

THE YEKATERINBURG TIMES

Investors' Guide to Yekaterinburg



Boeing Ural opens New Manufacturing Unit

Innovative Pipes and Giant Gas Absorbers for Nord Stream 2

Siemens Plant to gear up to High-Speed Trains

UMMC BASKETBALL CLUB



Ural Mining Metallurgical Company



LEAGUE WOMEN 2018
CHAMPIONS



CONTENT

Investors' Guide Yekaterinburg and the URAL REGION.....	4
No reason for arrogance	25
Italy PM Conte launches new factory in Chelyabinsk.....	27
Sika expands production capacities in Russia.....	30
Entry market strategy: buying assets at 50% discount.....	31
The Days of Sweden in Yekaterinburg.....	32
German-Russian Year of Municipal and Regional Partnerships.....	33

New Concert Hall to be opened in Yekaterinburg 34



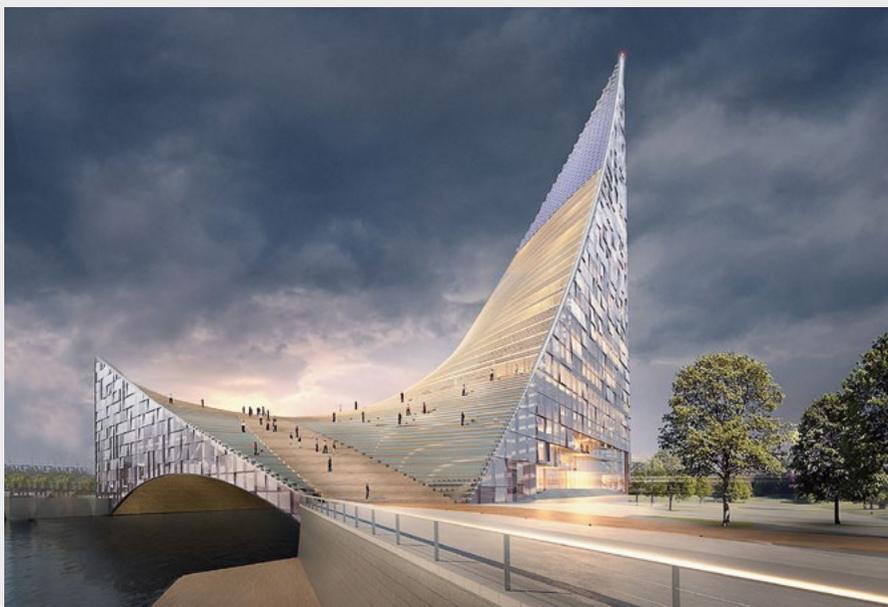
Название издания: The Yekaterinburg Times;
 Учредитель и издатель: ООО М.И.К.;
 Свидетельство о регистрации в Роскомнадзор
 СМИ ПИ No ТУ 66-01717;
 Главный редактор: Мунтанион Э.П.;
 Дизайн, инфографика:
 Константин Кузниченко;
 Номер выпуска 1-X-19.

Тираж X экз.
 Подписан в печать 2019 г.
 Дата выхода 2019 г.
 Рекомендованная цена 350 рублей.
 Возрастные ограничения 16+
 При использовании материалов в любой форме
 ссылка обязательна;

Адрес издателя и редакции:
 Бизнес парк «Деловой Квартал»,
 Сибирский Тракт, д. 12, строение 1а,
 Екатеринбург, 620100,
 Телефон: +7 (343) 312-22-74,
 info@yekaterinburgtimes.com;

Журнал отпечатан в типографии «Си Ти Принт»
 Екатеринбург, ул. Посадская, 16а, оф. В-211
 Тел.: +7 (343) 385-74-03
 E-mail: print@citi-print.ru

