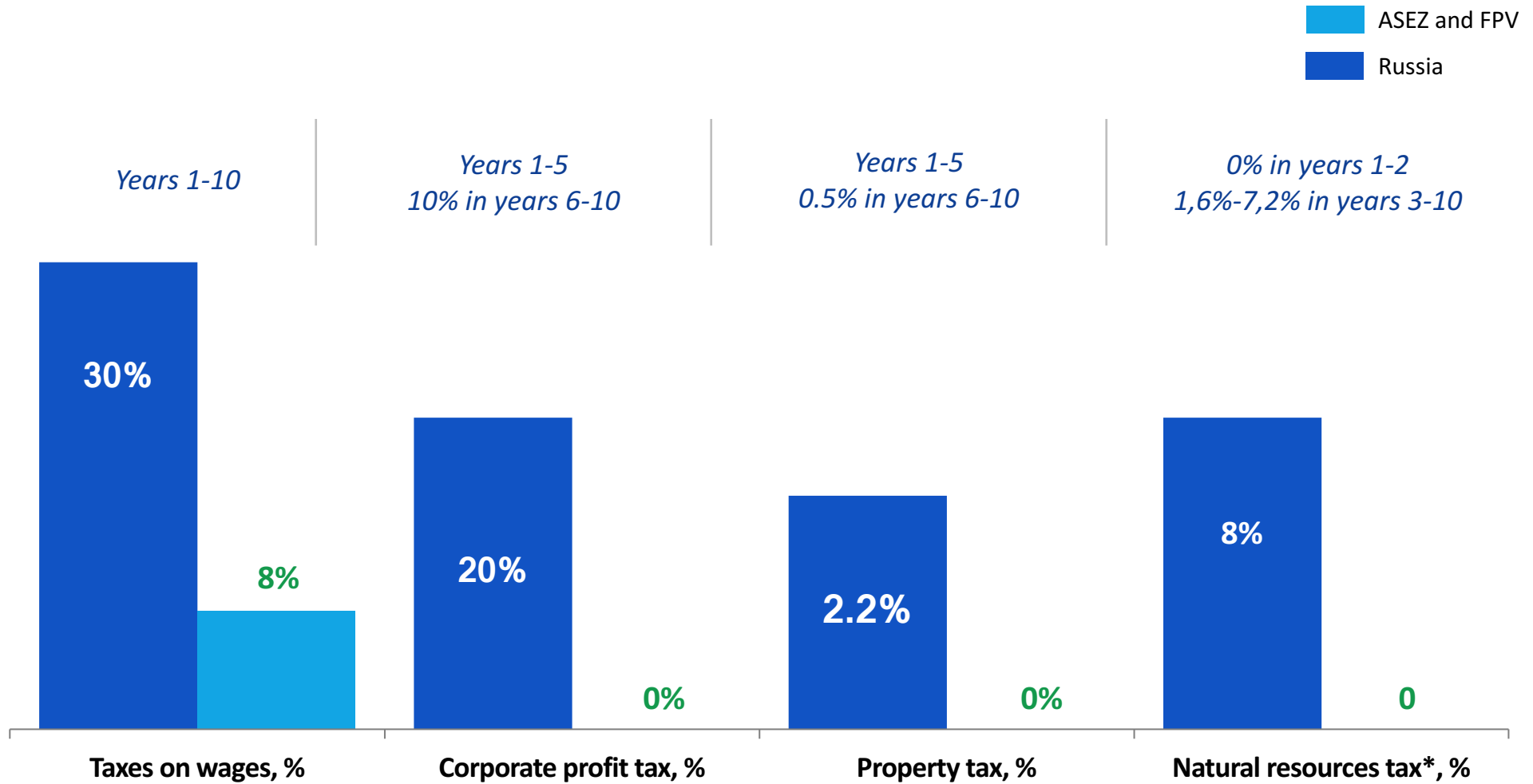
17 special economic zones
with state-provided
infrastructure

