

Guide to investment

Krasnodar Region



PwC Russia (www.pwc.ru) provides industry-focused assurance, advisory, tax and legal services. Over 2,000 professionals working in PwC offices in Moscow, St Petersburg, Ekaterinburg, Novosibirsk, Kazan, Krasnodar, Yuzhno-Sakhalinsk and Vladikavkaz share their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients. The Global PwC network includes over 161,000 employees in 154 countries.

PwC first appeared in Russia in 1913 and re-established its presence here in 1989. Since then, PwC has been a leader in providing professional services in Russia.

According to the annual rating published in “Expert” magazine, PwC is the largest audit and consulting firm in Russia (see “Expert”, 2000-2010).

This overview has been prepared in conjunction with the Department of investments and project support of the Krasnodar region.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, the PwC network, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

Content

4	Welcome letter from the governor of Krasnodar Region	38	Formula 1 Grand Prix
5	Introduction by PwC Russia's Managing Partner	40	Sochi Park
6	General information about Krasnodar Region:	42	2018 FIFA World Cup
10	Economic potential	44	Azov City Gambling Zone
14	Key areas of economic activity:	46	Foreign economic activity
	<i>Agriculture</i>		Investment climate
	<i>Industry</i>		<i>General information</i>
	<i>Construction sector</i>		<i>Legislation</i>
	<i>Transport</i>		<i>Forms of government support for SME investors</i>
	<i>Telecommunications</i>		<i>PPP</i>
	<i>Energy</i>		<i>Innovations</i>
	<i>Health resort and tourism sector</i>	50	Sochi International Investment Forum
	<i>Housing and utilities</i>	52	Past investment projects
34	The 2014 Olympic and Paralympic Winter Games in Sochi	54	Pending investment projects
36	Sochi Olympic Games	61	Conclusion
		62	Useful information

Welcome letter from the governor of Krasnodar Region



Dear all,

Krasnodar Region is one of Russia's top regions for making capital investments. The region's vast potential, unique geographic location, natural and recreational resources, fertile farmland, expansive transport infrastructure and, most importantly, conditions conducive to developing business, combine to make it a consistent leader in the most prestigious investment ratings. Our region is listed among the best for business by Forbes magazine, the Russian Ministry of Regional Development, and a slew of Russian and international publications.

Over RUB 1 trillion has been attracted to the regional economy in just the last three years. In 2010, about RUB 493bn was invested in Krasnodar Region, and the investment growth rate was over 118%. This year, we plan to attract no less than RUB 550bn.

But the best confirmation of these ratings and numbers are the hundreds of large

projects that Russian and foreign investors have carried out here. Many of these investors have become good friends of the region and have already been working here for many years. We are proud to count well-known international companies among our strategic partners.

Krasnodar Region is always open to dialogue with Russian and international business. The possibilities for capital investments here are endless – from creating agricultural and industrial companies, ports and residential complexes, to carrying out Olympic projects, building Formula 1 racetracks and preparing for the 2018 FIFA World Cup.

Those who invest in Krasnodar Region receive various benefits and preferences, access to government sales and procurements, and strong support from the regional administration, and find that doing business in our region is a profitable and secure investment.

Welcome to Krasnodar Region!

A handwritten signature in black ink, which appears to read 'A. Tkachev'. The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Governor of Krasnodar Region
Alexander N. Tkachev

Introduction by PwC Russia's Managing Partner



Krasnodar (often called Kuban) is one of Russia's most rapidly developing regions. This is a result of its favourable geographic location, comfortable climate, ample natural resources and favourable investment climate.

Kuban is a leading Russian region in terms of agricultural output and is a key source of food supplies to the country's industrial centres. What's more, a number of major domestic and foreign investors have been successfully operating their businesses in the region's woodworking, glass, chemical and consumer goods industries for some time now, and the local construction and energy sectors are amongst the fastest growing in Russia. Kuban is also a leader in terms of recreation; it has a wide range of tourist facilities and its recreational businesses work hard to attract visitors year-round.

The region's unique opportunities for investors are underpinned by its steady economic growth and efficient investment policy. It's no coincidence that top Russian and foreign rating agencies have given the

region's investment appeal high marks; the region is a leader in terms of favourable conditions for conducting business.

The Krasnodar Regional Administration helps attract investors by providing various benefits and actively assisting the promotion and implementation of investment projects.

Krasnodar is buzzing with activity for other reasons, as well. Preparations for the 2014 Olympic and Paralympic Winter Games in Sochi are well under way, and several large projects for the 2018 FIFA World Cup and Formula 1 Grand Prix are just getting started.

The aim of this publication is to help potential investors to properly assess and select the most promising investment projects, so they can contribute to the region's further economic development and ensure their own success at the same time.

A handwritten signature in black ink, appearing to read 'D. Gray'.

David Gray
Managing Partner
PwC Russia

General information about Krasnodar Region

Geographic description

Russia's southernmost region. It shares a border with the Rostov and Stavropol regions and the Republic of Abkhazia, and is partially surrounded by the Azov and Black seas. The region's total area is 76,000 sq m and it has over 1,000km of beaches.

Climate

moderately continental, subtropical; there are 280 sunny days per year.

Administrative centre

the City of Krasnodar

Key branches of the economy

industry, construction, transport, agriculture, energy, resorts and tourism.

Main natural resources

oil, gas, minerals, iron and apatite ores, rock salt, drinking water reserves, finewood, 3.9m hectares of fertile blacksoils, 18 resort and recreation areas.

Labour force

50% of the region's population of over 5m.

Transport routes

nine sea ports; five airports, four of which are international; federal railways and motorways.

Science and education in Krasnodar Region

Krasnodar Region (often called Kuban) conducts fundamental and applied research in leading areas of science and technology. The most prominent contributions to the development of science in Krasnodar Region and Russia as a whole have been made by the research scientists of the Southern Scientific and Production Association for Marine Geological Operations (Yuzhmorgeologiya) Russian State Scientific Centre; the All-Russian Scientific and Research Institute of Rice; the North Caucasus Zonal Scientific and Research Institute of Horticulture

and Viticulture; the Krasnodar Lukyanenko Scientific and Research Institute of Agriculture; the Pustovoit All-Russia Scientific and Research Institute of Oil Crops; the Scientific and Research Institute of Medical Primatology; and the All-Russian Scientific and Research Institute of Floriculture and Subtropical Crops.

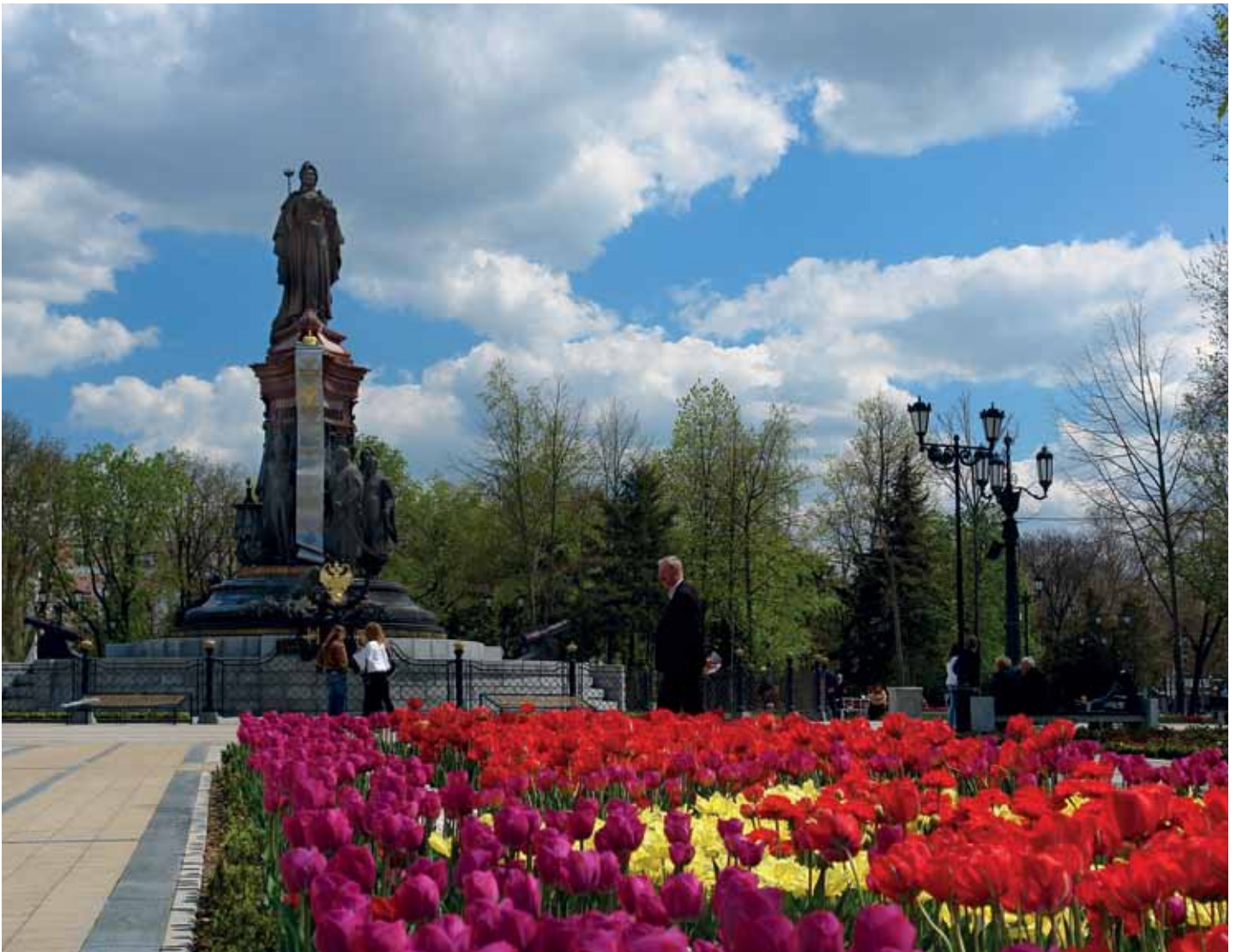
The region's higher education institutions, which train specialists almost in all available disciplines, play a special role in education, science and culture.

The region ranks tenth in Russia in terms of higher education professionals and fourth in terms of specialised secondary education professionals. Several volunteer training centres have been opened using these educational establishments as their foundation. Around 8,500 volunteers are expected to be trained for the 2014 Olympic and Paralympic Winter Games in Sochi.



There are 12 state higher education institutions in Krasnodar Region, including:

- Kuban State University;
- Kuban State Agrarian University;
- Kuban State University of Technology;
- Kuban State Medical University;
- Kuban State University of Physical Education, Sport and Tourism;
- Krasnodar State University of Culture and Arts;
- Krasnodar University of the Russian Ministry of Internal Affairs;
- Armavir State Pedagogical Academy;
- Admiral Ushakov Maritime State Academy;
- Sochi State University.



Culture and art of Krasnodar Region

Krasnodar Region is widely regarded as one of Russia's cultural centres. Numerous competitions and festivals, concerts, folk and classic art exhibitions are held here, and both professional arts and traditional crafts are flourishing.

This area has retained a multifaceted network of cultural and artistic establishments, including libraries, institutions for cultural and leisure activities, parks, museums, theatres and concert halls, cinemas, and cultural and artistic education institutions. Things of particular cultural value in Krasnodar Region include the Kuban Cossack Choir, which is widely regarded as a cultural icon of both Kuban and Russia. The choir's spirit, originality and talent have won them devoted audiences in many countries around the world. Their most memorable performances include the IOC session

in Guatemala, where it was decided to hold the 2014 Olympic and Paralympic Winter Games in Sochi, and the Games in Vancouver when they cheered on the Russian team. In 2011, the Kuban Cossack Choir will celebrate its 200th anniversary.

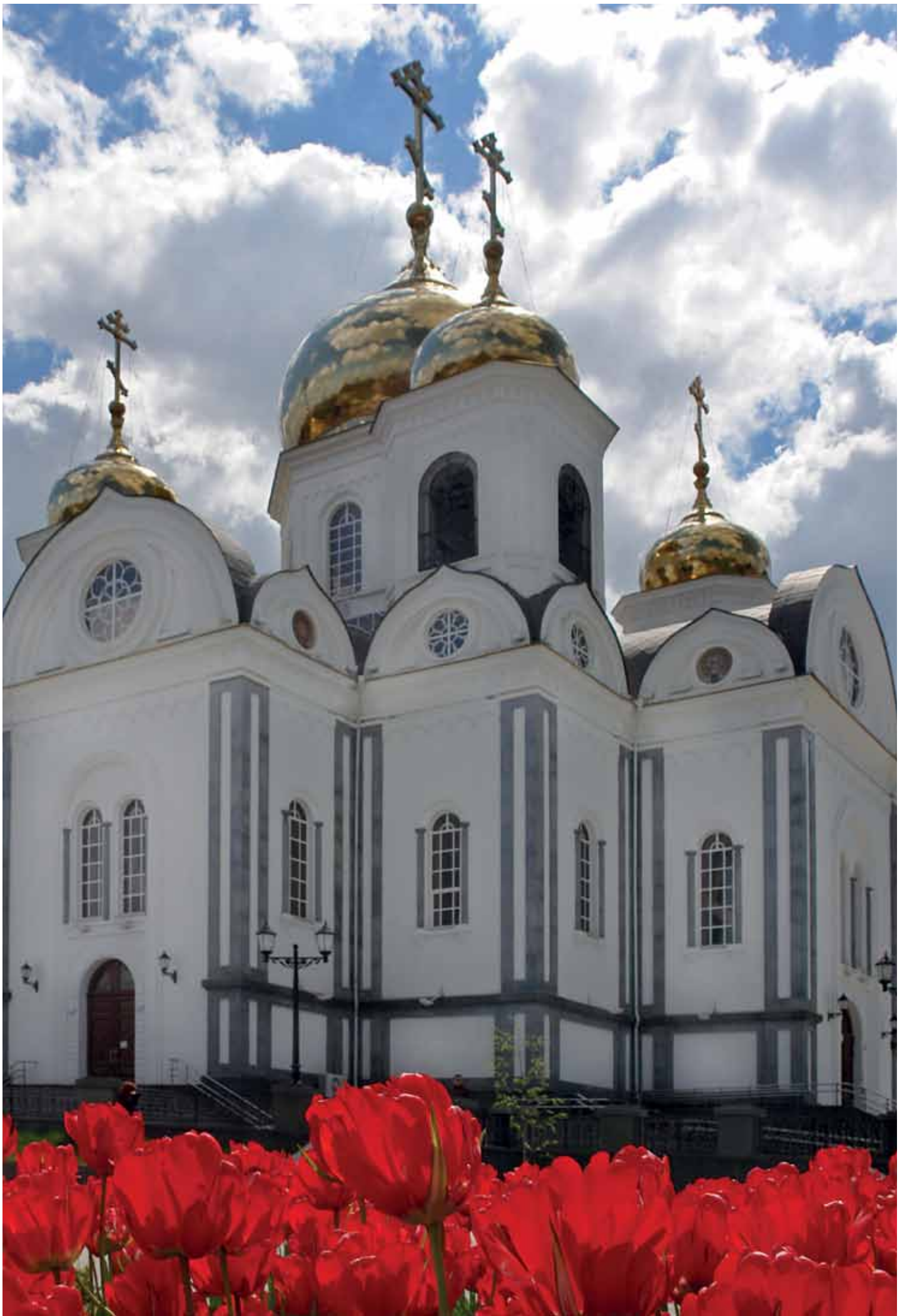
Krasnodar Region is the home of the very successful Premiere creative association, which includes the Musical Theatre and the Ballet Theatre chaired by Yuri Grigorovich, the Youth Theatre and the new Puppet Theatre, a symphony orchestra, and jazz and brass bands. There is a total of 10 groups, each of which regularly entertains Kuban residents and guests with performances.