Chelyabinsk
to host BRICS
and SOC summits
in 2020
37



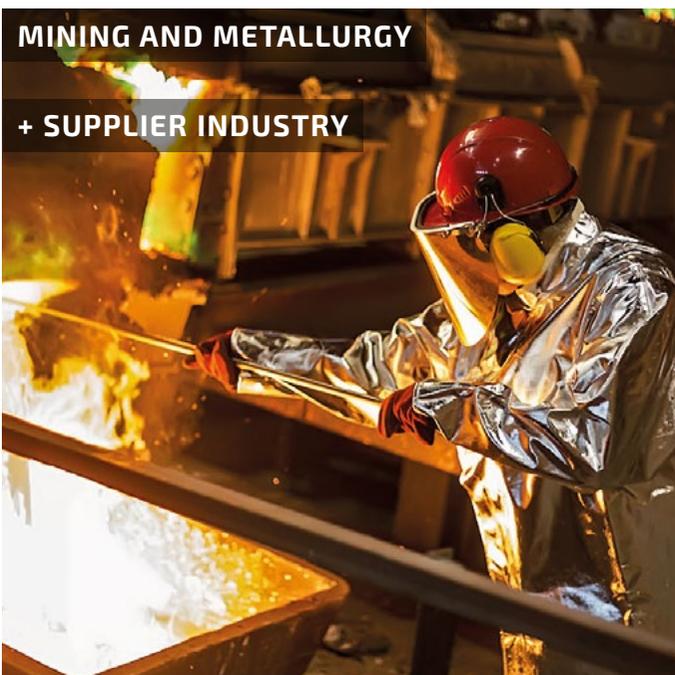
Yekaterinburg to host GMIS 2019.....	39
Ural's High-Speed Railroad to be built with German partners.....	40
Garage start-up finds its golden ticket with Ural Locomotives.....	41
Fast-growing chain of discount liquor stores creates Ural's newest billionaire.....	42
Ural Airlines to purchase 14 Boeing aircraft for \$1.5 billion.....	47
Stopping chaotic waste disposal.....	48
Soyuzpishcheprom starts first non-dairy milk production in Russia.....	49
11,500 years old wooden sculpture in new spotlight around the globe.....	50
Mike Tyson attends opening ceremony in Korkino.....	52

Investors' Guide Yekaterinburg

and the URAL REGION

MINING AND METALLURGY

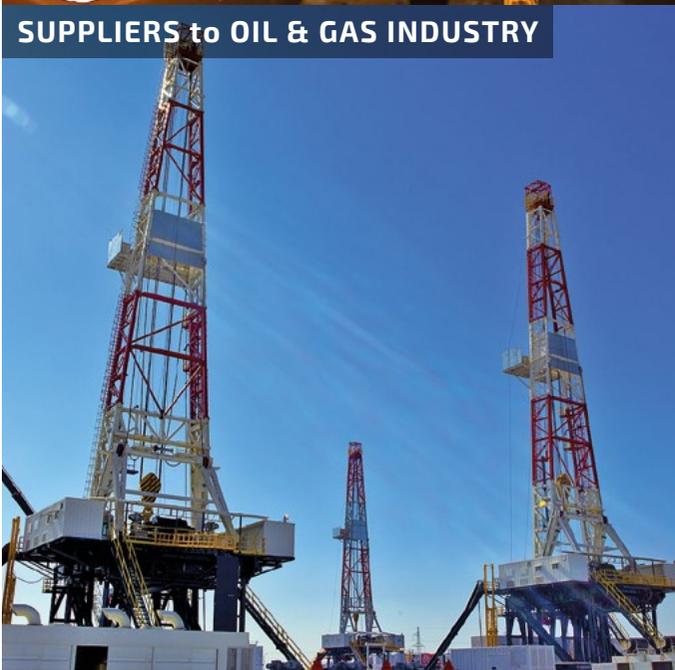
+ SUPPLIER INDUSTRY



RAILWAY SUPPLIERS



SUPPLIERS to OIL & GAS INDUSTRY



Russia's industrial powerhouse and third capital

Yekaterinburg is regarded as Russia's industrial powerhouse and third capital. The region's dynamic economy and strong industrial base are attracting increasing attention from potential investors.

In particular, international companies looking to localise production in Russia now extend their focus beyond Moscow and St. Petersburg and explore the opportunities of the industrial centre, located only a two-hour-flight away from the main capital.

Note: For simplification reasons and purpose of this guide, the name Yekaterinburg shall refer to the respective city and its neighboring towns as one location, ignoring the local distinction.





Major advantages for manufacturing companies

- A range of industrial parks and production sites to buy or lease at attractive rates
- Qualified manufacturing workforce: engineers, blue-collar workers, IT specialists
- Availability of industrial partners and suppliers
- Developed logistics infrastructure
- Attractive prices for electricity and gas
- Governmental support and tax preferences
- Proximity to a large consumer market
- Quality of life

Yekaterinburg offers all the necessary infrastructure and favourable conditions to produce innovative, high-quality products.