Free Port of Vladivostok (FPV)

20 municipalities
in coastal areas with
streamlined business regulations

+	Zone free from customs	+
+	Streamlined land zoning / permitting	+
+	One-stop-shop state services	+
+	Low regulatory burden on business	+
—	Fast-track customs clearance	+
—	8-day e-visa for foreign visitors	+
+	State-provided infrastructure	—

ASEZ AND FPV TAX BENEFITS



* Note: Nickel severance tax

SUCCESSFUL BUSINESS CASES IN THE RUSSIAN FAR EAST

Agriculture

Machine Building

Metals & Mining

Oil & Gas / Petrochem

Timber & Wood

Fishery & Aquaculture

Tourism



METALS & MINING: INVESTMENT BUSINESS CASE



WHY INVEST?

- First-class resource deposits (of Russia's resources):
 - gold **5.7 th. tons** (>220 bn USD – 44%)
 - silver **45 th. tons** (>24 bn USD – 37%)
 - copper **10 mln tons** (57 bn USD – 11%)
 - coal **30 bln tons** (>1 300 bn USD – 10%)
 - tin **2 th. tons** (30 bn USD – 93%)
- As yet unlicensed: **14%** precious metals, **70+%** coal, **50%** tin, **70%** tungsten, **16%** iron
- **>20** projects are underway. Most of license holders are looking for strategic investors

WHAT TO INVEST IN?

Metals

- **Precious metals** (gold, silver, platinum)
EBITDA margin **40-50%**
- **Non-ferrous metals** (copper, tin, tungsten, mercury)
EBITDA margin **30-60%**

Fossil fuels

- **Coal**
EBITDA margin **30-50%**

WHERE TO INVEST?

- Yakutia: ASEZ **Yuzhnaya Yakutia**
- Chukotka: ASEZ **Beringovskiy**
- Kamchatka: ASEZ **Kamchatka**
- Amur oblast
- Magadan oblast



**GOLD MINING
(KAMCHATKA)**

KAMCHATKA (GOLD)

- **Investor:** KAMCHATSKOE ZOLOTO (RENOVA)
- **Investments:** 300 mln USD
- **IRR:** 20+%
- **Production:** 5.5 tons of gold per year (#8 in Russia)
- **Market:** Russia, export
- **Growth potential:** Organic growth (10-15%)



**COAL MINING
(CHUKOTKA)**

ASEZ BERINGOVSKY (COAL)

- **Investor:** TIGERS REALM (AUSTRALIA)
- **Investments:** 200 mln USD
- **IRR:** 20+%
- **Production:** up to 5 mln tons of coal per year
- **Market:** Export to China
- **Growth potential:** Organic growth (10-15%)



**IRON ORE MINING
(YAKUTIA)**

YAKUTIA (IRON ORE)

- **Investor:** **EVRAZ GROUP**
- **Investments:** **230 mln USD**
- **IRR:** 20+%
- **Production:** **4.1 mln tons** of iron concentrate per year
- **Market:** Russia, export
- **Growth potential:** export to China, developing steel-consuming industries in the Russian Far East



**NICKEL PRODUCTION
(AMUR REGION)**

AMUR REGION (NICKEL AND COPPER)

- **Investor:** **AMUR MINERALS CORPORATION (LSE-AIM)**
- **Investments:** **1 100 mln USD**
- **IRR:** 30%
- **Production:** **up to 50k tons** of nickel-copper concentrate per year
- **Market:** China
- **Growth potential:** export to China

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OIL & GAS / PETROCHEM: INVESTMENT BUSINESS CASE

Gazprom gas treatment plant (Gazprom): **13.2 bn USD**

Sibur gas chemicals complex (SIBUR): **9.5 bn USD**



WHY INVEST?