Kuban Region hosts over 200 large-scale competitions and festivals each year, many of which are national and international. These include the World's Young Ballet International Competition; the Kuban Jazz Festival; the Kinotavr Open Russian Film Festival; the Kinoshok Open CIS and Baltic Film Festival; the Kinotavrik International

Children Arts and Sports Festival; the Russian Festival of Visual Arts at the Orlenok All-Russian Children's Centre; the Vechevoj Bell Kuban International Orthodox Film Festival; Bolshiyarov Open All-Russian Competition for Young Brass Players; the International Organ Music Festival; the International Festival of Slavic Culture, the Seasons International Music Festival; and the Museum Night International Action, to name but a few.

Folk art in Krasnodar Region is multifaceted and diverse. With roots going back to the Cossack outlaws of the (Zaporizhian Sich) Zaporozhskaya Sech, its distinctive character and identity are unique to the Kuban lands. The cultural traditions of the Kuban Cossacks are at the heart of the area's modern folk art. Today, there are some 7,000 creative teams at rural and urban clubs and recreation centres with over 100,000 people engaged in various types of folk art.

Krasnodar Region is home to 211 cultural heritage facilities and some 8,500 regional historic and cultural monuments. Local museums have unique collections and participate in both Russian and international exhibitions. More than 2 million people visit the region's state and municipal museums every year.



Economic potential

Social and economic environment

Kuban's social and economic environment has been developing rapidly and holds solid positions in the Russian economy. The region ranks among the country's six "backbone" regions, which possess strong investment potential, coupled with moderate investment risk.

Over the last three years, investments in the regional economy have amounted to RUB 1.2 trillion, including RUB 493bn in 2010. Fixed asset investments rose 60% over three years vs. a 1.8% decline for Russia as a whole. In 2008-2010, the region completed 160 large-scale investment projects worth over RUB 80bn.

Key macroeconomic indicators

The region's diversified economy ensures the steady growth of key macroeconomic indicators. In 2008-2010, the basic sectors of the economy grew between 1 and 55%. This upturn is underpinned by an environment created to improve competition, fewer administrative barriers, unprecedented support for SME, equal access for all market players to mineral resources and government order, and the fairness of all branches of power toward various economic entities.

Ratings

Krasnodar Region's investment activity, steady budget indicators, moderate leverage and diversified economy have prompted leading international rating agencies to give it high credit ratings.

- In June 2011, Fitch Ratings confirmed the region's long-term foreign and local currency ratings at BB, its short-term foreign currency rating at B, and its long-term local currency rating at AA-(Rus). The long-term ratings carry a positive outlook.
- Moody's Investors Service has given the region Ba1 issuer ratings in foreign and local currency on the global scale. The same rating was also assigned to regional bonds issued in 2010. The ratings carry a stable outlook. At the same time, Moody's Interfax gave Krasnodar Region and its bonds Aa1 ratings on the national scale.

Gross regional product (GRP)

For the last three years, GRP has risen 12.8%, as opposed to a national average of 0.9%. In FY10, the region's GRP grew by 5.5%. Krasnodar Region ranks sixth in Russia in terms of GRP.

Standards of living

Successful economic development in the regions has further improved local standards of living. The population's real disposable income rose 27% over the last over years, while the same indicator for Russia overall stands at just 8.7%. In 2010, nominal earnings reached RUB 16,700, up 60% on 2007. In addition, actual earnings rose 20%. The three-year increment for the entire country came in at 12.5%.

During the crisis in 2009, earnings and population income were not cut; their actual amounts came in at 101.5% and 104% of the 2008 level, respectively. In 2010, growth accelerated to 104.4% and 114.4%, respectively. Higher monetary income has reduced the number of people with income below the minimum subsistence level by 66,700 over a period of years. In 2010, this category accounted for 15.9% of the region's population (18.4% in 2007) and 13.1% nationwide (13.3% in 2007).

The region outperformed the national average in the following categories:

- Industrial and agricultural production (by 2.7% and 23%, respectively);
- Completed construction works (by 57.4%);
- Retail turnover (by 15.4%);
- Public paid services (by 6.3%).

Krasnodar Region is a monopoly in terms of some products and holds a significant market share as regards many products manufactured not only in the Southern Federal District, but also nationwide. The region ranks first in the country in terms of agricultural production, second in housing commissioning, third in investments attracted, fourth in terms of construction completed and public paid services, fifth in terms of retail sales and sixth in public catering turnover.



Labour market environment

In 2008-2010, the official unemployment rate in Krasnodar Region was much lower than the Russian average (0.9% in 2008, 1.1% in 2009 and 1% in 2010, while the country's average stood at 2%, 2.8% and 2.1%, respectively). Over this three-year period, employment services secured jobs for 363,600 people, 81,100 people were involved in community services, vocational guidance services were provided to 929,500 people, and 33,900 unemployed people participated in social adaptation programmes. Concerted efforts were made to arrange professional training for the unemployed, and 18,000 people received professional training and retraining.

Financial sector

The level of regional financial market development, its interaction with the real sector and increasing integration both with Russian and international financial markets are among the conditions promoting for Krasnodar Region's strong investment appeal. Today, the region ranks among the Southern Federal District's leaders in terms of operational credit institutions and branches and is among the top 10 Russian regions.

Strong scientific and research potential in agriculture and industry, high standards of living and a developed infrastructure attract banks from other areas into this region. Almost all leading Russian banks and many

top international ones operate in the regional banking sector. Around 1,600 business units of credit institutions offer a wide array of banking services to private and corporate clients in Krasnodar Region. In terms of assets, the region's banking sector ranks among the leaders in the Southern Federal District and accounts for 45% of its total value.

The most important thing for the Kuban economy is to develop long-term investment lending. The region puts a great deal of effort into developing socially important areas such as housing construction and mortgage lending, which many residents now consider the main instruments for resolving their housing issue.

As regards the regional mortgage lending market, 2010 was marked by steady growth, and the market's value doubled. Mortgage loans issued totalled EUR 124m. The regional administration is now focused on launching lending programs for individual housing construction by rural residents and expanding the lending scheme for new housing construction co-financed by the future property owners.

Key banking indicators are on the rise. The loan portfolio is growing steadily, with balances on settlement and current accounts of non-financial organisations increasing significantly. Over the last three years, the average annual growth rate of loans to Kuban enterprises has exceeded

20%. The most sustainable trend is stronger personal savings, which stood at 32%. Banks are increasing their lending volumes, with loans both to non-financial and retail sectors up 27.6% and 11%, respectively. In 2010, investments in the regional economy amounted to EUR 19.7bn, with loans going largely to consumer, trade, processing, agricultural, construction and transport enterprises. Each year, financial services are becoming increasingly more affordable, not only in cities, but also in even the most remote Kuban towns. Developing market relations makes insurance a key financial mechanism for protecting society from various risks and threats in the economic system.

Krasnodar Region's insurance market has built itself a reputation as an efficiently and steadily developing economic element with a high concentration of professional participants (over 80 insurance companies), a developed infrastructure (125 branches and over 400 independent entities in municipal formations) and increasing insurance premiums (doubled over the last five years), all of which helps secure the region's status as a leader in the Southern Federal District. The region ranks among Russia's top 10, both in terms of insurance premium collections by insurers as a whole (EUR 622.3m) and the growth rate of voluntary insurance (EUR 178.5m, up 120% on 2009).

The lending priorities in the regional economy are as follows:

- Financing long-term investment projects;
- Developing housing and mortgage lending;
- Financing the construction industry, agricultural facilities, and SME entities.

The key points on the agenda of the regional executive authorities and the insurance community include developing voluntary insurance and improving the population's understanding of insurance, along with securing the rights and obligations of policy holders, provided that a balance is observed between governmental and insurer interests.

Krasnodar Region has developed an extensive infrastructure for professional securities market participants. It serves corporates by attracting financing through securities market instruments and private clients by arranging access to such instruments. As of the beginning of 2011, over 50 companies operating in the region were professional securities market participants; these included branches and

representative offices of the largest state companies and independent local entities. Most companies are located in the cities of Krasnodar, Sochi, Armavir, Tuapse and Yeisk.

Alongside traditional banking loans, regional enterprises are active on the securities market in order to attract investments. In 2010, entities from Krasnodar Region issued securities for a total of EUR 725m (with EUR 470m coming from share issues and EUR 255m from corporate bond issues) and proceeds as high as EUR 636m.

The region's rapid economic development has come thanks to, among other things, 10-15% annual growth of investments attracted via securities market instruments. Strong

investor interest in the region is confirmed by the high demand for its municipal and sub-federal securities. In July 2010, the city of Krasnodar placed its first municipal bond, worth EUR 27.5m, and the issue was oversubscribed by almost EUR 10m. In September 2010, the Krasnodar Region's third bond was placed for EUR 100m, with investor demand for regional securities reaching EUR 300m.

The special long-term (2010-2012) programme for increasing the population's financial literacy is under way. It aims to develop the financial sectors of the regional economy and establish a class of investors in the region, as private investors help implement long-term economic reforms.

Key areas of economic activity

Agricultural sector

Due to its geographical location and climate (it has both temperate and subtropical zones), Krasnodar Region is considered one of Russia's leaders in agricultural production and processing and in provisioning the country's industrial centres. The agricultural sector accounts for 18% of total GRP. The region's total land area exceeds 7.5m hectares, including 3.7m hectares of arable land.

Gross agricultural production output totalled RUB 191.7bn in 2010; in monetary terms, the food commodities output was RUB 136.6bn. In recent years, the regional agricultural sector's average salary has increased dramatically and is now much higher than that of the South Federal District. In 2010, the average salary in agricultural enterprises exceeded RUB 14,000 with a year-on-year increase of 12.9%.

Animal husbandry

Krasnodar Region is one of the largest dairy farming regions the South Federal District and Russia in general. The three-year total milk output was 1.4m tonnes on average in the region. The 2010 results show a 102.1% increase since 2008. Milk herd productivity increased due to newly constructed and upgraded farms, state-of-the-art technologies and new equipment, genetically superior cattle, extensive fodder supplies and improved fodder preservation methods. Milk production per cow was 5,500kg in 2010.

Poultry farming has improved recently as well. Egg production in 2010 was 105.5% of 2008's results, for a total of 1.8bn eggs. Meat and poultry production in terms of live weight also showed an increase in 2010 with a growth of 104% when compared to 2008 or 542,600 tonnes.

Crop production

Gross crop output and yield are growing every year; the region's crop area structure has been optimised and agricultural production has become very efficient.

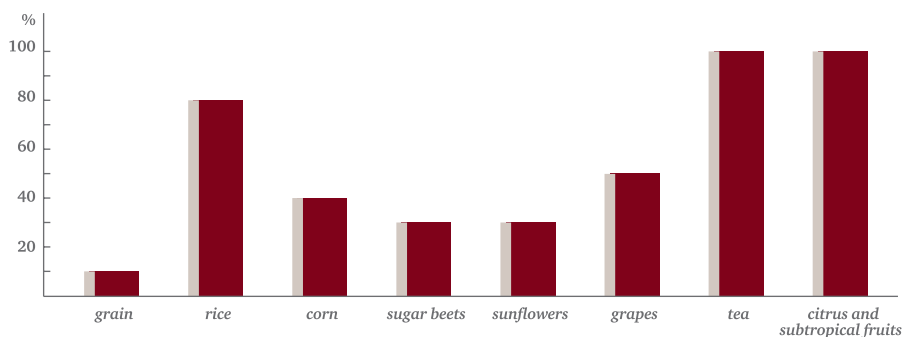
The 2010 harvest of grain and pulses was very impressive at 9.9m tonnes, including 6.5m tonnes of winter wheat. And a total of 828,300 tonnes of rice, about 7.1m tonnes of sugar beets and 213,300 tonnes of soy beans were produced as well.

This growth in the crop yield was a result of a proper breeding policy, general farming standards, increased mineral fertiliser use, cultivation technologies, more frequent upgrades of vehicles and tractors and new energy-saving cultivation technologies.





The percentage of Kuban's agricultural products in Russia's overall output



Agricultural production

Within the region, there are 600 large and medium-sized collective farms,

18,300 peasant (farm) holdings

over 800,000 privately owned gardens and farms.

In 2008-2010, the average annual growth rate of the grain yield was 108.3%, including

- a winter wheat yield of 104.7%;
- a rice yield of 109%.

So, in 2010, the crop yield reached 46.6 hundredweight per hectare, including

- the winter wheat yield of 50.2 hundredweight per hectare;
- the rice yield of 62.3 hundredweight per hectare.

Food & beverages

Over 2,200 entities are part of the regional food processing industry, 260 of which are large and medium-sized companies. Together, they produce more than 2,500 types of food, 40% of which are advanced developments compliant with European quality standards. About 55,000 people are employed by these companies.

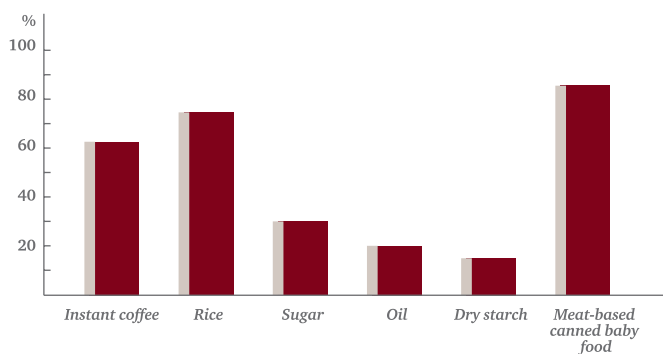
The range and quality of regional products as well as the food's marketable quality have increased in recent years since industry facilities are repaired and upgraded annually. To ensure that the food is high quality and safe to eat, food companies certify their products and use international quality systems.