> Yekaterinburg offers all the necessary infrastructure and favourable conditions to produce innovative, high-quality products

300 years of industrial competences and international cooperation

Yekaterinburg was founded by decree of tsar Peter the Great in 1723, together with the construction of a massive metal-making plant, the largest in Russia and Europe at that time.

The city's name containing the German word (-burg) means the City of Catherine, in honour of Peter's wife, tsarina Catherine (in Russian Yekaterina), reflecting the same European-influenced naming practice as St. Petersburg, which was founded only 20 years earlier and named by Peter the Great, personally, in honor of Saint Peter. In his early years, the tsar spent an extensive period of time in Europe, studying shipbuilding in Holland, and visiting factories, arsenals and museums. During his reign Russia and Europe came closer together, and the history of Yekaterinburg is symbolic of that time.

The tsar entrusted the construction and administration of the factory and the fortress to an experienced German mining and metallurgy engineer — Georg William de Gennin. According to records in church books recently recovered in Georg's home town of Siegen, he was born as Georg Wilhelm Henning, but later changed his name to de Gennin. He constructed the factory-fortress with a strict structure of perpendicular streets, and the plant serving as the centrepiece of the urban area. The former production site is now a public space, marking the city's starting point and remaining part of the city centre with its government buildings, business towers, hotels and parks located around a large body of water being an artificial pond created with the initial purpose to feed the water-powered ore mills of the metal-making plant.

Iron, steel and copper produced in Yekaterinburg were exported to other countries and used, for example, in building some of the world's most famous landmarks — the Houses of Parliament in London and the Eiffel Tower in Paris.

The more recent turning point of the city's industrial history goes back to 1930s, when the big industrialisation wave was unfolding across the country. Alongside the strong development of mining and metallurgy in the Ural region at that time, Yekaterinburg became also an important supplier of large blast furnaces, rolling mills, excavators and other heavy machinery and equipment for this sector, and around the same time or later for further leading industries, including power supply, oil & gas, railway and aerospace. The ma-



Founding fathers Tatishchev and de Gennin

chine-building giants Uralmash, Elmash and Uralkhim mash were raised from scratch, together with the new city districts bearing the same names.

Since the early 1990s, the region’s industry has been transforming in the new environment of global market economy, with the evolving of new champions and outsiders.

In 2019, Yekaterinburg has a population of 1.4 million people and is, in this regard, the fourth largest city in Russia, behind Moscow, St. Petersburg and Novosibirsk. In administrative terms, it’s the capital of the surrounding Sverdlovsk Region and the Ural Federal District composed of, in total, six regions with a population of 12 million people.

Quality of Life

In the last two decades, Yekaterinburg has been moving on a dynamic path and is today a modern, safe and comfortable city.

Visitors can choose between hundreds of hotels offering the full array of options, from the local ones to well-known names and luxury five-star properties. As far as the list of Best Hotels in Europe from the U.S. News & World Report is concerned, the Hyatt Regency Ekaterinburg is the best in the city and the top-10 percent in Europe.

The city’s airport, Koltsovo, provides dozens of daily flights to Moscow, and beyond to other domestic and international destinations. Koltsovo is well connected to the city via a highway, and takes the top position on the Skytrax list of Best Regional Airports in Russia & CIS 2019.

According to a nationwide poll conducted by Zoom Market in 2018, Yekaterinburg is the safest major cities in Russia. Moscow came second, while Kazan and Novosibirsk took third and fourth place, respectively. Sociologists asked participants to rate the safety of their home city on a scale of one to ten.

Citizens and visitors enjoy an extensive programme of theatre performances, music concerts, museums, art exhibitions as well as a variety of cafes, bars and restaurants. There is a number of venues hosting regularly national and international sport events. In the summer of 2018, the Ekaterinburg Arena was the host to four FIFA World Cup matches.



HAYATT

Hyatt Regency Ekaterinburg



GALINA ZHIBOVA / SHUTTERSTOCK.COM

Airport Highway



BECHU+PARTNERS

Expo 2025 architectural concepts

The international community is represented by diplomatic and trade missions from 15 countries, including Germany, France, China and the USA, reinforcing the city’s unofficial status as the country’s third capital.

