

SELECTION OF THE OPTIMAL SITE FOR LOCALIZATION OF PRODUCTION IN RUSSIA



Moscow – April 2015

VELES CAPITAL: EXPERIENCED INVESTMENT ADVISOR SINCE 1995



Equity market

- Assets in access of EUR 300 mn are under management by Veles Capital group of companies as of end of 2014
- TOP-10 investment company in Russia by total turnover of securities (about EUR 216 bn as per 2014 NRA ranking)

Veles Capital Investment Company Veles Management Veles International Ltd (Cyprus)

Specialization and expertise

- Target customers mid-cap companies
- Experience in machinery manufacturing, oilfield services, agriculture, construction materials, pharmaceuticals, health care
- In affiliation with Veles Capital Group we offer services in the capital markets, financial expertise of investment projects, financial audit and commercial risk assessment, private equity funds, legal support of investment activities, land development, analytical support



Private equity and corporate finance

- More than USD 500 mn is the company's total volume of private equity portfolio in Russia, CIS and Europe
- Over 10 projects are currently realized in the field of private equity and management of private equity funds

Veles Capital Investment Group Veles Capital Investment Company Veles Management

Investment portfolio

- Veles Kaluga industrial park
- Veles Pharma
- Syktyvkar Tissue Group
- Runako
- Smelyansky electromechanical plant
- National Medical Corporation
- Leznikovsky quarry
- Volgo-cement
- Prodalliance
- Basalt research institute of glass plastics and fiber



Real estate investment

- 28 projects in residential and commercial real estate market segments domestically and abroad
- TOP-15 company by assets volume in closed-end funds by the end of 2014

Veles Trust
Veles Management
Veles Development

Management company services

- Land surveying and allocation of land plots, cadastral changes
- Laying of utilities; supply of electricity, gas, water and heat, waste services
- · Assistance in obtaining permissions
- Project management and property management, infrastructure maintenance
- Logistics, security, cleaning services and garbage disposal
- Legal, consulting, real estate services and arrangement of financing for construction projects at the industrial park territory



RUSSIA: APPEALING DESTINATION FOR INDUSTRIAL INVESTMENT

 Unique geographical location (neighboring 16 countries, interlink between the West and the East)

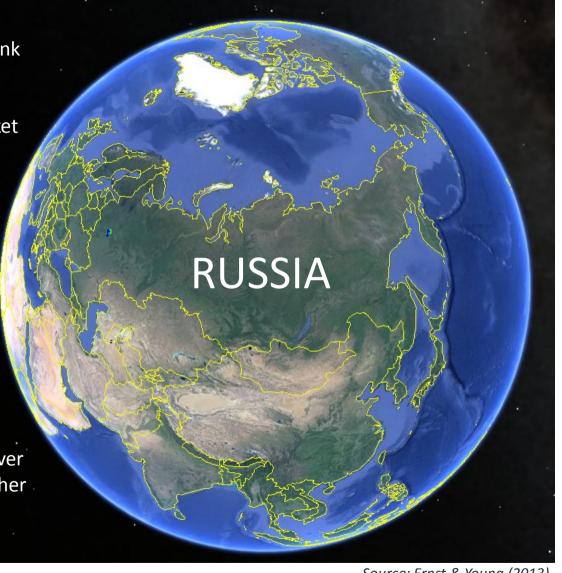
Huge internal consumption market

 Abundance of natural resources: gas (38%), oil (6%), water (26%), timber (23%)*

 Developed telecommunication infrastructure

 Relatively low cost of qualified personnel (total – about 76 mn people, 30% highly educated)

 Average ROE – more than 20% over the last 10 years (1,5-2 times higher than that in BRICS)*





IDENTIFYING THE RIGHT SITE: GENERAL APPROACH

Site location criteria

(may differ for various types of investors)

General market's economic situation

General locations/regions and specific sites in those locations (3-4 sites)

Functional analysis of site location

(management, costs, demography/economy, linkages, customers, suppliers)

Technical analysis of site location

(access, physical limitations, utilities, regulatory, proper zoning, environment)

Best site based on site location criteria

(comparative analysis, SWOT etc.)

Financial feasibility of the specific use



GEOGRAPHICAL DISTRIBUTION OF INDUSTRIAL PARKS IN RUSSIA





SITE LOCATION CRITERIA

LABOR POOL: size, proximity, prevailing wages and benefits, level of skills, competition for labor

INDUSTRIAL SERVICE AREA: employees, customer base, suppliers, raw

AGGLOMERATION ECONOMIES: comparative advantage of a particular location close to similar companies or necessary infrastructure

materials, services and resources needed to support the business etc.