The food processing sector has very high potential. Today, it can fully meet the region's

demand for such items as sausage, whole milk products, butter, sugar, bread and baked goods, and rice, among others.

Some agricultural sectors are ready to increase their supplies, both domestically and abroad. In particular, these supplies include sunflower oil, confectionery products, rice, canned fruits and vegetables, canned meats and dairy products.

The percentage of Kuban's products in Russia's overall output



Investments into Krasnodar Region's food and processing industries came to RUB 14bn in 2010 and about RUB 50bn over the last five years, including the following by industry sector:

- Oil and fat production: RUB 8.5bn;
- Food canning: RUB 4.5bn;
- Dairy: RUB 4.7bn;
- Sugar: RUB 7bn;
- Coffee: RUB 4.9bn;
- Meat processing: about RUB 4.8bn.



Krasnodar Region industry

Krasnodar Region's 2001-2010 industry results show sustainable economic growth. Over these years, the number of production enterprises has increased by more than 2,000 and reached 5,600; together they employ over 71,000 people. Economic indicators show positive trends in the development of industrial businesses. In 2010, annual industrial output increased threefold to reach RUB 81.7bn.

Investments in industry reached RUB 5.2bn in 2010 (compare this to only RUB 326m in 2001).

Forestry

Forestry plays an important role in the Krasnodar economy, as forests are among the region's most significant natural resources. The sector includes woodworking, furniture and pulp and paper industries.

The region's total timber stand on 1.1934m hectares of forest is 233.93m cu m. The

amount of timber that can be logged each year is 1.0657m cu m. The forestry industry accounts for 10% of the regional manufacturing sector's locally produced and shipped goods, work performed and services rendered. The cities of Krasnodar, Apsheronsk, Abinsk, Timashevsk and Goryachy Klyuch are the largest forestry centres.

Krasnodar Region's furniture manufacturing, wood processing and cardboard packaging manufacturing have a great deal of potential for growth.

The priorities for industry development are to:

- set up new operations
- upgrade current enterprises
- manufacture new competitive products.

In 2010, the forestry output totalled RUB 2bn with a growth rate of 106.4% when compared to 2009. The main companies include Rassvet, Kanon (Apsheronsk) and Russky Les (Yeisk).

The pulp and paper industry's output was RUB 3.9089bn in 2010, with a growth rate of 102.8% when compared to 2009. The leading manufacturers of cardboard packaging are AR-Karton, ACA Packaging Kuban (Timashevsk) and Apolinaria (Armavir).

In 2010, furniture manufacturing's output was RUB 2.4bn, with a growth rate of 105.4% when compared to 2009. The main companies are Goryacheklyuchevskaya Furniture Plant (Goryachy Klyuch), Pollet and Angazhement (Krasnodar).

Chemical industry

The region's chemical industry includes over 700 businesses employing more than 8,700 people. The share of the chemical industry in locally produced and shipped goods, work performed and services rendered of the Krasnodar Region's manufacturing sector is 5.6%. The chemical industry's main operational centres are the cities of Belorechensk, Krasnodar, Labinsk, Timashevsk and Armavir, and the Dinskoy and Novokubansky regions. In 2010, chemical companies shipped their goods for RUB 11.8bn, which was 1.7 times higher than in 2009. The leading chemical companies are Eurochem-Belorechenskie Minudobrenia, Khimik (Labinsk), Avanta (Krasnodar) and Armavirskaya Biofabrika (Novokubansky Region), among others.

Output of the sector's key products had increased since 2009: 3.5 times for iodine, 1.5 times for nitrogen, 1.4 times for sulphuric acid, 2.7 times for phosphoric acid, 1.6 times for mineral fertilisers (in terms of 100% of nutrients), 1.2 times perfume and cosmetics and 5.1% for polymer-based paints and coatings.

In 2010, rubber and plastic goods manufacturers shipped their goods for more than RUB 5bn, which was 119.1% more than in 2009. The region's key rubber and plastic goods manufacturers are Konstantsiya Kuban (Timashevsk), Armavir Rubber Goods Plant and Yugtrubplast Plant (Dinskaya Station), among others.

Output of the sector's key products had increased since 2009: by 31.1% for plastic goods, 26.6% for polymer pipes and hoses, and 22.4% for polymer windows and window sill boards.

Consumer goods industry

Kuban's consumer goods industry is made up of more than 560 textiles and clothing businesses, as well as leather, leather goods and footwear manufacturers employing over 7,000 people. This industry is concentrated in large industrial centres like the cities of Krasnodar, Novorossiysk, Yeisk, Slavyansk-na-Kubani, and Leningradskaya and Kushchevskaya Stations.

In 2010, textiles and clothing manufacturers shipped their goods for more than RUB 1.8bn (a 107.4% increase from 2009). The leading textiles and clothing companies are Slavyanskaya Clothing Factory, Alexandria (Krasnodar), Endeavor-Kraft (Leningradskaya Station), Proizvodstvennyye Tekhnologii (Yeisk) and Krasnodar Textile Factory, among others.

Output increased year on year for several items: 1.4 times for non-woven fabric, 2.3 times for blankets and plaid blankets, 1.6 times for bed sheets, 1.6 times for jackets, 1.2 times for uniforms, 1.2 times for trousers and breeches, 12.8% for suits, 1.3 times for overcoats and duffle coats, 8.3% for men's shirts and 14.9% for knitwear.

In 2010, leather, leather goods and footwear companies shipped their goods for more than RUB 1bn, which was 1.8 times higher than in 2009. Krasnodar Region's main manufacturers include Bris-Bosfor (Novorossiysk) and Laika (Kushchevskaya Station). In general, the region's output of chrome tanned leather goods and footwear increased 1.4 times since 2009.

Glass industry

Kuban's glass industry is represented by five large and medium-size businesses employing 765 people. This industry's largest centres are the city of Krasnodar and the Krymsky and Dinsky regions. In 2010, glass companies shipped their goods for more than RUB 1.8bn, which was 2.1 times higher than in 2009. In general, when compared to 2009, output of toughened glass increased by 7.4%, multi-layer glass by 13.0%, double glazing by 2.2% and bottles by 1.8 times. The leading glass companies are Rusjam Kuban, (Krymsk), STIS-Krasnodar and RSK (Dinskaya Station), among others.



Engineering and metallurgy

The engineering and metallurgical industries play the main roles in regional production. Over 2,460 companies of this type operate in the region. They include railway, agricultural, chemical and oil engineering companies; power, machine building, aerospace and defence industry enterprises; tool engineering, maintenance and repair companies; and small businesses, 160 of which are large and medium-sized companies. Over 40,000 people are employed in the sector.

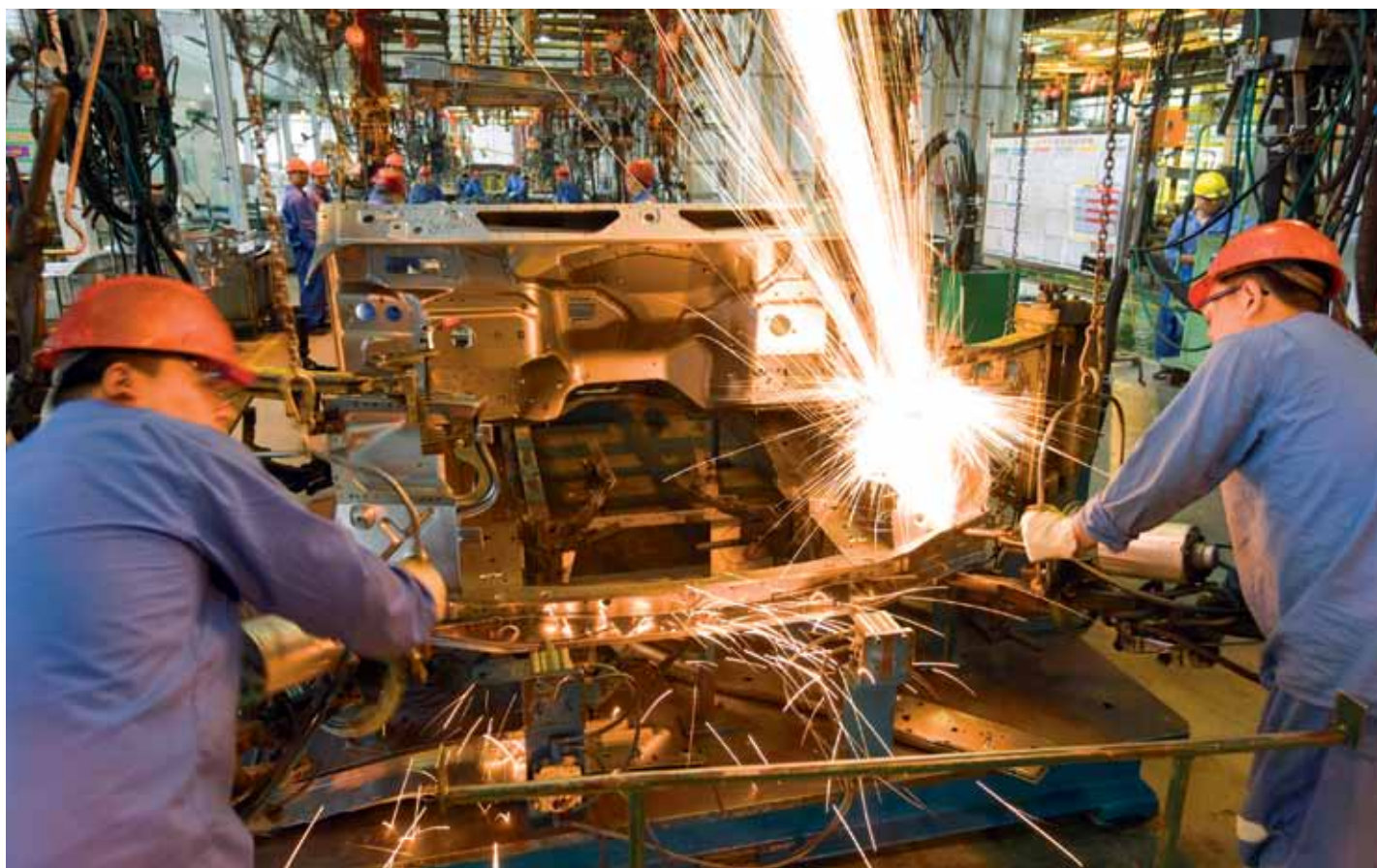
The engineering industry accounts for more than 16% of the regional manufacturing sector's locally produced and shipped goods, work performed and services rendered. The cities of Krasnodar, Armavir and Novorossiysk, and the Tikhoretsk and Caucasian regions are the biggest engineering and metallurgical industry centres.

In 2010, the output in metal manufacturing and finished metal goods production totalled RUB 20.5bn with a growth rate of 117% when compared to 2009. The industry leaders are Novorometall Ltd. (Novorossiysk), Yuzhny Metalworks (Dinskaya Station) and Crown Cork Kuban (Timashevsk). Machine and equipment manufacturing output reached RUB 14.8bn in 2010 with a growth rate of 116.7% when compared to 2009. The leading machine and equipment producers are KLAAS (Krasnodar), Kanevskoy Zavod Gazovoy Apparatury and Kubanzheldormash (Armavir).

The output of electrical, electronic and optical equipment was about RUB 5.9bn in 2010 with a growth rate of 130.8% when compared to 2009. The leading companies are Saturn (Krasnodar), NPO Promavtomatika (Krasnodar) and Armavir Electromechanical Plant (a

branch of Elteza). Vehicle manufacture output exceeded RUB 8.2bn in 2010 with a growth rate of 146.3% when compared to 2009. The sector leaders are Armavir Heavy Engineering Plant, Vorovsky Tikhoretsky Engineering Plant and Velotrans (Krylovskaya Station).

Output of the sector's key products output had increased since 2009: 2.3 times for railway freight cars, twofold for railway track machines, fivefold for bicycles, 1.6 times for TV sets, 1.4 times for cable products and 20% for rolled metal products.



Construction

Over the last few years, a number of factors have combined to make Krasnodar Region's construction sector the nation's leader. The region boasts more than 8,000 entities in the construction business, including about 200 large and medium-sized contractors and over 50 construction materials producers. More than 250,000 people are employed in the construction industry, accounting for one-tenth of the region's labour force. This sector's share in the region's GRP is 12%.

In 2010, Kuban came fourth in the nation in terms of the volume of construction and assembly work (worth RUB 267.7bn) and exceeded Russia's average growth rate by more than 26%.

Last year, Kuban was responsible for two-thirds of the construction and assembly work in the Southern Federal District (SFD). During the first six months of 2011, the region accounted for 72.4% of the SFD's total construction and assembly work.

Construction and assembly work in the first half of 2011 was worth RUB 138.3bn, or a 131.1% increase from the same period in 2010; Russia's overall average was just 100.9%.

Residential development

Kuban was and still is one of Russia's most actively developing regions in terms of construction. In the first half of 2011, over 1.6m sq m of housing was constructed in Kuban. Last year alone, more than 3.6m sq m of housing was put into use. Over the last three years, Krasnodar has been Russia's second most productive region in terms of housing construction. In 2006-2010, more than 17m sq m of residential facilities were put into use.

Production of construction materials

The region's construction materials manufacturing sector is flourishing. In 2010, Krasnodar Region was Russia's leader in ceramic brick manufacturing, came in second in terms of cement and plaster manufacturing, third in terms of gypsum products and aggregates production, and fourth in terms of reinforced concrete products.

About 30% of Kuban's output is sold beyond the region. This includes cement, gypsum products, reinforced concrete products, bricks and aggregates. Recent positive trends have come from a more active contracting market and new construction materials producers that use energy-saving equipment and state-of-the-art technologies.

The region's output of its main construction materials in 2010 (in units) and compared to 2009 (%):

Cement: about 4.6m tonnes, 105.4%;

Bricks: over 400m conv. units, 106.3%;

Aggregates: over 18.4m cu m, 135.8%;

Reinforced concrete products: over 900,000 cu m, 123.6%;

Dry pack mortar: over 280,000 tonnes, 122.2%.

The region's output of its main construction materials in the first six months of 2011 (in units), and compared to the same period in 2010 (%):

Cement: over 2.2m tonnes, 111.5%;

Bricks: over 200m conv. units, 127.7%;

Aggregates: over 8.3m cu m, 104.6%;

Reinforced concrete products: about 500,000 cu m, 114.9%;

Dry pack mortar: over 160,000 tonnes, 132.4%.