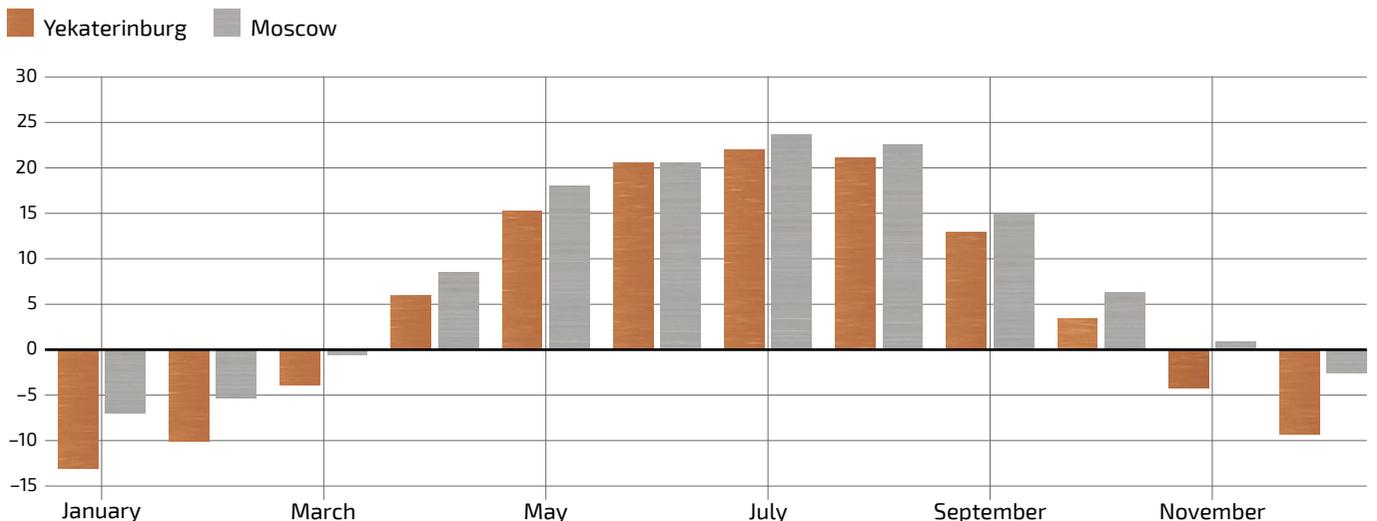
Since 2010, Yekaterinburg annually hosts INNOPROM, an International Industrial Fair with 50,000 visitors from over 100 countries.

The city recently competed for the right to host the World Expo 2025, a global exhibition event to take place in the year 2025 with over 15 million visitors expected. The winner was selected from three final candidates by the 170 member states of the Bureau International des Expositions (BIE) in November 2018 in Paris. Even though Yekaterinburg came second, behind Osaka (Japan), the city will still benefit from the publicity created and the inherited concepts from leading urban planning studios, laying the inspirational groundwork for its future development.

Contrary to a popular belief, the local climate is not much different in comparison to Moscow, with a warm summer and the average January temperatures of minus 14 Celsius.

The city’s development is continuing on a dynamic path. At the forefront is the construction of a new concert hall with futuristic architectural concepts, a new ice-sport arena for 15,000 visitors, a second metro line for \$1 billion, and the \$5 billion mega project of a high-speed railroad connection with Chelyabinsk.

Comparison of daily temperature (in Celsius)



Source: meteodb.com



SUPPLYING

- **Commodity Markets**
- **Oil & Gas Companies**
- **Railways**
- **Power Plants**
- **Military and Aerospace Industry**

Industry

The Ural Federal District is one of the most prosperous in the country, whose prosperity is often wrongly attributed solely to oil and gas. In fact, it's responsible for around 90% of Russia's natural gas and two-thirds of the oil production. However, the Ural Federal District, with its six widely autonomous subdistricts or regions around the cities Yekaterinburg, Chelyabinsk, Tyumen, Surgut, Salekhard and Kurgan, is a relatively new administrative body, stretching across large geographical areas and different climate zones. The district measures around 2,000km from north to south and 1,500km from east to west or from the Arctic Sea to the southern border with Kazakhstan and from the Ural's eastern edge to Western Siberia. Oil and gas production is concentrated in the sparsely populated Northern territories, around Surgut and Salekhard, as well as in Western Siberia around Tyumen. The industrial competencies of the Ural's two major cities Yekaterinburg and Chelyabinsk and their regions are mining, metallurgy, heavy machinery and equipment, steel pipes, locomotives, railroad freight cars as well as appliances and devices, including avionics and space rocket control systems. Yekaterinburg is also an IT competence centre, an important logistics hub and a pharmaceutical cluster.