UTILITY NEEDS: availability and local cost of necessary electrical, gas or other power sources and transmission lines

ACCESS, TRAFFIC, TRANSPORTATION FACILITIES: rail link, containerization, access to airport cargo facilities, special accommodations for trucks etc.

PROPERTY TYPE: heavy/light manufacturing, freestanding site, industrial park (greenfield/brownfield, state/private, general/themed, metropolitan/rural etc)



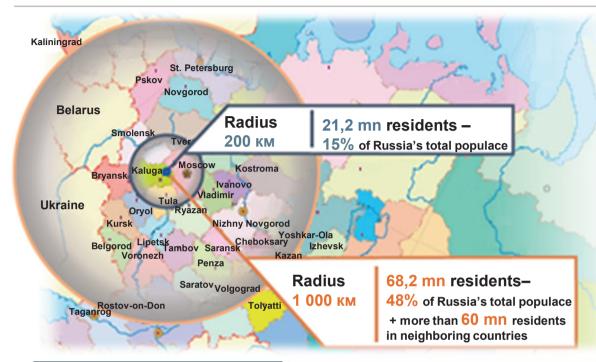
INFRASTRUCTURE IS CORE FOR INDUSTRIAL DEVELOPMENT



Source: Ministry of Transportation of Russia



ADVANTAGES OF CENTRAL LOCATION



200 KM RANGE	POPULATION, RESIDENTS
Moscow	11 541 101
Moscow region	7 106 215
Kaluga region	1 009 191
Tula region	1 550 330
Total	21 206 837

DISTANCE AND DRIVING TIME TO CITIES WITH CAR PRODUCTION					
Kaluga	40 км	30 min			
Moscow	140 км	2 h			
Nizhny Novgorod	600 км	8-9 h			
St. Petersburg	880 км	12-13 h			
Taganrog	1 060 км	13-15 h			
Tol'yatti	1 100 км	14-16 h			
Kaliningrad	1 280 км	17-20 h			
Naberezhnye Chelny	1 300 км	16-18 h			
Izhevsk	1 450 км	18-20 h			

200 - 1000 KM RANGE	POPULATION, RESIDENTS	
Belgorod region	1 532 353	
Bryansk region	1 275 354	
Vladimir region	1 441 129	
Volgograd region	2 607 505	
Vologda region	1 201 190	
Voronezh region	2 334 809	
Ivanovo region	1 060 109	
Kostroma region	666 391	
Kursk region	1 125 648	
Leningrad region	1 718 581	
Lipetsk region	1 172 026	
Republic of Mary El	695 482	
Nizhny Novgorod region	3 307 648	
Novgorod region	632 799	
Oryol region	785 592	
Penza region	1 384 006	
Pskov region	671 272	
Rostov region	4 275 223	
Ryazan region	1 151 838	
St. Petersburg	4 899 344	
Republic of Mordovia	833 263	
Saratov region	2 519 282	
Smolensk region	982 887	
Tambov region	1 089 700	
Republic of Tatarstan	3 787 485	
Tver region	1 350 086	
Ulyanovsk region	1 290 478	
Republic of Chuvashia	1 250 518	
Total	47 041 998	



Source: State Statistics Service, Veles-Capital

SITE LOCATION CRITERIA (CONTD.)

ZONING: where and what is permitted (e.g. heavy/light manufacturing), potential for zoning changes and consequent impact etc.

LAND: proper usage (land category), size of site, soil, configuration, drainage, topography, slope, engineering needs etc.

HEALTH AND SAFETY: health hazards and the potential for employee injury etc.

ENVIRONMENTAL IMPACTS: emissions, waste disposal, water and power usage etc.

AUTHORITIES INCENTIVES AND BUSINESS CLIMATE: tax benefits, region attributes, priority industries, responsive economic development team etc

QUALITY OF LIFE: cultural amenities, sport/recreational activities, shopping, educational opportunities, distance to residential areas, climate



RUSSIAN REGIONAL INVESTMENT CLIMATE INDEX (2014)

Region	Final Grouping (Overall)	Regulatory Environment	Business Institutes	Infrastructure and Resources	Small Business Support
Kaluga region	А	1	1	1	1
<u>Ulyanovsk region</u>	А	2	1	4	1
Krasnoyarsk territory	А	1	2	1	3
Republic of Tatarstan	А	2	3	2	1
Kostroma region	А	2	2	3	2
Tula region	В	2	2	3	3
Krasnodar territory	В	1	4	2	4
Tomsk region	В	3	4	3	2
Altai territor <u>y</u>	В	3	1	4	5
Vladimir region	С	4	3	3	4
Rostov region	С	3	4	2	5
Chelyabinsk region	С	4	4	3	2
Leningrad region	С	5	1	2	5
Republic of Sakha (Yakutia)	D	5	4	3	1
Samara region	D	4	4	5	1
Khabarovsk territory	D	5	3	3	3
Moscow	D	5	3	2	4
Sverdlovsk region	Е	4	5	2	4
Stavropol territory	Е	4	5	4	2
Saint Petersburg	E	5	5	2	3
Primorsky territory	E	5	5	5	5