In 2010, the following large plants were put into operation:

- a plant in Dinsky Region for manufacturing components and products out of autoclaved lightweight concrete with an annual capacity of 300,000 cu m;
- a concrete product plant (tunnel liner) in Sochi with a capacity of 240,000 cu m;
- two dry pack mortar plants in the Belorechensky and Krymsky regions with a total annual capacity of 38,200 tonnes;
- paving slabs and flags, kerb stone and wall elements production in Gulkevichsky Region with an annual capacity of 64,000 cu m ;
- roll roofing production in Slavyansky Region with an annual capacity of 2m sq m;
- six rock-crushing complexes in the Kurgansky, Belorechensky and Mostovsky regions with a total annual capacity of about 2m cu m of aggregates.

Construction of new facilities continued in 2011.

In January-June, the following plants were put into operation:

- a gas-concrete block plant in Goryachy Klyuch with an annual capacity of 150,000 cu m;
- a concrete product plant with an annual capacity of 46,500 cu m and a rock-crushing complex with an annual capacity of 300,000 cu m in Belorechensky Region;
- two vibrocompression brick plants in the Dinsky and Labinsky regions with a total annual capacity of about 20.5m conv. units;
- gypsum binding materials plant in Otradnevsky Region with an annual capacity of 60,000 tonnes of gypsum and 74,000 tonnes of dry pack mortar.



The Krasnodar Region transportation sector

The regional transportation sector is growing steadily, a trend evidenced by the growth in transportation service volumes. Over the last three years, transportation services have been growing at an annual pace of 101.5%. In 2010, the transportation service's value totalled RUB 183bn.

Sea and river transport

Krasnodar Region has nine sea ports with an annual cross-border and transit cargo transshipment volume of 153m tonnes. The largest Russian sea port, Novorossiysk, is a modern, multipurpose and highly automated system of sea terminals with a cargo turnover of 117m tonnes per year, including 90m tonnes of liquid bulk cargo and 27m of dry bulk cargo.

Today, the region is rolling out an integrated programme for the development of a Novorossiysk transport hub. The hub will include a transportation and logistics centre, new container terminals and transshipment facilities for grain, mineral fertilisers, and oil and petroleum products.

Certain projects have already been completed at the Novorossiysk port: a container terminal and a timber cargo transshipment facility have undergone reconstruction; a modern grain handling terminal has been commissioned; and a 1A deep-water oil loading terminal, and fuel oil transshipment facilities are now under construction. Ongoing projects are being implemented in the south-eastern part of the port, including the second phase of construction of a container terminal and grain cargo transshipment facilities.

The port of Tuapse is also being built up; grain cargo transshipment facilities and modern mineral fertiliser transshipment facilities have been put into operation, and a project to construct a deep-water oil loading terminal is underway.

A new port, Taman, is being developed on the Cape of Zhelezny Rog. The port is expected to become the second largest in the Southern Federal District by cargo transshipment volume. The master plan for the port's development provides for the construction of modern oil loading terminals, facilities for transshipment of liquefied petroleum gas (LPG), specialised container and coal terminals, and car ferry facilities. The port's annual cargo turnover is expected to exceed 60m tonnes.

In addition, the Russian Ministry of Transport, jointly with the Krasnodar Regional Administration, have made efforts to develop a dry cargo area at the sea port of Taman, with a target annual turnover of over 66m tonnes of dry cargo.

The travel industry has been improved with ferry services to Ukraine, Bulgaria and Georgia. Ferry services now go from the port of Kavkaz to the ports of Krym, Varna and Poti. The ferry line from Kavkaz to Samsun, Turkey is set to launch soon. Rolling cargo transshipment facilities with a capacity of 2m tonnes a year are under construction in the north-eastern area of the port.

The programme for Olympic facilities construction includes reconstruction of the Sochi sea port. The aim is to establish an international sea passenger and cruise transportation centre.

New protective structures and quays are to be erected, which will allow not only for the handling of cruise liners over 300m long and with capacities

up to 3,100 people, but also for the use of the existing water area for mooring yachts and motor boats.

Sea passenger transport has been revived across the Azov and Black Sea basin. Three hydrofoil-equipped boats are now servicing the Novorossiysk-Sochi line, with a travel time of only three hours.

To develop coastal transportation services, Sochi is reconstructing eight port stations. Rosmorport (a federal state unitary enterprise) has purchased two high-speed catamarans, each with room for 300 people, to transport passengers between terminals of Sochi's sea port. Currently, the vessels are operated along the Sochi-Gagra and Sochi-Tuapse lines, with travel times of one and two hours, respectively.

Rail transport

The North-Caucasus Railway (NCRW) is a sustainably operated thoroughfare, and is among the top four largest railroads in Russia. NCRW is a branch of Russian Railways. NCRW runs across 11 regions of the Southern Federal District, with Krasnodar Region taking the lead in terms of total length of railway lines and other economic indicators.

Around 60% of all cargo in Krasnodar Region is transported by rail. Cargo traffic flows to Russia's Black Sea ports of Novorossiysk, Tuapse, Eysk, Temryuk and Kavkaz. The busiest cities by passenger traffic are such resorts as Sochi, Tuapse, Anapa, Eysk and Gorichy Klutch, where passenger traffic peaks in summer and autumn.

The following are the main junction stations of Krasnodar Region: Tikhoretskaya, Kavkazskaya, Armavir, Krymskaya, Timashevskaya, Krasnodar-Sortirovochny, Belorechenskaya, Tuapse, Veseloe, and Krivenkovskaya.

The investment projects in sea transport development, once implemented, will allow Krasnodar Region to increase the cargo turnover of its ports by more than 1.5 times by 2020, and create more than 5,000 new jobs. Additional taxes and levies worth USD 2bn will flow each year to Krasnodar Region's consolidated budget.

Air transport

Krasnodar Region has five airports—Krasnodar, Sochi, Anapa, Gelendzhik and Eysk, which account for 25% of the total passenger traffic in the Southern Federal District (4.86m people in 2010). The air carrier Kuban's route network includes more than 30 domestic and international destinations. The volume of passenger traffic in 2010 was 666,500 people.

Under the federal targeted programmes, including Programmes for the Modernisation of Russia's Transportation System (2002-2010), Development of Russia's Transportation System (2010-2015), and Modernisation of the Common Air Traffic Management System (2009-2015), the air terminals of Krasnodar Region airports are now undergoing extensive reconstruction. From 2005-2010, a total of RUB 18.8bn was spent to this end, including RUB 7.9bn for the reconstruction of the airports in Sochi, Anapa, Gelendzhik and Krasnodar.

Road transport

There are more than 1.8m registered vehicles in Krasnodar Region, including 32,000 buses, 170,000 trucks and more than 1.3m cars. In 2010, road transport companies contributed RUB 1bn in taxes to the consolidated budget of the Krasnodar Region, or 119.8% up from 2009. In value terms, in 2010, road transportation companies provided services for RUB 8bn at CAGR of 112.6 %.

In 2010, Krasnodar Region acquired 136 buses, including 37 school buses and 26 trolleybuses, with the purchases subsidised by the central budget. More than 126 taxi firms and approximately 3,000 authorised individual taxi drivers operate in the region. There are 286 taxi booking companies that accept reservations and provide services. There are 7,060 cars used to transport passengers, all compliant with regional laws. And there are 426 working taxi stands.

More than 2,500 vehicles are equipped with satellite navigation devices compatible with the local vehicle tracking system. Among these are buses servicing regular intercity lines, municipal lines in and around the cities, as well as school buses, vehicles belonging to regional social welfare organisations, ambulances and other emergency vehicles.



Information and communication system development in Krasnodar Region

Information system development

Currently, the key objective of information system development in Kuban is to improve the population's well-being and the economy's competitiveness, and to develop an information-oriented society using information and communication technologies.

IT penetration spans many areas of state and municipal administration: education, health care, business, and society and culture.

A regional multiservice network of executive government bodies is being developed as the basis for creating a common information platform. In particular, they have focused on ensuring information resource security, and improving data storage and processing efficiency.

To this end, there are plans to create a single regional data storage and processing centre.

In an effort to improve the population's quality of life, and to solve issues vital to business and society as a whole, a network of multifunctional centres (MFC) is being developed to provide public and municipal services: to date, 42 MFC have been opened in 40 municipal districts of the region.

Technical infrastructure support contributes to the provision of electronic public services, including the Register and Portal of Public and Municipal Services of Krasnodar Region (www.pgu.krasnodar.ru). Currently, the Register contains data on 320 public services, and about 32,000 documents.

The Public Service Portal is integrated into the automated information system called the Krasnodar Residents' Electronic Social Card (the "Resident Card"). The Krasnodar Regional Administration, together with the Savings Bank of Russia and Uralsib, is implementing the Resident Card project as the platform for rendering public services in an electronic format.

Key applications have been developed and implemented for the project, including: social, banking, tax, education, bailiff service and STSI. The range of services available through the Resident Card is constantly expanding, and includes the Public Service Portal project that opened this year. Plans for 2011 include the issue of about 100,000 cards and the opening of card application drop-off centres at all MFC and public social protection departments in all of the region's major cities.

Information system development projects covering all aspects of the region's life are implemented within specialised regional programmes. These include:

- a single electronic document flow system for governmental and municipal Krasnodar Region authorities
- a video conference system
- an investment projects support system
- a planning and monitoring system for the region's social and economic development
- a common information platform for the industrial complex
- a data collection and processing centre for remote probing of agricultural lands
- an integrated system called "Health Care Management" and a telehealth network of the region's health care facilities
- digitised archive and library funds
- a full-service safety programme.

Telecommunications

The Kuban telecommunication sector is showing the same trends as the Russian telecom sector in general, including: high growth rates compared to other industries, rapid implementation of new technologies, and a changing service provision structure.

Currently, 777 telecom operators possessing approximately 1,800 licences for 23 types of telecom services are registered in Krasnodar Region.

Local, domestic long-distance, and international telephone communications

There are 1.2m main telephone sets connected to the region's public switched telephone network (PSTN). The telephone penetration level is currently at 32 telephone sets per 100 residents.

Postal service

Fourteen agencies hold licences for rendering postal services. Krasnodar Region's Federal Postal Service Department is a branch of Pochta Rossii. There are 31 central post offices

and 1,200 district post offices rendering postal services in the region. The branch is the largest postal service department in the Southern area by postal traffic volume.

Cellular communications

According to cellular operators' data, the number of cellular subscribers (active SIM cards) is 9.5m, and the cellular penetration level is 182%. Currently, mobile operators are successfully developing and implementing 3G (third generation) communication networks. The 3G network makes working with email, file applications and corporate networks easier. It also increases loading rates and improves the display quality of multimedia content required by mobile users for business and personal use.

Telematic services

More than 100 internet service providers operate in the region. The number of users is approximately 1.5m subscribers, including wired broadband subscribers, switched access subscribers with fixed telecom operators and wireless internet subscribers with cellular operators.

Krasnodar Region is the leader among the regions of the Southern Federal District by number of Internet users.

Wi-Fi access points have been installed at hotels, restaurants, bars, sport facilities and other high-traffic areas. A number of companies are working in Krasnodar Region to introduce WiMAX wireless high-speed Internet, which will increase the access rate several times over compared to cellular networks, and ensure communications outside the line-of-sight coverage area. Wireless Internet based on 4G (fourth generation) technologies is also being implemented in Krasnodar Region.



The Krasnodar Region fuel and energy sector

The Krasnodar fuel and energy sector is an integral part of the Russian fuel and energy sector. It embraces 280 enterprises with different types of ownership. The average number of staff engaged in these enterprises is about 70,000.

The strategic goal of the fuel and energy sector is to use natural fuel and energy resources as efficiently as possible, and harness the energy sector's potential in order to develop the economy and improve the quality of life for Krasnodar Region's population.

Statistics for industries within the fuel and energy sector

Electric power industry

- Power consumption (2010): 19.917bn kWh
- Power production (2010): 6.620bn kWh
- Total length of overhead power transmission lines - 102,397.6km
- Total length of cable power transmission lines - 5,776.8km

Heat power industry

- Total length of heat pipelines: 3,560km
- Number of boiler houses: 2,540
- Annual heat sales: 15.55m Gcal

Gas industry

- Gas distribution pipelines: 41,000km
- Main gas pipelines: 5,500km
- Natural gas production: 3.3bn cu m
- Gas distribution stations: 191

Oil and gas extraction industry

- Oil and condensate production (2010): 1.1m tonnes
- Natural gas production (2010): 2.8bn cu m

Pipeline transport

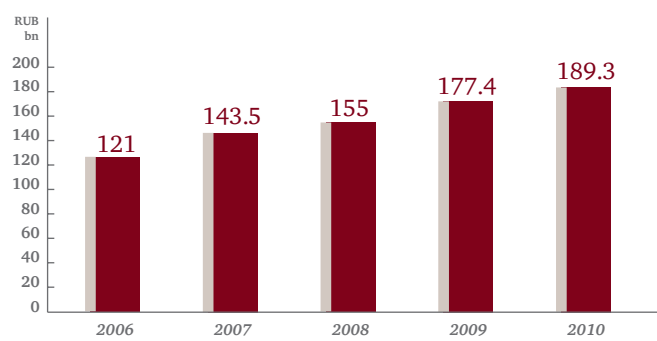
- Length of trunk pipelines: 3,000km
- Number of pump stations: 32
- Number of storage terminals: 4

Oil refining industry

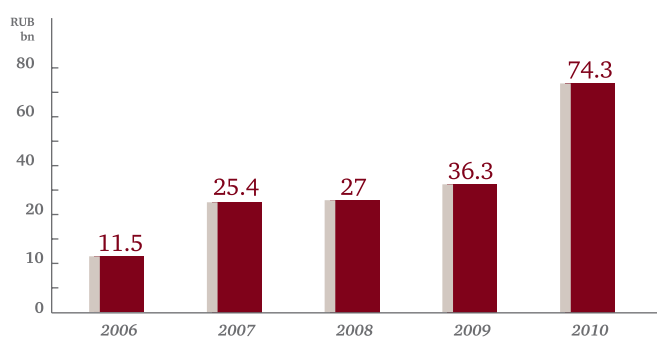
- Total estimated capacity of oil refinery: 8.37m tonnes per annum
- Oil products refined (2010): 11.7m tonnes
- Motor fuel production in 2010: 240,000 tonnes
- Diesel fuel production: 3.3m tonnes
- Fuel oil production: 5.4m tonnes



Industry output



Cumulative investments in the industry



Health resort and tourism sector

There is significant potential for developing Krasnodar Region's health resort sector given the region's unique natural therapeutic resources. Two warm Southern seas; over one thousand kilometres of beaches; ski resorts; sanctuary forests; unique natural landmarks; historic, architectural and archaeological monuments have made Kuban the preferred resort destination for millions of Russians.