A selection of products and companies presented below illustrate the economy of the Middle and South Urals, as well as their most significant sources of income and tax revenues. This Ural's core area is an important supplier for the oil and gas companies; however, it's not the centre of the oil and gas industry. The local industrial landscape is traditionally dominated by large industrial enterprises and production sites, but there is a lot of potential for innovative small and medium-sized factories.



Copper is the Ural's new Gold

Copper, titanium and transformer steel are profitable export hits

From ore to finished product, copper has been produced in Yekaterinburg and the Ural Region for centuries, and the demand for the metal continues to rise worldwide. Some experts say copper is the new gold.

In addition to the strong growth the metal has experienced in China, India, and other emerging market economies, the demand for copper in the manufacturing and construction industries has also increased and is expected to grow even more as electric vehicles become more prevalent.

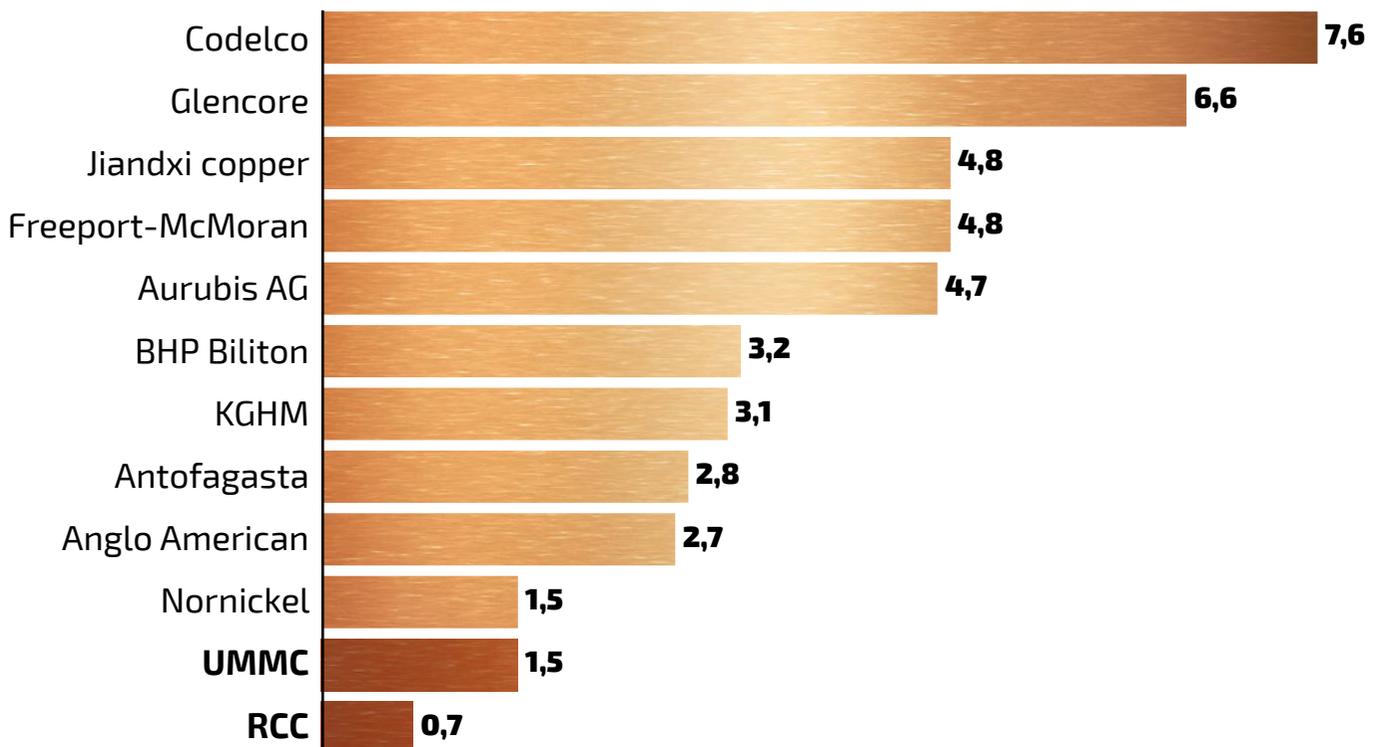
The average regular car contains 1.5km of copper wire, and the total amount of copper ranges from 20kg in small cars to 45 kg in luxury and hybrid vehicles. Electric vehicles require roughly 75 kg as their motors and batteries contain copper, and the copper cabling can have a length of 6km. Considering that countries around the world are racing to phase out gasoline and diesel cars, the demand for copper will rise significantly. Semiconductor manufacturers have also begun using copper for circuitry in silicon chips, which enables microprocessors to operate faster and use less energy.