- Two petrochemical clusters under development:
 - **Amur oblast:** 42 bln m³ gas treatment plant (60 mln m³ helium) and gas chemicals complex (methane, ethane, propane, butane, pentane-hexane fraction)
 - **Primorsky krai:** Nakhodka fertilizer plant (1.1 mln t ammonia, 2 mln t urea, 1 mln t methanol), Far East Petrochemical Company (1.4 mln t gasoline, 12 mln t of diesel fuel)

WHAT TO INVEST IN?

- **Oil and gas downstream products:** fuels, fertilizers, methanol, acetic acid, polymers
- **Service industries:** seismic, drilling, ecology

EBITDA margin: **20-30%**

WHERE TO INVEST?

- Amur oblast : ASEZ **Svobodnenskaya**
- Primorsky krai : ASEZ **Neftekhimicheskiy**

Nakhodka fertilizer plant (NCG): **6.3 bn USD**

Far East Petrochemical Company (Rosneft): **21.6 bn USD**



**ACETIC ACID FACILITY
(PRIMORSKY KRAI)**

ASEZ NEFTEKHIMICHESKIY (PRIMORSKY KRAI)

- **Required investment: 160 mln USD**
- **Capacity:** 150 000 tpa of acetic acid (AA)
- **Market:** High demand from Asia Pacific (China, Japan, Thailand). AA is used to produce synthetic dyes, acetone, perfumes
- **Growth potential:** long-term consumption uptrend in the target markets



**POLYMER DOWNSTREAM
(PRIMORSKY KRAI)**

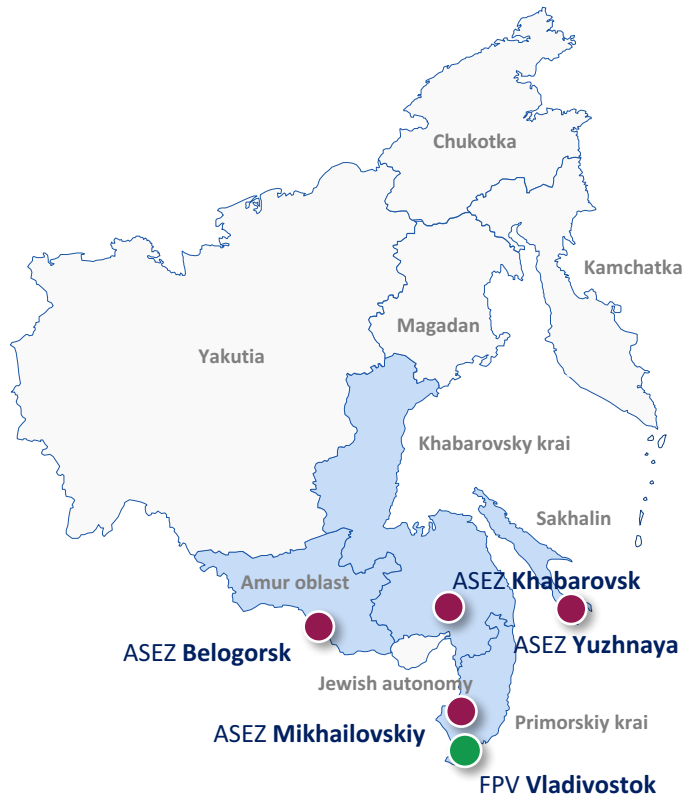
ASEZ NEFTEKHIMICHESKIY (PRIMORSKY KRAI)

- **Required investment: 30 mln USD**
- **Capacity:** up to 20 000 tpa of multilayer polymer films made from polyethilen
- **Market:** Asia Pacific, Russian Far East
- **Growth potential:** long-term consumption uptrend in the target markets

SUCCESSFUL BUSINESS CASES IN THE RUSSIAN FAR EAST



AGRICULTURE: INVESTMENT BUSINESS CASE



WHY INVEST?