The health resort and tourism sector of Krasnodar Region is the largest in Russia, and combines a mixture of health resort facilities, hotels, specialised and individual means of accommodation, travel agencies and sightseeing firms, infrastructure facilities, places of interest, as well as resort management bodies. In all, the sector is composed of more than 2,000 businesses.

More than 4,000 natural landmarks and historic monuments are located in Krasnodar Region. The historical themed villages in the Temryuk, Crimea and Anapa districts are very popular, and the improvement of various places of interest for sightseeing is under way. Additionally, the unique natural and climatic conditions of Kuban offer opportunities for the formation and development of multipurpose year-round tourist and health resort centres.

Currently, Russia is among the top ten countries for tourism by number of tourists, and this is mostly thanks to Krasnodar Region, which attracts more tourism than such well-known regions as Moscow, Leningrad, and Stavropol. The tourism sector of Krasnodar Region accounts for more than 20% of all tourist services in the country.

Travel accommodation and catering infrastructure has been set up on the Azov-Black Sea coast.

Krasnodar Region's unique capacity for recreational activities is facilitating the development of all types of tourism, and attracting more and more investors to Krasnodar Region. Currently, dozens of investment projects with financing from several thousand to tens of billions of euros have been proposed in the tourism sector. The proposals include seasonal compact recreation centres and year-round health resorts. The location of the investment sites vary – from the Azov-Black Sea coast to the foothills of Krasnodar Region.

The strategic goal of stimulating investment in Krasnodar Region's tourism sector is to create a modern, highly effective and competitive health resort and tourist complex to meet the needs of Russian and foreign tourists in various services. The priority of this development should be providing opportunities for quality, year-round recreation.

Current status of the health resort and tourist complex

Key economic indicators

- More than 10m tourists visit the region's health resorts annually.
- The scope of services grows every year, and, in 2010, it brought in nearly RUB 55bn in revenue.
- Tax revenues to the regional consolidated budget exceed RUB 5bn.
- In the first half of 2011, the amount of tax revenues to the consolidated budget reached RUB 3bn, i.e. 29% more than for the same period in 2010.
- Investments in equity increased from RUB 7.2bn in 2008 to RUB 15.6bn in 2010.



To develop the health resort and tourism sector in Krasnodar Region a consistent policy is being implemented, which includes the following:

- attracting investments to develop tourism infrastructure, including, first and foremost, creating a network of hotels offering comfortable accommodation at affordable prices;
- developing entertainment infrastructure and the potential for active and educational holidays;
- ensuring transport accessibility to tourist areas.

Goals for 2015

- Number of tourists: 14 million people
- Investment in equity: RUB 23bn
- Revenue from services of health resort businesses: nearly RUB 90bn
- Tax revenues to the regional consolidated budget: RUB 7-8bn

Number of tourist (million people)

Performance	Actual	Estimate	Forecast			
	2010	2011	2012	2013	2014	2015
Formal sector	2.9	2.9	3.1	3.4	3.8	4.0
Informal sector	7.8	8.0	8.4	8.9	9.6	9.9

Tax revenues to the regional consolidated budget RUB bn

Performance	Actual	Estimate	Forecast				
	2009	2010	2011	2012	2013	2014	2015
Tax revenues to the regional consolidated budget	4.9	5.0	5.5	5.9	6.4	7.0	7.5

Health resort income's share in GRP: 17%

Performance	Actual	Estimate	Forecast				
	2009	2010	2011	2012	2013	2014	2015
Health resort income's share in GRP given direct and indirect effects	15.4	15.5	15.8	16.0	16.3	17.5	17.0



Housing and public utilities

To a large extent, the development of housing and public utilities determines the way social, economic and technical issues are addressed. It also creates a comfortable living environment, as well as favourable and safe living conditions for the people it serves.

The industry keeps municipal and regional housing and public utilities companies running and maintains qualified staff to render housing and public utility services in Kuban. An operational, engineering and managerial staff of over 35,000 provides water supply and sewerage services. They are also responsible for housing maintenance, landscaping services, sanitation and removal of domestic and industrial waste, etc.

The region's population is provided with more than 40 types of housing and public utility services. Over the last five years, services have been provided for more than RUB 70bn in total. In 2010 alone, public services exceeded RUB 4bn; in 2011, public services have been rendered for over RUB 7bn so far.

The housing and public utilities sector includes 408 entities and organisations. The sector has generally been profitable since 2006, and the industry's 2010 total financial result came to over RUB 707bn in profits. In 2008-2010, utilised investments into the housing and public utilities sector totalled about RUB 5.3bn.

The regional housing and public utilities industry has a very promising development outlook. Krasnodar Region's executive agencies and local administrations are actively raising investments into the sector, and potential investors are offered the most promising upcoming projects.



Krasnodar Region's housing and public utilities sector includes:

- water and sewerage services;
- public heat power operations of multi-sector municipal enterprises;
- housing services;
- landscaping services;
- sanitation and cleaning services and waste management;
- municipal services;
- funeral arrangements.



The 2014 Olympic and Paralympic Winter Games in Sochi

Today, the future venues of the 2014 Olympic and Paralympic Winter Games in Sochi comprise the world's largest construction site. Dozens of kilometers of the combined highway and railway between Adler, on the Black Sea Coast, and the mountain resort of Krasnaya Polyana have already been built. Numerous other construction projects are also under way, including: Olympic arenas in the Imeretinskaya valley, traffic intersections, hotels and main power stations. New energy supply and generation facilities are also being proposed, along with hospitals, schools and residential buildings.

The Krasnodar Region Administration's involvement in the ambitious project spans three main areas:

- Allocating land plots for Olympic facilities
- Resettling people from Olympic construction zones
- Coordinating specific Olympic construction projects

Major work has been done to secure the necessary land for Olympic construction projects, and to provide people affected by resettlement with compensation, paying due regard to their inviolable property rights. A new framework for repurchasing real estate has been developed. The resettlement of people from the Olympic construction zones will be completed in 2011. Seven construction sites with a total area of over 100 hectares have been set aside for the specific purpose of executing the resettlement program, housing local people whose properties are located within the Olympic construction zone.

The regional Arrangements for the Construction of Olympic Facilities and the Development of the City of Sochi as a Mountain Climate Resort and Balneotherapeutic Health Resort program (in other words, the construction program) covers the whole of Sochi.

The infrastructure currently being set up will be just one of the invaluable Olympic legacies for residents of Sochi, the Krasnodar Region, and the entire country.

The year 2010 may have been a decisive time for Olympic preparation in Sochi. The survey and exploratory work were completed, and construction began in earnest. The finance package for the construction program for 2008-2013 will total approximately 115 billion roubles. There are around 400 projects planned altogether. To date, there are around 200 Federal and regional facilities under active construction.

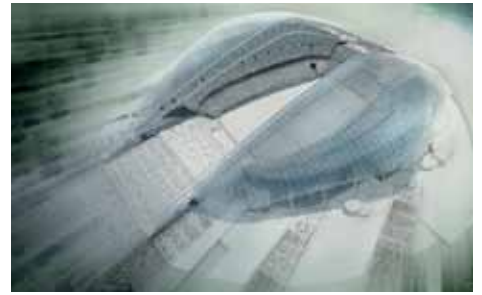
The Krasnodar Region Administration has set aside funds to finance the engineering and construction of the speed skating center – the “Olympic Oval” - and a media center, both in the Imeretinskaya valley. These facilities have been under construction for around two years.

Almost a third of the Olympic construction projects are investment projects. About 30% of total financing under the planned regional Olympic program is earmarked for environmental measures, including dedicated construction projects.

In addition to the main Olympic facilities, one of the principal goals of the investment from the administrations of both Sochi and the Krasnodar Region is establishing and upgrading the engineering and social infrastructure. In total, the new Sochi 2014 Olympic facilities will include over 100 hotels, 50 transport infrastructure projects and almost 50 energy projects.

Sochi is quickly becoming an international year-round center for sports, beach recreation, education and health tourism.





Formula 1 Grand Prix

The dream of thousands of Russian F1 fans is coming true: Sochi is to host the first Formula 1 Grand Prix in 2014.

This is not just a sporting event; it is a historically important event for Kuban and could easily be compared with the 2014 Olympics and 2018 World Cup.

A contract for the Grand Prix between 2014 and 2020 was signed on 14 October 2010 by F1 star Bernie Ecclestone.

Russia's F1 grand prix background shows that these events attract an average of at least 100,000 tourists, and the biggest events are attended by up to 200,000 people. This means that Kuban can expect to have a new area of economic growth with the arrival of the Grand Prix; hotels and other recreational infrastructure facilities are sure to be full to the brim with visitors. By the time the Olympics begin, the city will have 24,000 new hotel rooms in addition to all those that have been

refurbished. With the F1 coming to Krasnodar Region, the city of Sochi and Russia's Black Sea coast will become as popular as other major resort for investments.

The F1 venues will be located in the Olympic Park and Imereti Lowlands. The majority of the venues are to be integrated into the 2014 Winter Olympics' infrastructure.

As part of the Russian Grand Prix preparations, a Formula Sochi festival was held in the 2014 Olympic Capital on 16-17 July 2011. The event, arranged by Krasnodar Region's Federation of Motor Sports and supported by the regional administration, was attended by international racing stars and the key representatives of Russian car racing.

Four World Championship teams visited Sochi: Red Bull Racing, Lotus Renault GP, Marussia Virgin Racing and Scuderia Ferrari. F1 stars Vitaly Petrov, Sebastien Buemi, Timo Glock and Jerome d'Ambrosio were also in attendance.

The festival is to become an annual event.



Sochi Park

In the near future, the Adventure Park, an unparalleled year-round world-class theme park, will open its doors to visitors. It is located in the Adler District of Sochi, which is in the Imereti lowlands and close to the main Olympic facilities.

The park has no parallel in terms of scale anywhere in Russia. The park's theme is based on Russian folklore. It occupies a huge area, which is expected to reach 54 hectares by 2020. The park will revive characters and anecdotes from Russian fairy tales, folklore and historical events.

The Adventure Park is a friendly place with something fun for everyone. There will be a pedestrian promenade with shopping space and over 50 exciting attractions, including the Alley of Fire, along which guests can stroll and find a great deal of fascinating information about Olympic Games held in other countries; comfortable hotels; and a rest & recreation centre. And for those who don't want to leave this fairytale world, there is a special suite of rooms on the beach.

The Adventure Park project has been put on the Olympic Facilities Construction Programme in accordance with the Russian

Government Resolution of 19 January 2010 "On Amendments to the Programme for the Construction of Olympic Facilities and Development of the City of Sochi as a Mountain Climate Resort". The Theme Park will comprise 13 Olympic facilities, including:

- Olympic Trading Centre;
- Corporate Reception Centre;
- Olympic Club;
- Representation Centre for Olympic Family Members;
- Olympic Park Security Forces/Facilities Command and Control Centre;
- Anti-Dope Laboratory;
- Beach Park Facility.

After the Games, the buildings will be converted into recreation facilities. The Adventure Park will be an important attraction in the tourist infrastructure of Sochi's Imereti lowlands as Russia's leading vacation spot, and will make the Black Sea coast especially attractive in the off-season.

The Adventure Park is divided into six theme/topical sites with stylised architecture and world-class recreational facilities:

- Alley of Fire;
- Land of Science and Fantasy: achievements of Russian science and technology, interactive educational recreation facilities;
- Land of Folklore Heroes: legends of folk heroes, including, Ilya of Murom, Dragon Gorynych (Slavic Dragon), and others;
- Haunted Forest: Russian fairy tales, folklore and legends;
- Sea Harbour: history and heroes of the Russian Navy, fables and legends of the sea;
- Land of Lost Worlds: sub-aquatic world, Island of Buyan, invisible Town of Kitezh.



2018 FIFA World Cup

In March 2009, the Russian Football Union, an All-Russia non-profit association, made a formal bid with the Federation of International Football Associations to host the 2018 and 2022 FIFA World Cup. Apart from Russia, 10 other countries also took part in the bidding, making a total of eight bids: the UK, Spain-Portugal, Belgium-Netherlands, the US, Australia, Qatar, Japan, and South Korea.

The final decision on the venue of the 2018 and 2022 FIFA World Cup was issued on 2 December 2010 at the FIFA Headquarters in Zurich. The applicants gave presentations and, in the end, an absolute majority of FIFA Executive Committee members cast their vote for Russia, granting the country the right to host the 2018 FIFA World Cup.

The 2018 FIFA World Cup will be held in 13 cities in the European part of Russia. These cities have been divided into four clusters:

- North Western cluster: Kaliningrad and St Petersburg
- Central cluster: Moscow and Moscow Region
- Volga cluster: Yaroslavl, Nizhny Novgorod, Samara, Kazan, Saransk, and Volgograd
- Southern cluster: Rostov-on-Don, Krasnodar, Sochi, and Yekaterinburg

To date, 16 stadiums in 13 cities have been announced.

Krasnodar Region is represented by two cities: Krasnodar and Sochi.

Krasnodar

The Zhukov District in the city of Krasnodar has been proposed as the location for a football stadium with seating for 50,000 fans. Another construction project is in progress in that district - a multifunctional world-class sports complex with a basketball court with seating for 7,500 spectators, three swimming pools (including a 50-meter lap pool and an Olympic diving tower), an ice arena with two rinks, and a track-and-field arena.

Sochi

A whole range of sports facilities for the 2014 Olympic and Paralympic Winter Games in Sochi will be located in the Olympic Park in Sochi's Imereti lowlands, including those for ice hockey, speed-skating, short track, figure skating and curling. The Olympic Games Opening and Closing Ceremonies will be held at the Central Olympic Arena which, after post-Olympic conversion, will become the main stadium for the 2018 FIFA World Cup. The infrastructure constructed in Sochi in preparation for the Olympic Games will be compliant with all FIFA requirements for FIFA World Cup tournament facilities.



Azov City Gambling Zone

Azov City is the southernmost of Russia's four gambling zones. It is located on a 1,002 hectare plot on the shore of the Sea of Azov in the Sherbinsky District of Krasnodar Region. Under regional development programmes, some engineering and transport infrastructure (motor roads, energy, gas and water supply and waste treatment facilities) has been constructed and put into operation.

A top-priority development plot (152 hectares) has been identified in the western section of Azov City, where 20 subplots, with areas ranging from 2 to 20 hectares, have been apportioned and leased to investors.