The Ural's copper producers today are the Ural Mining Metallurgical Company (UMMC) and the Russian Copper Company (RCC). The enterprises operate, from their headquarters in Yekaterinburg, mining and metallurgical assets across the region and the country, and take a noticeable portion of the world market. The combined production output and sales exceed 700,000 tonnes of copper per year. Some extra income is also earned on the by-products of copper production being silver and gold. Forbes estimates the wealth of the majority shareholder of UMMC at \$5 billion. The strong export revenues enable the companies continuously to invest in modernisation and development of their production capacities and new assets.



RCC's Mining Track

UMMC and RCC share in world refined copper production (in %)



Source: UMMC

➤ **Titanium is expensive, but the metal has significant advantages over other alloys**

Titanium came more recently into use. Industrial work with titanium alloys began in the US and USSR in the 1950s. Due to their properties such as the ability to withstand severe pressures and high temperatures, corrosion resistance and low weight, they have special significance in building airplanes, engines, spacecraft and missiles, and are also used in medical, chemical, military and other applications. Titanium is as strong as steel, but 45 percent lighter. Submarines made with light and strong titanium hulls, nicknamed „golden fish“, could travel at 80 km/h and dive extremely deep to 650 metres.

➤ **VSMPO-Avisma is one of the world's largest titanium producers and Boeing supplier**

VSMPO-Avisma Corporation, a once-secret factory located 180km north of Yekaterinburg, produces 98 percent of all titanium in Russia and a significant portion of the global output. The company has its own abundant mining fields, and competes with the US producer TIMET for the designation of „world's largest titanium supplier.“

Avisma's cooperation with the US plane maker Boeing is based on the supplies of prefabricated titanium parts (e.g. landing gears). The partners have been operating a joint venture in Verkhnyaya Salda for a decade, adding a second one for 5.5 billion roubles (\$85 million) in 2018. Both manufacturing units supply Boeing commercial airplane programs, including the 737 MAX, the 787 Dreamliner family and the 777X. Avisma's long-term contracts cover, in total, around 35 percent of all titanium for Boeing civilian airplanes and should top \$18 billion over the next 30 years.

The factory also supplies other customers from different industries. According to company's information, there are 300 partners in 49 countries, including EADS, Embraer, Rolls Royce and Honeywell.

➤ **Titanium Valley offers production sites, infrastructure and tax preferences**



Ural Boeing Manufacturing / Verkhnyaya Salda

Further, there is a potential for a titanium cluster. Special economic zone Titanium Valley supports manufacturers of titanium products, offering land plots in its two industrial parks in Verkhnyaya Salda and Yekaterinburg, all the necessary connections to infrastructure, tax and customs preferences, and governmental support. The operating company provides also the option „built-to-suit“ with subsequent leasing and buy-out of production facilities, reducing the initial capital investments.

➤ **Transformer steel is tailored to produce specific magnetic properties**

Transformer steel is used as magnetic cores in power transformers. This speciality steel is tailored to produce specific magnetic properties, such as a small hysteresis area (small energy dissipation per cycle, or low core loss) and high permeability. Power plants feed the electricity into large power transformers to increase the voltage for efficient transmission of energy over long distances in power grids. Nearer to its destination, medium power transformers and local distribution transformers lower the voltage for safe use.

➤ **VIZ Steel is Top-5 manufacturer of transformer steel in the world**

VIZ Steel (part of NLMK Group) based in Yekaterinburg is a Top-5 manufacturer of transformer steel in the world with a market share of around 10 percent. In 2018, the factory's production output and sales totalled 170,000 tonnes, while the factory's capacity utilisation rate was close to 100 percent, indicating strong demand for the product. Seventy-seven percent of the output was exported to other countries and regions such as India, Turkey, the Middle East and North America.