- **250 bln USD** – annual food and agriculture imports by China, Japan, and South Korea (globally)
- Increasing demand for organic food in Asia Pacific, including China
- **2.8 mln ha** of arable land available for organic food production in the Russian Far East
- Unmet local demand: **1.5 mln t (>2 bln USD)** of dairy and **0.3 mln t (>1 bln USD)** of meat products annually

WHAT TO INVEST IN?

- **Crop farming** (soybean, corn, wheat)
EBITDA margin **40%**
- **Meat** (cattle, pork, poultry)
EBITDA margin **20-30%**
- **Dairy**
EBITDA margin **15-20%**
- **Greenhouse vegetable farming**
EBITDA margin **60-65%**

WHERE TO INVEST?

- Primorsky krai: ASEZ **Mikhailovskiy**, **FPV**
- Amur oblast: ASEZ **Belogorsk**
- Khabarovskiy krai: ASEZ **Khabarovsk**
- Sakhalin: ASEZ **Yuzhnaya**



**PIG FARMING
(PRIMORSKY KRAI)**

ASEZ MIKHAILOVSKIY (PRIMORSKY KRAI)

- **Investor:** ROSAGRO
- **Investments:** 560 mln USD
- **EBITDA:** 120 mln USD
- **IRR:** 17%
- **Production capacity:** 80 thousand t of pork per year
- **Markets:** Primorsky krai, potentially China
- **Growth potential:** looking to partner with Asian producer / distributor



**GREENHOUSE VEGETABLES
(Khabarovskiy Krai)**

ASEZ KHABAROVSK (Khabarovskiy Krai)

- **Investor:** JGC CORPORATION (JAPAN)
- **Investments:** 40 mln USD
- **EBITDA:** 3 mln USD
- **IRR:** 10+%
- **Commissioning:** March 21, 2016
- **Production capacity:** 1.4 thousand t of vegetables
- **Markets:** Khabarovskiy krai
- **Growth potential:** second phase to be commissioned in 2018

SUCCESSFUL BUSINESS CASES IN THE RUSSIAN FAR EAST

Agriculture

Machine Building

Metals & Mining

Oil & Gas / Petrochem

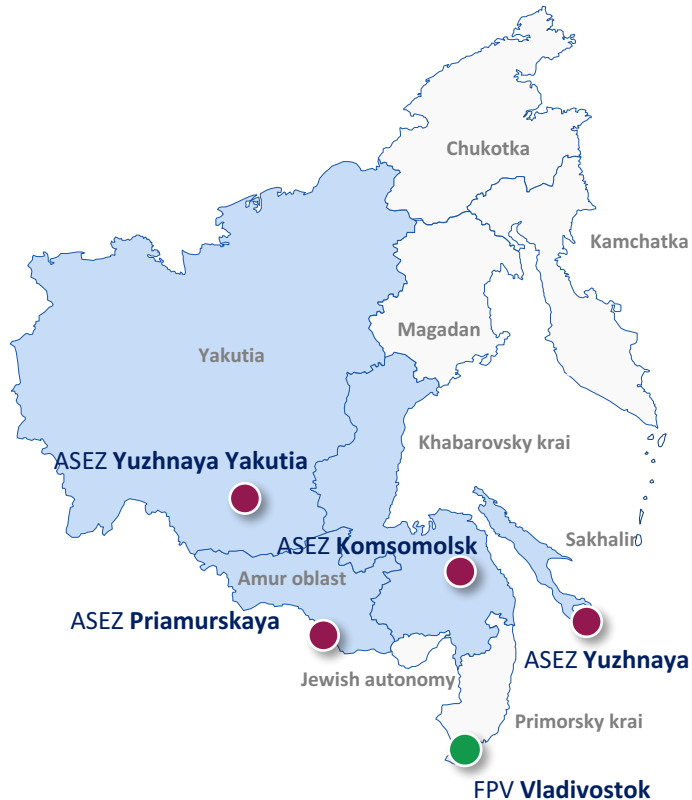
Timber & Wood

Fishery & Aquaculture



Tourism

TIMBER & WOOD: INVESTMENT BUSINESS CASE



WHY INVEST?