The subplots in the top-priority development area are earmarked for a complex of gambling parlours, hotels, sports and entertainment venues, and public catering facilities, as well as recreational facilities (theme parks and indoor water parks).

On 30 January 2010, Oracle, Russia's first legal casino, was set up in Azov City with 3,846 sq m of floor space (20 gambling tables and 260 gaming machines), and in October 2010, Shambala, a second casino, with 1,440 sq m of floor space (12 gambling tables and 151 gaming machines) was opened. These are currently the only two casinos up and running in the gambling zone.

In 2010, over 45,000 people visited these casinos, and during the first half of 2011, the turnout reached about 50,000 people. As of today, more than 400 jobs have been created in the Azov City Gambling Zone, and the casinos there have paid over RUB 75m in taxes to Krasnodar's regional budget since their opening.



Foreign economic activity

Krasnodar Region leads the foreign economic activities of Russia's Southern Federal District. For example, in 2010, Krasnodar Region's foreign trade turnover was approximately USD 10.9bn, demonstrating an impressive increase of USD 4.3bn year on year.

It is noteworthy that Krasnodar Region businesses account for a consistently high proportion of Russia's overall foreign trade turnover: in 2010, Krasnodar Region's share in the total federal export and import turnover was 48.2%.

In total, 2,243 businesses operating in Krasnodar Region were involved in foreign trade transactions in 2010. Of these foreign trade transactions in Krasnodar Region, Non-CIS trading partners dominated, with 92.2% of total turnover. The most significant trading partners by trade volume were Turkey, Italy, China, Finland, Ukraine and Brazil.

Exports

In 2010, the value of exports was USD 6.5bn. The majority of exports were mineral commodities, which accounted for 76.7% of the total export value. Non-CIS countries still remained major trading partners in export operations in 2010, especially Italy (16%), Turkey (17%), Finland (9%), Malta (6%), France (5%) and Egypt (4%). Most exports fall into the following product groups: mineral

commodities, foodstuffs, metal and metal products, chemical products, machinery, equipment and transport vehicles.

In 2010, Krasnodar Region businesses exported a total of USD 4.9bn in mineral commodities, or 2.5 times more than in 2009. Crude oil and oil products accounted for the largest portion of the exports, whose major consumers were Turkey, Italy, Malta, France, Cyprus and Israel. Krasnodar Region also exported coal, acid gases, cement, etc., but in smaller volumes. In general, 2010 commodity exports increased 2.5 times year on year.

Exports of foodstuffs and agricultural raw materials amounted to over 4.6m tonnes, worth USD 929.6m. As with mineral commodities, the majority of agricultural products were exported to Egypt, Turkey, Iraq and Saudi Arabia.

Exports of metals and metal products reached USD 287m, demonstrating growth in both monetary and physical terms. In monetary terms, semi-finished iron and steel products accounted for 92% of the metal exports group. The list of major importers of Russian metals, which includes Turkey, Italy, Egypt and Syria, was extended in 2010 with the entry of such new players as Iran, UAE, Libya and Bangladesh.

Chemical product exports, continuously dominated by fertilisers (over 80%), are estimated at USD 129.4m.

In 2010, exports of machinery and equipment from Krasnodar Region, valued at USD 103m, did not change from 2009. Over 70% (in monetary terms) of those exports were destined for non-CIS countries.

Imports

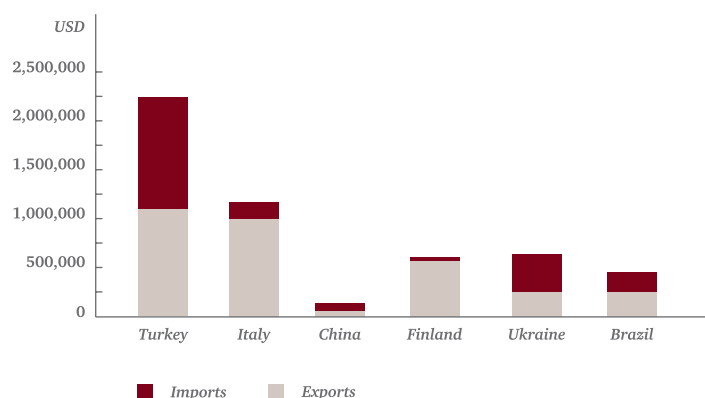
Krasnodar Region's imports for 2010 were valued at over USD 4.4bn, of which almost USD 3.9bn came from non-CIS countries, and over USD 500m from CIS countries. Turkey, China, Brazil, the US, Italy, Egypt, Israel, Indonesia, Germany and Ukraine remained on the list of major suppliers.

Imports are composed mainly of foodstuffs, engineering products, mineral commodities, metals and metal products, chemical products, textiles and footwear, timber and forest products.

In monetary terms, imports of agricultural products in 2010 was 1.5 times higher than in 2009, while physical volumes increased by one-third to reach 2m tonnes.

Equipment made up almost 60% (in monetary terms) of imported engineering products. It is noteworthy that imports of nearly every type of product in this group have increased in volume. In total, the volume of engineering product imports has increased twofold.

Krasnodar Region's main trading partners, 2010



Ferrous metals are the prevailing metal import, and China, Ukraine, Turkey, Hungary, Germany and Italy are all key suppliers.

Plastic materials and products account for more than 50% of chemical product imports in monetary terms. Chemical product imports have increased by one-third, while weight numbers have increased by over 20%.

Support of export operations

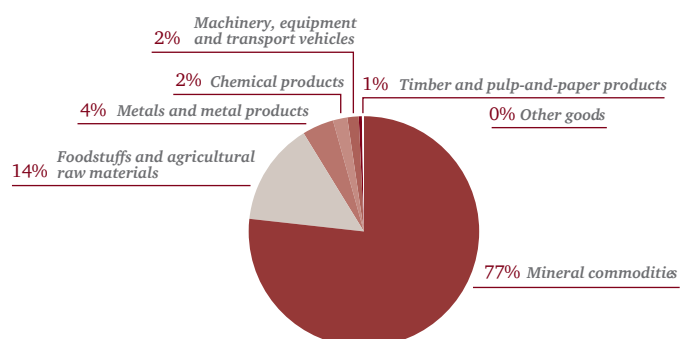
Exports are of crucial importance in Krasnodar Region's foreign trade activities, due to their positive impact on the economic and social development of the region. Exports of goods and services ensure an inflow of financial resources into the region,

both in revenue to budgets at all levels, and in investments. Improving the commodity pattern of exports, ensuring growth of the volume of goods (work and services), and preparing for international market entry are essential first steps to allowing Krasnodar Region businesses to participate in international commerce.

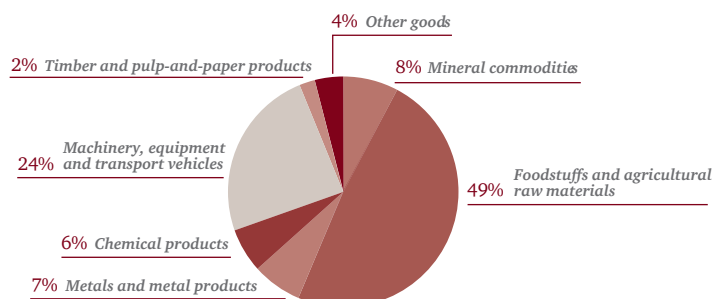
The special programme Support for Krasnodar Region Exporters for 2010-2012 has been adopted. Its main objective is to ensure favourable external conditions for boosting the competitive advantages and economic development of the region through increasing the volume and improving the quality of locally-produced exports.

To ensure state support of regional exporters, a set of steps and activities aimed to provide them with material incentives, along with information and advisory support, have also been put together.

Exports commodity trends 2010



Imports 2010



Investment climate

General information about the region's investment climate

Krasnodar Region is characterised by a high level of investment attractiveness. The region's biggest competitive advantages include the following:

- Political stability and the absence of ethnic conflicts;
- An advantageous geopolitical location with direct access to international trade routes;
- Favourable climate and fertile soil, enabling it to have the country's highest crop yields in agricultural output;
- Unique recreational resources resulting in high demand among tourists from all over Russia;
- Attractive sales markets;

- Favourable business climate and a dynamically developing business environment;
- An active policy of inter-regional and international cooperation;

In the last few years, the Krasnodar Regional Administration has worked diligently to promote the region's investment potential internationally. The region is an active participant in many Russian and international conferences and forums, and its accomplishments and potential are well known beyond Russia's borders.

Protecting investors' rights and supporting entrepreneurship

The fundamental regional law on this topic is Krasnodar Region Law No. 731-K3 of 2 July 2004 "On Government Stimulation of Investment Activity", along with subordinate legislation.



The law is meant to attract investment to Krasnodar Region based on the creation of a system of favourable treatment for Russian and foreign investors, as well as of equal protection of the rights, interests and property of entities involved in investing activities, regardless of the investor's legal form.

According to this law, investors are given both financial and non-financial government support when carrying out investment projects:

- tax breaks on payments to the regional budget (property tax);
- investment tax credit on regional taxes, and corporate profits tax at the tax rate set for this tax payment to the regional budget;
- favourable terms for the use of land and other natural resources;
- regional government guarantees;
- financing of investment projects using regional budget funds;
- various forms of subsidies for investment purposes, including small and medium business;
- support for investment projects, etc.

When carrying out investment projects, small and medium-sized businesses can also receive government support as part of the Programme for Government Support of Small and Medium-Sized Businesses in Krasnodar Region.

This system of government support includes the following:

- help in receiving bank credits secured by Krasnodar Region's Guarantee Fund for the Support of Small Business;

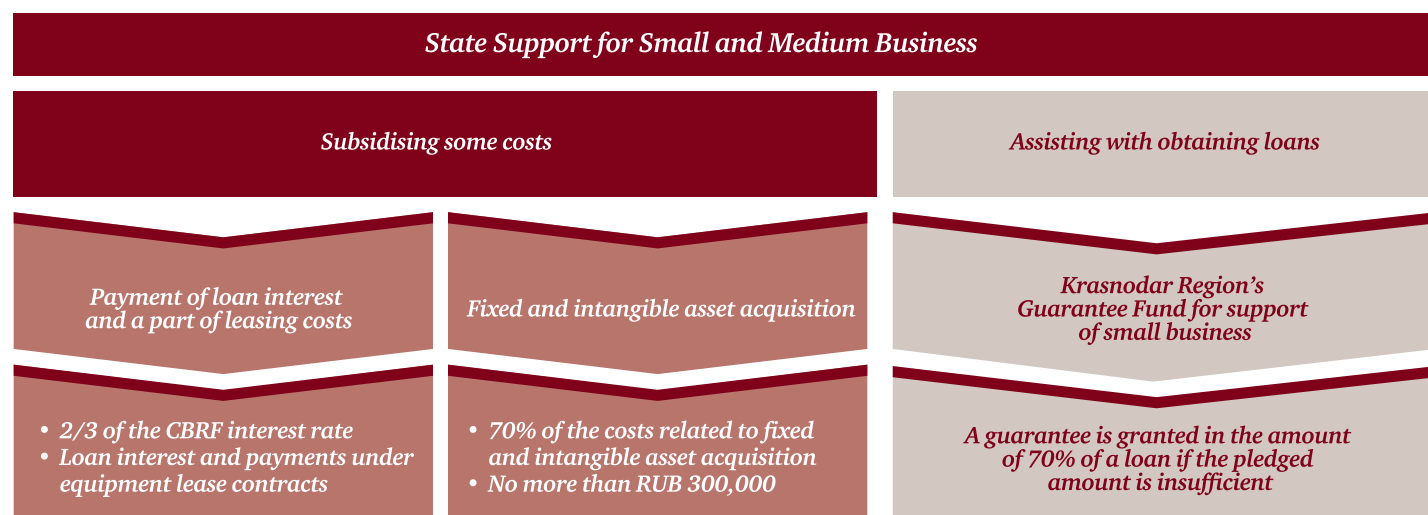
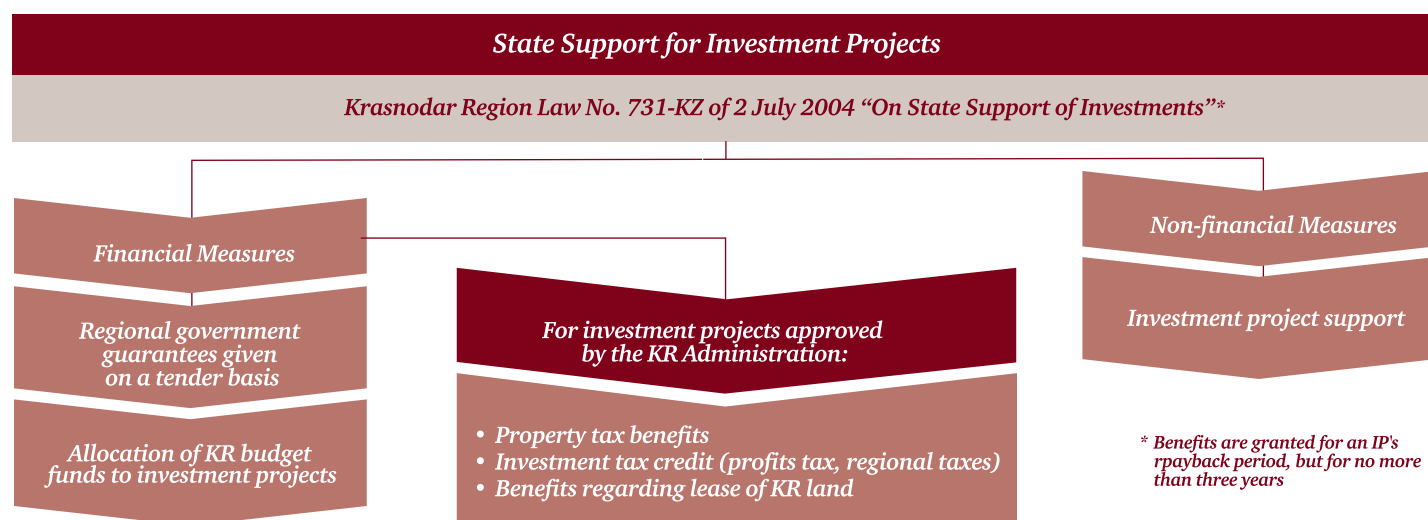
- subsidised expenditures for entrepreneurs on a whole range of activities;
- support for businesses at start-up;
- information and advisory support;
- training for small- and medium-sized businesses' staff.

Public-private Partnership (PPP)

The PPP is a basic scheme for attracting extra-budgetary investment for the development of various types of infrastructure. Government organs or municipal authorities can use the PPP in place of traditional methods for budget financing of capital investments in building public infrastructure or improving the quality of public services.