Note: Group A - best performing, Group E – worst performing

Source: Agency for Strategic Initiatives

FUNCTIONAL ANALYSIS OF SITE LOCATION

MANAGEMENT: quality, developer reputation, flexible commercial options (buy-out/built-to-suit/lease), services cost, resident retention

BUILDING FEATURES: visibility, image, structure, amenities, size and configuration, age and condition, floor load, ceiling heights, efficiency etc.

RESIDENTS: quality, size, mix, anchor residents, turnover of residents

COSTS: cost of land, hard and soft costs of development, operating costs, insurance, taxes etc.

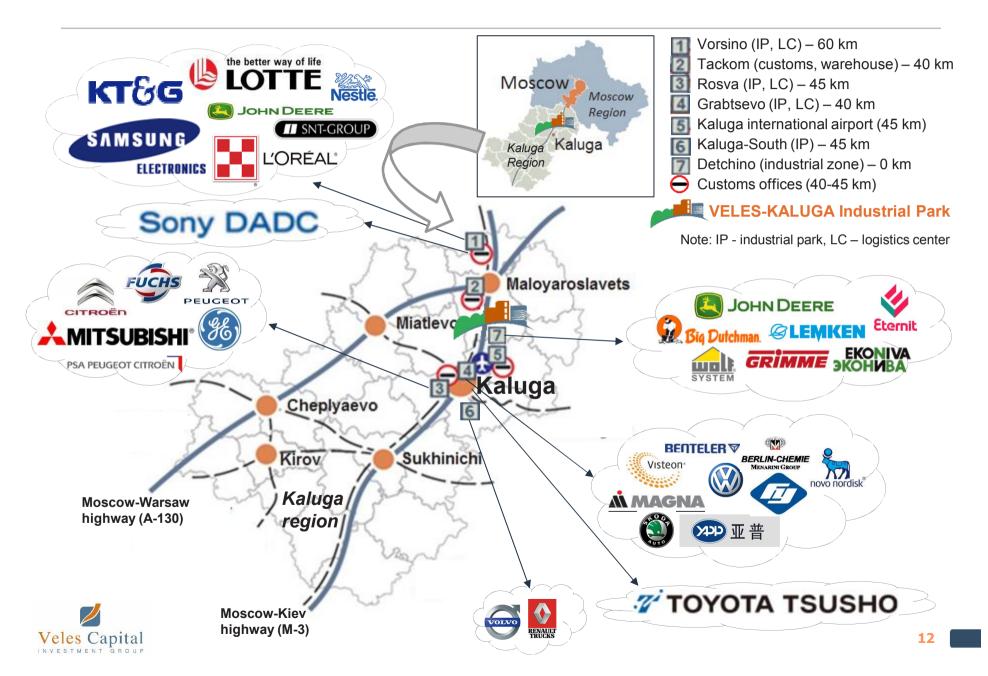
DEMOGRAPHICS/ECONOMICS: population, labor/employment, income, wages, real estate prices, demand potential, tax structures, neighborhood

LINKAGES*: transportation network, employment, customer bases, suppliers, raw materials, education/recreation/health/cultural centers, agglomeration

*Costs to transport goods/services/people to and from the site measured in time, distance and convenience



VELES-KALUGA CASE STUDY: FUNCTIONAL CONSIDERATIONS



TECHNICAL ANALYSIS OF SITE LOCATION

ACCESS FACTORS: thoroughfares, number of lanes, congestion level, road condition, turnings, ingress/egress points, area roads, passenger lines etc.

LAND FACTORS: size, frontage, soil, configuration, drainage, adjacent properties, landscaping, topography, slope, site plan and map etc.

REGULATORY FACTORS: zoning (proper land use), building codes, restrictions, heights, permits, surrounding industry compatibility

ENVIRONMENTAL CONCERNS: groundwater contamination, hazardous waste disposal sites, radon, electromagnetic fields by power lines etc.

UTILITIES: required capacities provided on electricity, gas, water and sewer, heat, telecom; matching distribution centers and transmission line sizes



VELES-KALUGA CASE STUDY: TECHNICAL CONSIDERATIONS







THANK YOU FOR YOUR ATTENTION! REMAIN READY TO ANSWER YOUR QUESTIONS.

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