Investment Opportunities of Sverdlovsk Region

Oil & Gas Sector
Oil & Gas Sector in Russia

World's 2nd oil producer
13% of World oil extraction

World's 2nd gas producer
17% of World gas extraction

14 billion roubles worth of discovered Oil deposits in Russia

28 years — time oil production could be continued for without interruption even if no new deposits discovered
### Import Substitution in Oil & Gas Sector in Russia

**Import of foreign equipment should be reduced from 60% to 43% by 2020** (according to the Order № 1868 by 07.06.16 issued by the Ministry of Industry and Trade of Russian Federation)

- **Import substitution strategy** for Oil & Gas sector has been prioritized
- **The tools have been implemented** in order to support foreign companies planning to localize their production in Sverdlovsk Region
- **Special Investment Contracts** are the tools allowing setting up a manufacturing of import substituting products on privileged tax and custom duty rates maintained for a decade
- **Eligibility for subsidies:** privileged loans from the Industrial Development Fund, compensation of the interest rate on the loans used to develop complex investment projects, subsidizing research and design as well as testing

**Import of Oil & Gas Equipment in 2014, million USD**

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrifugal pumps</td>
<td>800</td>
</tr>
<tr>
<td>Gas filtration and purification equipment</td>
<td>600</td>
</tr>
<tr>
<td>Pipelines, boilers and reservoir fittings</td>
<td>800</td>
</tr>
<tr>
<td>Compressors</td>
<td>600</td>
</tr>
<tr>
<td>Reactors’ equipment</td>
<td>600</td>
</tr>
<tr>
<td>Oil rigs and spare parts</td>
<td>400</td>
</tr>
<tr>
<td>Distillation and rectification equipment</td>
<td>400</td>
</tr>
<tr>
<td>Casing and drilling pipes</td>
<td>200</td>
</tr>
</tbody>
</table>

According to ROSNEFT
Priorities for import substituting projects in Oil&Gas Sector*

- Hydraulic fracturing
  - **Urgent**
  - 2016
  - Software utilities for drilling and extraction of hydrocarbon
  - Development of hard-to-recover deposits
  - Integrated service of the borehole
  - Hydrocarbons upstream processing

- Horizontal directional drilling
  - 2016
  - Catalysts for oil refinery and Petrochemical subsector
  - Natural gas liquifying technologies, compressors
  - High capacity gas turbines
  - Pumps and compressors equipment

- Offshore projects
  - 2018

- Flexible pumping equipment
  - 2020
Options for organizing manufacturing in Russia in the framework of current import substitution program:

Cooperation
with existing manufactures

Localization
of the manufacturing
Unique location of Sverdlovsk Region in terms of proximity to oil upstream and downstream regions of Russia
An Industry of Sverlovsk Region

4 times higher
Industrial production is 4 times higher than the average rate in Russia

Largest machine-building enterprises of the Region

Main Sectors of the Industry in percentage:
- 47,5% - metallurgy
- 22,7% - machine building
- 4,3% - chemical industry, growing in 6% annually

Largest metallurgical companies of the Region

The Volume of delivered products in 2015 – 5,2 billion USD

Volume of the products produced by the metallurgical industry in 2015 was 13,1 billion dollars
Development Corporation of Middle Ural (DCMU) is a specialized subsidiary of the Government of Sverdlovsk Region. DCMU provides assistance to business in development of investment projects.

DCMU services are rendered on the FREE OF CHARGE basis:

- **COMPREHENSIVE "ONE STOP SHOP" ASSISTANCE TO INVESTOR** in developing his business in Sverdlovsk Region
- **PROVIDING WITH INFORMATION ON LOCAL MARKET** including data on various sectors
- **SELECTING A LOCAL PARTNER** for technological and manufacturing cooperation, assistance with choosing right suppliers of raw materials and components as well as networking with clients
- **SELECTING AN APPROPRIATE MEASURES OF AVAILABLE STATE SUPPORT**, including privileged tools for co-financing projects
- **CHOOSING FACILITIES** for setting up a manufacturing project (Free Zones, Advanced Development Territories, Industrial Parks, land plots both in the city and the Region)
Perspective sectors for localizing manufacturing in Sverdlovsk Region

1. Oil&Gas machine-building sector

2. Petrochemical and refinery sector
1. Oil&Gas Machine-Building Sector

Most perspective niches for import-substituting manufacturing in Sverdlovsk Region:

- Installations and components to liquify natural gas
- Compressors manufacturing
- Production of the flexible pipes for pumps and compressors
- Production of gas turbines with high capacity
- Manufacturing of telemetric and geophysics logging equipment
1. Oil&Gas Machine-Building Sector

Largest enterprises of the Region:

**JSC "Uralkhim mash"**
- Equipment for accumulation and preparation of oil and gas.
- Equipment to produce LNG

**JSC "Uraltransmash"**
- Manufacturing Screw Rod Pumps

**"Bulanashskiy Machine-Building Plant"**
- Manufacturing and modernization of oil rigs as well drillig and pump equipment
- 2015 revenue worth of 146 million roubles

**"Uralmash NGO Holding" LLC**
- Portable and fixed rigs, echelon installations for cluster drilling, drilling equipment sets, components and spare parts for rigs as well supplies
- 2015 revenue worth of 16,8 billion roubles
2. Petrochemistry and Oil Refinery

Most promising trends of import substitution in Sverdlovsk Region

- Developing the technologies to process the hydrocarbon raw materials
- Manufacturing of admixtures for motor fuel
- Manufacturing of the drilling mud
- Production of expendable materials for hydraulic fracturing
2. Petrochemistry and Oil Refinary

Largest enterprises of the Region:

Uralkhimplast - Amdor

Manufacturing corrosion inhibitors to protect pipelines and upstream installations

2015 sales volume worth of around 500 million roubles

COO "NPP high-dispersed metal powders

Manufacturing of the coating systems for the equipment to protect it from corrosion, deformation in cold and to make it to be refractory

2015 sales volume worth of 1,4 billion roubles
Examples of the investment platforms of Sverdlovsk Region

- Chemical Industrial Park in the town of Nizhny Tagil
- Special Economic Zone "Titanium Valley"
Assistance to foreign companies in localization projects at the specialized Chemical Industrial Park in Nizhny Tagil.

146 Ha – area of the Park

The Park is also neighboring with the largest resins producer in Russia - "Uralkhimplast" company (Russia-Austria)

There is a project of producing the "brakers" for the Oil&Gas Sector

The infrastructure available for residents:

- Railroad access;
- An opportunity to set up hazardous and extremely hazardous chemical manufacturing
- Free of charge connection to available utility infrastructure – electricity, gas, water, sewage
- Centralized supply of the industrial gases to residents

Overall revenue of the residents 9 billion roubles
An example of joint development of production in Sverdlovsk Region

Joint Venture by Hüttenes-Albertus GmbH and "Uralkhimplast"

Chemical enterprise Hüttenes-Albertus GmbH (HA) - is a leading international producer of chemicals for steel manufacturing in the World

Joint Venture "Uralkhimplast - Hüttenes-Albertus GmbH" (UCP-HA) has been organized on the platform of the specialized Industrial Park for chemical companies in Nizhniy Tagil.

The project encompasses a future development of a manufacturing of a non-stick coating – to be launched in Q3 2016

Assisting Foreign Companies in Starting New Projects in Russia
Special Economic Zone "Titanium Valley"

Special Economic Zone "Titanium Valley" is an industrial area with a special legal status - its residents may enjoy tax benefits and also obtain a land plot for industrial development. Initial connection of the utilities for this development will be done free of charge. Utilities are also paid at a discounted rate.

<table>
<thead>
<tr>
<th>TAX</th>
<th>CORPORATE PROFIT</th>
<th>PROPERTY</th>
<th>LAND</th>
<th>TRANSPORTATION</th>
<th>IMPORT DUTIES</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUSSIA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>2,2%</td>
<td>1,5%</td>
<td>X% (depends on engine horsepower)</td>
<td>5% TO 20%</td>
<td>10% TO 18%</td>
</tr>
<tr>
<td></td>
<td>TITANIUM VALLEY SEZ</td>
<td>2%*</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
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*2% - during the 10 years from receipt of profit
7% - from the 11th to 15th year from receipt of profit
15.5% - from the 16th year from receipt of profit
An example of joint development of production in Sverdlovsk Region

Joint Venture has been organized by local VSMPO-AVISMA company and Boeing Corporation (US) to mechanically process stamped titanium alloy components for the aviation industry. The productivity increased in 80% due to the proper recycling of wastes and re-using it in the production.
State support measures available for business on the territory of Sverdlovsk Region

- Special Investment Contracts
- Privileged Financing
Special Investment Contract

Core requirements:

A Manufacturer should be a Russian corporate entity

Russia should be the country of origin for all products manufactured

When investments exceed 750 million roubles

<table>
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<tr>
<th>Special Investment Contract (SPIC)</th>
<th>Current rate across Russia, %</th>
<th>Privileged rate, %</th>
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<tr>
<td>Income tax</td>
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Special Investment Contract

When investments exceed 3 billion roubles

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+ The leasing contract for the land plot owned by the State or by the Municipality is signed **without bidding**

+ Up to 30% of manufactured products will be procured by the State as part of the contract
Privileged Financing

By Sverdlovsk Regional Fund for Small Business Support

Possible Project investments - from 11,5 to 34,5 million roubles

Loan guarantee - from 1 to 70 million roubles

Bank guarantees - from 1 to 70 million roubles
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