The goal of developing PPPs in the Krasnodar Region is to assemble the region's material, financial and organisational resources, as well as to attract means from extra-budgetary sources for the realisation of projects of public importance and programmes in the economic, social and innovation sectors using the Regional Government's means (both budget and facilities).

Thus, under the concession agreement concluded on a competitive basis in 2009 between the Krasnodar Regional Administration and the company Yugvodokanal, the investor is obliged to complete the reconstruction and modernisation of water-and-sewage facilities of the Yesky, Trontsky and Tamansky routes, which will improve the quality and quantity of these public services, and will substantially decrease non-productive expenditures and reduce the burden on the budget.



In order to do this, the private partner will invest over RUB 7.8bn.

The region's plans are to implement the PPP mechanisms while actively executing significant investment projects in other sectors as well.

To this end, and on the basis of progressive Russian and international experience, the Krasnodar Region drafted and passed law No. 1989-K3 "On Krasnodar Regional Government Policies on Public-Private Partnerships".

Additionally, a regional PPP committee was formed.

Innovations

Definitive work has been done in order to increase innovation activities in Krasnodar Region.

A number of priority directions for innovation work have been determined, including:

- Environment and environmental protection
- Alternative energy
- Energy- and resource-conserving technologies
- Living systems, including biotechnology
- Agriculture

- Agro-industrial engineering and robotic technology
- Info-telecom systems
- Medical technology, etc.

The Krasnodar Regional law of 5 April 2010 No. 1946-K3 "On Government Support of Innovation Activities in Krasnodar Region" is the primary regional document dedicated to stimulating innovation projects.

For individuals involved in innovation activity, the law stipulates the provision of the following types of government support for the realisation of priority innovation projects:

- Lowered tax rates on corporate profits tax
- Property tax benefits
- Subsidies from the regional budget for compensating a portion of expenditures on manufactured goods, labour, services and the creation of technologies that serve as a part of innovation projects
- Subsidies for compensating a portion of the interest rate on loans given to individuals involved in innovation projects, and to be used for the acquisition of basic materials directly connected to the creation of innovative products (goods, work or services).



In addition, the law provides for the investment of tax credit and government guarantees in individuals involved in innovation projects.

In order to promote the innovation projects on the Krasnodar Region's official innovation portal www.investkuban.ru, a constantly updated register of the region's innovation projects was created, and is to be used as a resource for attracting funding from external sources.



Sochi International Investment Forum

Today, the Sochi International Investment Forum is the country's leading investment platform and one of Russia's main arenas for constructive dialogue between the business community and the government.

The forum is an annual event aimed at raising investment for the Russian regions' priority projects and promoting them locally and internationally. Traditionally, sessions are attended by Russian government officials and heads of Russian constituencies, as well as by Russian and foreign company executives, high-ranking diplomats, major investors and leading experts from various fields.

The first Sochi forum was held in 2002 as a purely regional event called "Kuban - 2002 Economic Forum". Its objective was to tell potential investors about the regional economy's status and potential. Then, in 2007, the forum became an investment forum, and Sochi - its host city - was named a candidate for the 2014 Olympics. In just 10 short years, the forum has become one of the main international business events in Russia.

Representatives of 32 countries attended last year's forum, including from Abkhazia, Armenia, Austria, Belarus, the UK, Germany, Denmark, Iceland, Italy, China, Canada, Nigeria, Poland, Slovakia, the US, Turkey, Ukraine, France and Japan, as well as six government delegations and business missions. Also represented at the forum were 53 Russian constituent regions.

In September 2011, the Sochi International Investment Forum will mark its 10th anniversary.

The Sochi International Investment Forum's Steering Committee comprises:

Dmitry Kozak, deputy prime minister;
Elvira Nabiullina, minister for economic development;
Alexander Tkachev, Krasnodar Region governor;
German Gref, Sberbank CEO;
Arkady Dvorkovich, President Medvedev's aid.

Welcome!



X

FORUM
SOCHI
2010

IX

FORUM
SOCHI
2010

IX

Past investment projects

The following large investment projects have been completed in the region over the last few years:

France-based Bonduelle successfully completed a project on the construction of a vegetable canning plant. The first stage of the plant located in Novotitarovskaya was put into operation in 2004. The official opening ceremony for the Bonduelle-Kuban factory's second phase took place on 14 September 2007.

Claas (Germany) completed a EUR 20m project to build an agricultural machinery plant. All planned facilities were built in October 2003, the main one being a 5,000 sq m assembly shop.

Step by step, Nestle is developing its production operation in the region. The Nestle Kuban factory, put into operation in November 2005, became Russia's first full-cycle instant coffee factory.

France-based CECAB Group, a leading European producer and processor of tinned and frozen vegetables, built a tinned- and frozen-vegetable processing and production plant (Kuban Konservy) in the town of Timashevsk.

City Centre (UK) constructed a trade-and-entertainment complex worth RUB 540m.

Auchan and Leroy Merlin (France) built a series of stores.

In October 2009, Slavyansky Kirpich completed the construction of a brick factory in the South-Eastern industrial zone of Slavyansk-on-Kuban. This is Europe's most modern and one of Russia's largest brick factories. The factory has an annual capacity of 180,000 tonnes of ceramic bricks made from an innovative material called Poromax. Poromax is a porous ceramic block that is superior to brick in thermal conductivity, size and weight, allowing construction work to run more efficiently.

In the Mostov District, Knauf-Gypsum-Kuban put a plaster factory into operation with an annual capacity of 400,000 tonnes of gypsum binding materials, as well as a dry pack mortar plant (with a warehouse) producing 350,000 tonnes of mortar a year.

In 2009, the non-metallic construction materials market was supplemented by

the region's largest rock-crushing plant, Vibor-C, which is in Kurganinsky District and has an annual capacity of 2m cu m of gravel and sand of various fractions. The factory produces cubiform crushed stone, which is widely used by manufacturers of branded and special types of concrete, as well as in roadworks since it significantly improves the finished product and the durability of concrete and asphalt constructions.

In the Pavlovsky District, the company Victoria has put the region's first advanced-milling and pellet-production factory into operation. By employing a pellet line fitted out with the most modern European equipment, the factory can produce pellets that are damaged less during transportation, as well as get granulated fuel by processing waste from the arable crop production process. The completion of this project makes it possible to ensure the district's heat and electricity (making up for the energy deficit), as well as to switch boiler rooms now operating on expensive coal, fuel and furnace oil over to alternative sources of energy.

In the Vyselkovsky District the company Agrokompleks has carried out the construction of a loose-housing dairy plant of 2000 dairy cows.

In October 2010, in the Dinskoy District, the Wall Material Plant of Kuban, the region's first autoclaved aerated concrete (AAC) manufacturing business was opened with an output volume of 300,000 cu m per year. The factory was built in accordance with the strictest European standards. It is an economical, fully automated, zero-emission plant with an output of 300,000 cu m of AAC per year. This quantity of construction materials will allow for the construction of 500,000 sq m of comfortable housing. Using AAC speeds up the construction process, reduces labour efforts and materials, all of which has a positive impact on the overall cost of construction.

In the Tuapse District, the construction of an infrastructure facility has been completed. On 8 April 2010, at the Tuapse Commercial Seaport, a grain terminal was opened with a traffic capacity of 2m tonnes per year. The goal of the grain crop transshipment terminal construction project is to increase the Tuapse Commercial

Seaport's transshipment capacity, the variety of transshipment cargo, the service quality, and the environmental safety of the transshipment terminal's dry-cargo area.

The terminal complex is designed to receive grains transported to the complex by rail, clean the grains, temporarily store them in silos, and load them onto sea vessels. The terminal operates high-quality and safe transport and technological equipment. The complex's silo park allows for the receiving and storage of 102,000 tonnes of grain at a time.

In the Krymsky District, the first phase of construction of a factory that will produce Turkish Anadoly Jam glassware has been commissioned. The company's plans include a projected capacity of 700 million glassware units per year and, in the second phase of construction, a glass-making oven for manufacturing transparent glassware. The factory employs the newest glassware production technologies. The factory's goods are already attracting buyers and are in demand both in the Southern Federal District and beyond.

On 30 July 2010, in the Abinsky District, the first phase of construction was begun on the steel-rolling Abinsky Electrometallurgy Factory. The construction was carried out under harsh conditions during the financial crisis. However, the factory is already capable of putting out 500,000 tonnes of rolled steel a year, and at full capacity the factory will be able to produce five times that much. Already 900,000 residents, both of Abinsky District and the wider Krasnodar Region, have found adequate-paying work. Additionally, arrangements for those working at the factory have been made, including housing (the investor built three multi-story residential buildings for his employees).

In the Apsheronsky District, a project for producing modern floor coverings has been completed on the foundations of the still-functioning Parquet Planet woodworking company, with an output capacity of 2m sq m per year.

In the Timashevsky District, the holding company Russia realised the construction of a milk product complex of 1200 cows. As a part of this project new cattle facilities were created, and high-yielding livestock was purchased.

In Gelendzhik a large-scale construction project of big, five-star recreational facilities was completed. Total investment in the project exceeded RUB 8.6m and included:

- Converting the North Star resort into a hotel complex

- Converting the Subarctic health and fitness camp into the Gardens of the Sea apartment hotel complex

- Constructing the five-star Seaboard hotel

In June 2010 in Anapa, an entertainment centre was opened, with a dolphinarium

and an oceanarium. This new facility, which is very important for the city's image, is located on Pioneer Prospect, Anapa's primary resort thoroughfare, within walking distance of the city.

Algorithm for starting business in the Krasnodar Region

Agreement with investor phase

- Registration
- Investment proposal
- Agreement with investor

Preparation and legalization of documentation phase

- Land legal documentation
- Initial permissive documentation

State support phase

- State support of investment project
- Construction
- State support of small and medium enterprises

Setting to work

Krasnodar Region Investment and Project Design Department

35, Krasnaya street, Krasnodar, 350014

Phone: +7 (861) 214 5848

Fax: +7 (861) 262 3681

Email: dips@krasnodar.ru

www.investkuban.ru

Pending investment projects



HEALTH RESORT AND RESIDENTIAL REAL ESTATE

1. Health resorts and tourist facilities at the Vysokii Bereg Embankment (resort city of Anapa)
2. The Gora Semiglavaya mountain recreation complex (Tuapse District)
3. The Zemchuzhny hotel complex (resort city of Gelendzhik)
4. Year-round ski resort complex (resort city of Gelendzhik)
5. A resort recreation area (Primorsko-Akhtarsky District)



AGRICULTURAL SECTOR

6. A complex for growing, handling, packing and storing vegetables (town of Armavir)
7. A pig-breeding complex (Crimean District)
8. A sugar beet processing plant (Kushchevsky District)



TRANSPORT AND INFRASTRUCTURE

9. A logistics complex (Seversky District)
10. The Labynsky pumped-storage hydroelectricity plant (Labynsky District)



INDUSTRY

11. A plant for producing multifunctional mini-machines and attachments (Novopokrovsky District)
12. A glass manufacturing plant (Caucasian District)
13. A wood-working complex (Pavlovsky District)
14. A ceramic brick manufacturing plant (Belorechensky District)
15. A polyurethane-filled sandwich-panel manufacturing plant (Krasnoarmeisky District)
16. Rubbish recycling grounds (Tikhoretsky District)



Resort city of Anapa

Construction of health resorts and tourist facilities at the Vysokii Bereg Embankment

Project goals:

As part of the project implementation there are plans to:

- extend the upper embankment
- design the lower embankment separating a number of hotels from the beach-recreational zone and to ensure the service traffic passage
- back fill the coastline, setting up 50 to 100 m wave-cancelling structures.

There are three complexes located in the embankment territory that are built into the slope of Vysokii Bereg: a surfing centre, a hotel complex with 120 rooms and the Chernomorsky Hotel.

Project financing:

Project cost: RUB 2.08bn/EUR 49.52m

Investment requirements: 100%

Payback period: 10.2 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: resort city of Anapa, Vysokii Bereg Embankment

Land plot area: 8.8 hectares

Distance to nearest:

- regional centre – 165km
- large railway junction – 20km
- seaport – 1km
- airport – 30km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 1,000 m

Gas supply: distance to gas supply point – 200 m

Water supply: distance to water supply point – 250 m

Tuapse District

Construction of Gora Semiglavaya mountain recreation complex

Project goals:

The project is a modern resort offering both summer and winter recreational facilities. The resort will include:

- a sports recreation and therapy complex, hotels with 500 rooms
- a retail and entertainment complex, with bowling, restaurants, cinemas, a retail gallery, boutiques, a billiards hall, etc.
- a transport terminal, including a multi-story car park, outdoor parking lots, a cable lift terminal, and bus stations
- a golf village, including a golf club, a golf course, club hotels, and low-rise villas
- an equestrian centre, including a small indoor arena, an outdoor arena, stables, and a horseback riding school
- a woodland park with infrastructure.

Resort city of Gelendzhik

Construction of the Zhemchuzhny Hotel complex

Project goals:

The project will entail construction of a modern high-end four-star hotel complex with 400 rooms. It will include the hotel complex, restaurants, a business centre with a conference hall, a sport recreation complex, a spa, an entertainment centre, a multi-story indoor parking area, etc.

Project financing:

Project cost: RUB 1.479bn/EUR 35.2m
Investment requirements: 100%
Payback period: 10.5 years

Investor participation conditions:

Direct investments

Resort city of Gelendzhik

Construction of a year-round ski resort complex

Project objective:

Construction and maintenance of a year-round ski resort complex that will include:

- skating rink
- skating rink and playroom for children
- spa salon with sauna, bath house, solarium and massage services
- fitness centre with gym
- multiple bars, coffee shops, restaurants and shops
- bowling
- parking.