- Extensive resource base: **21 bln m³ log stock (25% of Russia's, >5% of world's resources)**
- Available annual cut: **>90 mln m³ (9 bln USD), 15.5 mln m³ utilized**
- Lumber products **~25%** of export, rest is round timber

WHAT TO INVEST IN?

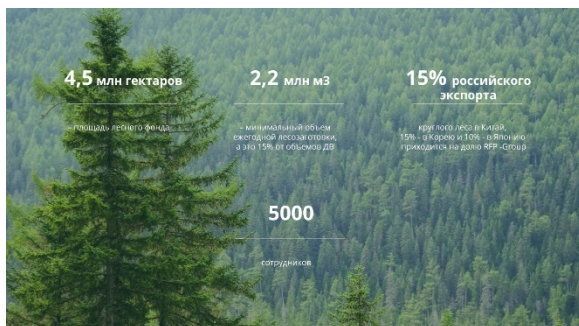
Wood processing:

- **Lumber** (veneer, beam, cut-off board)
- **Construction materials** (shaped beam, plinths)
- **Plywood, wood-based panels**
- **Pellets**
- **Cellulose** (80% coniferous, 20% leafy)

EBITDA margin **20-30%**

WHERE TO INVEST?

- Khabarovsk krai: ASEZ **Komsomolsk**
- Yakutia: ASEZ **Kangalassy**
- Sakhalin: ASEZ **Yuzhnaya**
- Amur oblast: ASEZ **Priamurskaya**
- **FPV**



ASEZ KOMSOMOLSK (AMURSK SITE), OCTOBER 2016

Investor: **RFP GROUP**

Market: China

1ST PHASE (Realized)

- **Production:** Round log, veneer, pellets, lumber (launch in May 2016)
- **Investments:** **350 mln USD (as of beginning 2017)**
- **EBITDA:** 120 mln USD
- **IRR:** 15 -20 %

Growth potential:

2ND PHASE (2017-18)

- **Production:** lumber (plywood, glued / armored / shaped beams, stoves, constructions)

3RD PHASE (2018-20)

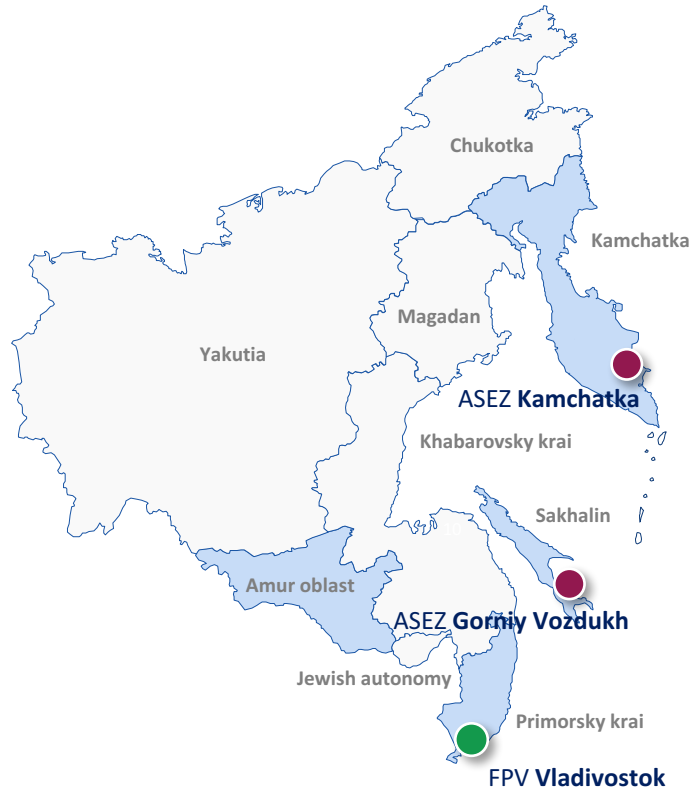
- **Production:** 500k tons of cellulose
- **Investments:** 1.2 bn USD



SUCCESSFUL BUSINESS CASES IN THE RUSSIAN FAR EAST



TOURISM: INVESTMENT BUSINESS CASE



WHY INVEST?