Project financing:

Project cost: RUB 3.5bn/EUR 154.76m
Investment requirements: 90%
Payback period: 9.9 years

Project financing:

Project cost: RUB 10.8774bn/EUR 259m
Investment requirements: 100%
Payback period: 4.75 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Tuapse District, Semiglavaya mountain, Terzian village
Land plot area: 500 hectares
Distance to nearest:

- large railway station (Induyk) – 25km
- large railway junction (Tuapse) – 57km
- airport (Krasnodar) – 220km
- airport (Adler) – 210km

Existence of engineering infrastructure:

Electricity supply: new networks construction
Water supply: construction of artesian well

Land plot parameters:

Location: The plot is located within the Severomorets children's summer camp in the city of Gelendzhik (Tonky Mys).
Land plot area: 3.86 hectares
Distance to nearest:

- regional centre – 190km
- large railway junction (Novorossiisk) – 23km
- seaport (Novorossiisk) – 23km
- airport (Gelendzhik) – 9km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 770 m
Gas supply: distance to gas supply point – 320 m (pipeline of medium pressure)
Water supply: distance to water supply point – 120 m diameter – 100 mm

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Gelendzhik, Svetly village
Land plot area: 6,214 hectares
Distance to nearest:

- regional centre - 180km
- large railway junction (Novorossiisk) - 36km
- seaport (Novorossiisk) - 40km
- airport (Gelendzhik) - 11km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point - 650 m
Gas supply: distance to gas supply point - 250 m
Water supply: distance to water supply point - 700 m

Primorsko-Akhtarsky District:

Construction of resort-recreational area

Project goals:

The project includes the siting of:

1) a resort recreation area of 50 hectares consisting of:

- a resort recreation complex
- a hotel with 50 rooms
- 100 cottages (with a total area of 50 sq m)
- holiday camps
- a stadium with a total area of 15,000 sq m
- a restaurant, a water park, a gambling complex

2) resort recreation site development with a total area of 72 hectares with service, therapeutic, entertainment, tourist, shopping, everyday, gambling and showy structures and public catering facilities.

Project financing:

Project cost: RUB 12.3bn/EUR 292.86m

Investment requirements: 100%

Payback period: 5 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Primorsko-Akhtarsky District, Primorsko-Akhtarsk

Total land plot area: 122 hectares

Distance to nearest:

- regional centre – 160km
- the nearest city (Timashevsk) – 78km
- large railway junction (Timashevsk) – 78km
- seaport (Eisk) – 208km
- airport (Krasnodar) – 160km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 100 m

Gas supply: distance to gas supply point – 500 m

Water supply: construction of the artesian well

City of Armavir

Construction of a complex for growing, handling, packing and storing vegetables

Project goals:

The project entails the construction of a greenhouse complex that will grow vegetables using hydroponic methods.

The crop capacity per sq m using this growing method varies from 50 to 80 kg, depending on the vegetable produced.

Project financing:

Project cost: RUB 788m/EUR 18.76m

Investment requirements: 100%

Payback period: 3.6 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: City of Armavir

Land plot area: 35 hectares

Distance to nearest:

- regional centre (Krasnodar) – 250km
- large railway station (Krasnodar) – 220km
- seaport (Sochi) – 550km
- seaport (Novorossiisk) – 360km
- airport (Mineralnye Vody) – 180km
- airport (Krasnodar) – 250km

Existence of engineering infrastructure:

Electricity supply: electricity supply point – 148 m

Gas supply: gas supply connection point – 1,700 m

Water supply: water supply connection point – 654 m

Crimean District

Pig breeding complex construction

Project goals:

The project will entail the construction of a butcher house with a capacity of 800 animals per day, as well as a sausage department.

Project financing:

Project cost: RUB 16bn

Investment requirements: 100%

Payback period: 6 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Crimean district, Merchanskoye rural settlement, motor road to Khutor Mova

Land plot area: 184 hectares

Distance to nearest:

- regional centre (Krymsk) – 25km
- regional centre (Krasnodar) – 103km
- large railway junction (Krymsk) – 23km
- seaport (Novorossiisk) – 67km
- airport (Krasnodar) – 103km

Existence of engineering infrastructure:

Electricity supply: Construction of high-voltage line – 6 kv

Gas supply: distance to gas supply point – 6,000 m (pipeline of low pressure)

Kushchevsky District

Siting of sugar beet processing plant

Project goals:

The project entails the processing of sweet sugar with the capacity of 16,000 tonnes per day, making it 2.5-3 times more productive than any existing plant in Russia. The project implementation period is three years. The plant will be able to process sugar from producers of Kushchevsky District and the neighbouring districts of Krasnodar and Rostov regions.

Project financing:

Project cost: RUB 9bn/EUR 214.3m

Investment requirements: 100%

Payback period: 7.8 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Location: Kushchevsky District, 1 km West of Kushchevskaya Station

Land plot area: 97.7 hectares

Distance to nearest:

- district (station Kushchevskaya) – 1 m
- regional centre (Krasnodar) – 234km
- large railway station (Starominskaya - Kushchevskaya) – 4.5km
- seaport (Eisk) – 118km
- airport (Rostov-on-Don) – 94km

Existence of engineering infrastructure:

Electricity supply: Construction of an electric substation 110/10 kW

Gas supply: distance to nearest gas supply point – 800 m

Water supply: construction of an artesian well

Seversky District

Logistics complex

Project goals:

This project will entail the construction of a logistics complex for 150 heavy trucks at Severskaya station to accept, store and transship goods, as well as to render additional services to truck drivers.

Project financing:

Project cost: RUB 519m /EUR 12.36m

Investment requirements: 100%

Payback period: 4.75 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Seversky District, Severskaya Station, Krasnodar–Novorossiisk Federal Highway 47km + 790 m (to the right)

Land plot area: 15 hectares

Distance to nearest:

- regional centre – 38km
- railway station (Severskaya) – 2km
- seaport (Novorossiisk) – 109km
- airport (Krasnodar) – 49km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 70km

Gas supply: distance to gas supply point – 1,000 m

Water supply: Artesian well drilling is required

Labynsky District

Construction of Labynsky pumped storage plant

Project goals:

The project provides for the construction of a pumped storage plant at the Laba River with a capacity of 600 MW.

The principal mode of operations is the change of two regimes: energy storage during the night time when the power consumption is reduced and energy output to users in peak hours. The accumulation cycle of Labynsky pumped storage plant is daily.

Project financing:

Project cost: RUB 18.6bn/EUR 442.8m

Investment requirements: 100%

Payback period: 15.9 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Labynsky district, 4.5km up the Laba River from Zassovskaya Station

Land plot area: 305 hectares

Distance to nearest:

- district centre (Labynsk) – 30km
- regional centre (Krasnodar) – 282km
- large railway centre (Armavir) – 135km
- seaport (Novorossiisk) – 423km
- airport (Krasnodar) – 282km

Existence of engineering infrastructure:

Electricity supply: Open-wire circuit – 50 m

Gas supply: gas pipeline of high pressure

Water supply: 100 m

Novopokrovsky District

Construction of a plant for producing multifunctional mini-vehicles and attachments

Project goals:

The principal product of the plant will be mini-tractors and attachments for loading, digging, general construction, utility, agricultural and landscaping.

Project financing:

Project cost: RUB 2.1048bn/EUR 50.11m

Investment requirements: 100%

Payback period: 6.4 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Novopokrovskaya Station

Land plot area: 2 hectares

Distance to nearest:

- regional centre – 185km
- city (Tikhoretsk) – 36km
- large railway station (Tikhoretsk) – 36km
- seaport (Eisk) – 250km
- airport (Krasnodar) – 185km

Existence of engineering infrastructure:

Electricity supply: distance to electricity point – 180 m

Gas supply: distance to gas supply point – 420 m

Water supply: distance to water supply point – 85 m

Caucasian District

Glass-manufacturing plant

Project goals:

The plant will produce two types of M-1 glass with a maximum size of 3,210*6,000 mm and thickness from 2 to 12 mm: translucent tinted (bulk dyed) and solar reflective glass. The projected annual output when the plant has reached full production capacity will be 220,000 tonnes. The operating capacity is 80%, which will allow for an output of 11,840 sq m of flat glass (excluding rejects) at a thickness of 6 mm.

Project financing:

Project cost: RUB 6.1035bn/EUR 145.3m

Investment requirements: 100%

Payback period: 5 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: town of Kropotkin

Land plot area: 40 hectares

Distance to nearest:

- regional centre (Krasnodar) – 140km
- seaport (Novorossiysk) – 270km
- railway station (Kavkazskaya) – 5.7km
- airport (Krasnodar) – 140km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 500 m

Gas supply: distance to gas supply point – 2,700 m

Water supply: artesian wells No. 46 and No. 47 – 1,200 m and 1,500 m

Pavlovsky District

Wood-working complex

Project goals:

Wood-working complex construction. Wood house building development.

Annual output of processed wood - 30,000 cu m

Output of products for comprehensive house assembly - up to 120 packages per annum.

Project financing:

Project cost: RUB 745m/EUR 17.73m

Investment requirements: 100%

Payback period: 2 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Pavlovsky district, Pavlovsky station, Eastern industrial area

Land plot area: 3.66 hectares

Distance to nearest:

- regional centre (Krasnodar) – 120 m
- the nearest railway station (Sosyka-Eiskaya) – 22km
- seaport (Eisk) – 144.5km
- airport (Krasnodar) – 108.5km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 230km

Gas supply: distance to gas supply point – 130 m

Water supply: within the borders of the plot of land

Belorechensky District

Ceramic brick manufacturing plant

Project goals:

The project will include setting up the production of facade and standard ceramic bricks and large ceramic blocks from proven clay reserves in the Ryazan Rural Settlement. The projected capacity of the plant is up to 50 million standard bricks per year.

Project financing:

Project cost: RUB 887.1m/EUR 21.12m

Investment requirements: 100%

Payback period: 3.9 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Ryazan Rural Settlement

Land plot area – 12 hectares

Distance to nearest:

- regional centre – 56km
- town (Belorechensk) – 40km
- large railway station (Belorechensk) – 43km
- seaport (Novorossiisk) – 190km
- airport (Krasnodar) – 53km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 200 m

Gas supply: distance to gas supply point – 1,000 m

Water supply: Artesian well drilling is required

Krasnoarmeisky District

Polyurethane-filled sandwich panel manufacturing plant

Project goals:

The construction of a modern technology intensive enterprise for the production of polyurethane-filled sandwich panels (with an output 1,700,000 sq m per year) in the Krasnoarmeisky District of Krasnodar Region. The sandwich panel construction technology is the most cost effective and eco-friendly means of construction. This plant will effectively compete in the market both in Krasnodar and other regions thanks to the high quality and affordable price of the product.

Project financing:

Project cost: RUB 500m/EUR 11.9m

Investment requirements: 100%

Payback period: 4.2 years

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Krasnoarmeisky District, the industrial development area of Poltava cossack village.

Land plot area: 4.12 hectares

Distance to nearest:

- regional centre (Poltavskaya Station) – 1km
- district centre (Krasnodar) – 70km
- railway station (Poltavskaya) – 2.7km
- seaport (Novorossiisk) – 100km
- airport (Krasnodar) – 90km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 1,000 m

Gas supply: distance to gas supply point – 1,000 m

Water supply: Artesian well drilling is required

Tikhoretsky District

Rubbish recycling grounds

Project goals:

The grounds will produce recycled raw materials by sorting waste, scrapping unusable waste in the form of compressed bricks on the grounds.

Project financing:

Project cost: RUB 250m/EUR 5.95m

Investment requirements - 100%

Payback period: 5.1 years.

Investor participation conditions:

Direct investments

Land plot parameters:

Location: Tikhoretsky District, Tikhoretsk, Kamenny village

Land plot area: 1.5 hectares

Distance to nearest:

- municipal education centre – town of Tikhoretsk – 6km
- railway station (Tikhoretsk) – 6km
- airport (Krasnodar) – 157km
- seaport (Eisk) – 184km

Existence of engineering infrastructure:

Electricity supply: distance to electricity supply point – 1,200 m

Gas supply: distance to gas supply point – 1,400 m

Water supply: distance to water supply point – 800 m

Concluding remarks

The Krasnodar Region has long been known as the Pearl of Russia, and rightly so as it is the nation's breadbasket and the leader in Russia's agribusiness sector.

The regional administration is constantly on the lookout for new and effective avenues for developing the local economy and offers strong support for investors. We have created highly favourable conditions for developing business in the region, and our investment legislation has been recognised by experts as one

of the best in Russia. Investors coming to the region can count on strong administrative support and substantial incentives.

The leadership of the Krasnodar Region has opened the door to a cooperative partnership with the business community, and guarantees the most favourable conditions for carrying out all manner of investment projects. We have a stake in the success of every investor and are ready to work with Russian and foreign business partners.

Ladies and Gentlemen,

Come visit the Krasnodar Region and see for yourselves how business-friendly our investment climate is. Your business is sure to feel right at home here!

The Kuban is open for investment!



Useful information

City of Krasnodar

Pashkovsky Airport

355 Bershanskoy St., Pashkovsky Settlement
Krasnodar

Information Service: +7 (861) 266 7222

Krasnodar-1 Railway Station

1 Privokzalnaya Square, Krasnodar, 350033
Information Bureau: +7 (861) 262 0887

Krasnodar-1 Bus Terminal

5 Privokzalnaya Square, Krasnodar, 350033
Information Bureau: +7 (861) 262 5144

Krasnodar-2 Bus Terminal

1 Gavrilova St., Krasnodar
Information Service: +7 (861) 255 0618

Sochi

Airport

OJSC Sochi International Airport
Sochi, 354355, Krasnodar Region
Information Service: +7 (862) 240 0088

Bus Terminal

56A Gorkogo St., Sochi, Krasnodar Region
Information Service: +7 (862) 264 6457

Official website of the Krasnodar
Regional Administration

<http://admkrain.krasnodar.ru>

Official website of the Krasnodar
Region Executive State Government Bodies
www.krasnodar.ru

Krasnodar Region
Investment and Project Design Department
Phone: +7 (861) 214 5848
Fax: +7 (861) 262 3681
Email: dips@krasnodar.ru
Information service for foreign investors:
+7 (861) 268 4878

Official website of the Krasnodar
Region Legislative Assembly
www.kubzsk.ru

Railway Station

56 Gorkogo St., Sochi, Krasnodar Region
Information Service: +7 (862) 260 9009

Anapa

Airport

Anapa-7, Airport, Krasnodar Region, 353447
Information service: +7 (861) 339 8509

Bus Terminal

11 Krasnoarmeiskaya St., Anapa, 353440
Information service: +7 (861) 335 6861

Railway Station

Jemete Village, Anapa District, Krasnodar Region
Information service: +7 (861) 333 3186

Gelendzhik

Airport

5 Pilotov St., Gelendzhik, Krasnodar Region, 353470
Information service: +7 (861) 419 9009

Bus Terminal

3 Obyezdnaya St., Gelendzhik, 353470, Krasnodar Region
Information service: +7 (861) 413 2793

PwC Russia

Moscow

White Square Office Center, 10 Burtysky Val
Moscow, 125047
Phone: +7 (495) 967 6000
Fax: +7 (495) 967 6001
www.pwc.ru

Krasnodar

Olympic Plaza Office Center, 43 Krasnoarmeiskaya St.
Krasnodar, 350000
Phone: +7 (861) 210 5500
Fax: +7 (861) 210 5544

Anna Kalmykova
Head of the PwC Russia Office in Krasnodar
Email: anna.kalmykova@ru.pwc.com