- Every year more than **170 mln** tourists from China, Japan and South Korea travel abroad and spend **275 bln USD**
- The Russian Far East has a unique value proposition for Asian tourists - **"Europe in Asia"**
- Shortage of quality hotel rooms in the Russian Far East exceeds **>10 000**
- 2016 Chinese tourist flow growth **>40%**

WHAT TO INVEST IN?

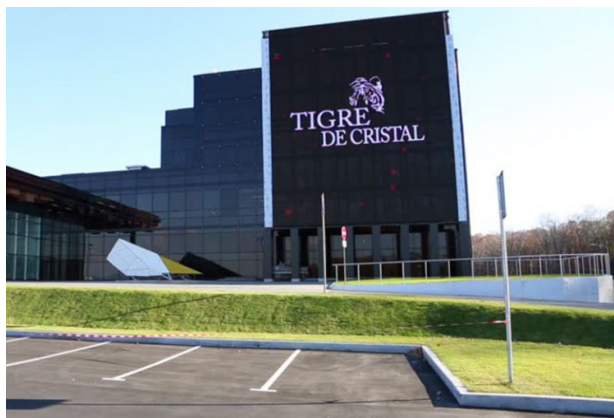
Primary investment opportunities:

- Quality hotels (3-5 stars)
- Entertainment infrastructure
- Sports facilities (skiing, etc.)

EBITDA margin: **50-70%**

WHERE TO INVEST?

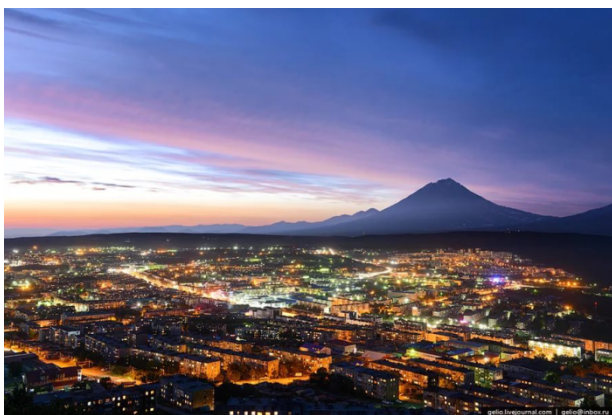
- Primorsky kraï: **Free port of Vladivostok**
- Kamchatka: ASEZ **Kamchatka**
- Sakhalin: ASEZ **Gorniy Vozdukh**
- Amur oblast



**HOTEL AND CASINO COMPLEX
(PRIMORSKY KRAI)**

PRIMORYE GAMBLING ZONE (PRIMORSKY KRAI)

- **Required investments: 300 mln USD, 150 mln USD already invested**
- **Hotel and Casino complex description:**
 - 121 rooms
 - 64 gambling tables
 - 249 gambling machines
- **Investor: Melco Group**



**4* BUSINESS-HOTEL FREZA
(KAMCHATKA)**

ASEZ KAMCHATKA (KAMCHATKA)

- **Required investments: 13 mln USD**
- **Hotel description:**
 - 150 rooms
 - 4 500 sq. m.
 - Fitness-center
 - 2 restaurants
- **Investor: looking for local/international investor**

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Agriculture

Machine building

Metals & Mining

Oil & Gas / Petrochem

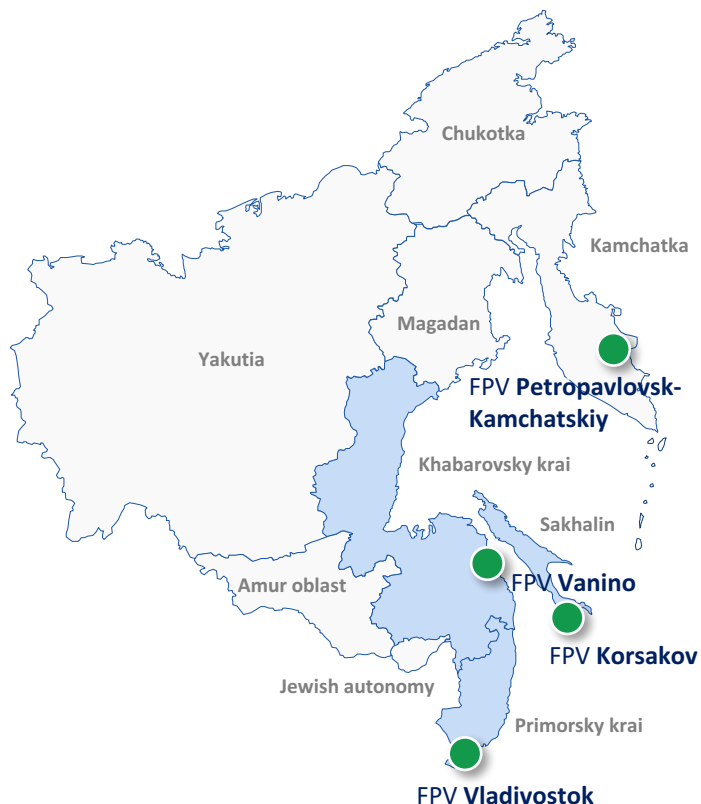
Timber & Wood

Fishery & Aquaculture

Tourism



FISHERY & AQUACULTURE: INVESTMENT BUSINESS CASE



WHY INVEST?

- **2.0 mln ha** of pristine, fresh, non-polluted waters suitable for growing most valuable in Asia-Pacific market aquacultures (sea cucumber, scallop, crabs)
- **only 0.02 mln ha** of sea tenure is distributed for use (1%)
- No restrictions for international investors for aquaculture
- **30%** of all available sea water area is to be distributed by 2017, the rest in 2018-19
- In 2018 investment quotas provide access to **>500k tons** of aquatic bio resources, which amounts to **20%** of the total allowable catch

WHAT TO INVEST IN?

- **High-demand species:**
 - Sea cucumber
 - Scallop
 - Oysters and sea-urchins
 - Kelp
 - Spisula
 - Arkshell

EBITDA margin: **50-70%**

WHERE TO INVEST?

- Primorsky krai: **FPV Vladivostok**
- Sakhalin: **FPV Korsakovo**
- Khabarovskiy krai: **FPV Vanino**
- Kamchatskiy krai: **FPV Petropavlovsk-Kamchatskiy**



**NEREIDA AQUACULTURE
(PRIMORSKY KRAI)**

FPV: PRIMORSKY KRAI

- **Required investment: 30 mln USD (21 already invested)**
- **Local partner: Nereida / Far East investment fund**
- **Produce & capacity: 7.3k tons** of sea cucumbers, scallop & kelp (up from 1.0 today). **Water acreage: 5 000 ha**. Ready to increase the water area to 10 000 ha
- **Market:** Asian markets



**CRAB PRODUCTION
(PRIMORSKY KRAI)**

FPV: PRIMORSKY KRAI

- **Required investment: 50 mln USD (30 already invested).**
- **Local partner: ANTEY (RUSSIA)**
- **EV: ≈100 mln USD. Revenue: 350 mln USD**
- **Produce & capacity: 34k tons** of wild catch and marine aquaculture products. **Water acreage: 200 ha**
- **Fishing quotas: 22k tons (65% of crab)**
- **Market:** International markets, including the US

SUCCESSFUL BUSINESS CASES IN THE RUSSIAN FAR EAST

Agriculture



Machine building



Metals & Mining



Oil & Gas / Petrochem



Timber & Wood



Fishery & Aquaculture



Tourism



MACHINE BUILDING: INVESTMENT BUSINESS CASE



WHY INVEST?

- **Two** industrial clusters:
 - **Aircraft construction** (Komsomolsk – planes and Arseniev – helicopters) - **1000-1500** units in 2017-2030
 - **Shipbuilding** (Zvezda, Amur and Khabarovskiy Shipbuilding Plant, Blagoveschenskiy, Eastern Dockyard) – **220** large vessels in 2017-2030
- **Opportunity:** new shipyard for fishing ships construction

WHAT TO INVEST IN?

Import substitution of component production – internal market **>15 bln USD** per year

First stage:

- Machine tool
- Mechanical parts production
- Onboard cable system
- Suspensions
- Technological rigging
- Ground control resources
- Aviation fixtures
- Air and ship pipelines
- Ship mechanization means, pipes

EBITDA margin **20-25%**

WHERE TO INVEST?

- Khabarovskiy krai: ASEZ **Komsomolsk**
- Primorskiy krai: ASEZ **Bolshoi Kamen**



ASEZ BOLSHOI KAMEN, KOMSOMOLSK (FEBRUARY 2016)

Cluster residents: Zvezda Shipbuilding Complex, Amurskiy, Khabarovskiy, Blagoveschenskiy Shipbuilding Plant, East Wharf, Delivery Base of Amurskiy Shipbuilding Plant in Bolshoi Kamen

Investors: **ROSNEFT, UNITED SHIPBUILDING CORPORATION**

Market: Russia

Investments: **3 bln USD**

\$ IRR: 10%

Production plan: 170 ships (tankers, large ships) at Zvezda, 50 medium ships at Khabarovskiy and Amurskiy Shipbuilding Plants, small ships at Vostochnaya Warf and Blagoveschenskiy Plant

Growth potential: organic investment growth (15-20%)



**FAR EASTERN SHIPBUILDING
CLUSTER**



ASEZ KOMSOMOLSK (ARSENIEV)

Cluster residents:

- Komsomolsk Aircraft Construction Plant (KnAAZ)
- Sukhoi Civilian Jets
- Arseniev Helicopter Plant «Progress»

Investors: UAC, HELICOPTERS OF RUSSIA

Market: international



Sub-cluster of aviation and shipbuilding components:

Production projects:

- Epsilon-2 (titanium parts for aircraft)
- AKOR Instrument (carbide tool)
- PAKS (onboard cable systems)
- Industrial technologies (cables, mechanical fixtures)

We look for a partner for components production:

- Aluminum and titanium fabricated and machine processed parts
- Aviation and ship devices
- Special-purpose electric boards
- Compressor and pump equipment
- Composite cabins and interior design
- Rubber details



20-50 production facilities

7-10 thousand new jobs

1-5 bln rubles investment each (**15-80 mln USD**)

EBITDA margin **40-60%**

IRR **20+%**

- 1 PROJECT SOURCING:
OPPORTUNITIES / LOCAL PARTNERS**
 - Define development priorities with regional governments
 - Research investment opportunities region by region
 - Match opportunities with foreign and domestic investors

- 2 PROJECT FINANCING:
EQUITY / DEBT / SUBSIDIES**
 - Coordinate existing state support / subsidies available
 - Initiate new measures as and when required
 - Communicate with banks and equity providers

- 3 LAND:
PROVISION / ZONING / PERMITS**
 - Provide pre-selected sites tailored to industry
 - Oversee zoning and permit provision

- 4 WORKFORCE:
LOCAL / IMMIGRATION / PERMITS**
 - Help recruit qualified labor locally and across Russia
 - Coordinate immigration and work permits for foreigners

- 5 TAXES:
EXEMPTIONS, TAILORED AGREEMENTS**
 - Provide special economic zone status to projects
 - Negotiate tailored provisions as and when required