The famous Large Hadron Collider (LHC) is also working with VIZ steel. More specifically, 11,000 tonnes of their steel was used to build 650 magnets for this world's largest and most powerful particle accelerator, consisting of a 27 km ring of superconducting magnets designed to split atoms.

➤ **VIZ Magnetic Steel drives Large Hadron Collider**



Large Hadron Collider / Switzerland

Innovative pipes for gas pipelines

The Russian pipe industry was fuelled with over \$12 billion in investments over the last two decades, an amount only comparable to China’s spending during the same period. The old pipe mills and industrial complexes were transformed into global enterprises. New gas pipelines such as Nord Stream, Turkish Stream or the Power of Siberia required not only vast quantities but also new product qualities.

The country’s two leading pipe producers TMK and ChelPipe — from Yekaterinburg and neighbouring Chelyabinsk, respectively — have invested billions into the latest technologies.

> Vysota239 is probably the most modern pipe mill in the world

Vysota239 is the most prominent example of ChelPipe’s greenfield projects. The \$900 million factory was opened in the company’s home town in 2010. The mill is equipped with state-of-the-art machines from the German SMS Group, linked to form an extremely modern process chain. The two JCO presses are at the heart of the plant and produce 18.3-metre and 12.2-metre pipes. ChelPipe is, therefore, well-equipped to meet all current and future market demands. The advantage of the 18.3-metre pipes is the lower laying costs, as the number of connecting welds is lower compared with shorter pipes. Thanks to the use of the 12.2-metre press, the shorter pipes can be produced with extremely thick walls, even with small diameters, and are therefore well-suited for use in offshore pipelines where they have to withstand higher pressures. The quality of the pipes meets all international standards. The Manufacturing Execution System forms the link between the superordinate ChelPipe ERP (Enterprise Resource Planning) system and the machine



Pipe Mill / Chelyabinsk

Innovative Pipes for Nord Stream 2



NORD STREAM 2 / WOLFRAM SCHEIBLE

Pipe Storage in Kotka

control level. Each pipe is given a barcode by which all production data can be individually allocated to the pipe. The quality of the pipe is inspected and documented after every step in the process. This Level 3 automation system guarantees consistently high quality, and not only in theory. In June 2018, Vysota 239 completed deliveries for the Nord Stream 2 gas pipeline on time and in compliance with strict quality requirements. In total, 600,000 tonnes of innovative pipes were shipped to an interim storage site in Kotka (Finland) over a period of two years.

Trond Gjedred, a quality supervisor from Nord Stream 2 AG working on the production site, says it's probably the most modern pipe mill in the world, equipped with the latest technology. His colleague and Chief Project Officer Henning Kothe states: 'We are highly satisfied with the performance of ChelPipe. The company fulfilled all its contractual obligations on time and in accordance with the highest quality standards'.

Visitors to the factory notice its remarkable design. ChelPipe comments that it's part of the company's White Metallurgy Philosophy, which is the pursuit of the highest product quality and innovative technology. The comfortable surroundings affect employee loyalty and labour productivity.

The last, but not the least, the pipe steel supplier MMK is an important link in the chain of the ChelPipe's success. MMK or Magnitogorsk Iron and Steel Works is a giant of the Ural's metallurgy, and one of the world's largest steel producer encompassing the entire production cycle, from preparation of iron ore to downstream processing of rolled steel. In 2017 MMK Group produced 12.9 million tonnes of crude steel and 11.6 million tonnes of commercial steel products.



CHELPIPE

Vysota239 control room

Heavy machinery and equipment

Uralmash and Uralkhimmash are two (former) industrial giants with a history dating back to the 1930s and a wide-ranging portfolio of heavy machinery and equipment for mining, metallurgy and the oil and gas industry. The portfolio includes a significant portion of the drilling rigs operating in Russia, large-scale absorbers for gas pipelines, giant mining excavators, ore mills and ore transportation systems, and much more. At present, not everything is state-of-the-art or competitive in the world market, but the manufacturers are focusing their portfolio and developing their products and technologies, a process accelerated by sanctions and the 'Made in Russia' trend in recent years.

Drilling rigs and drilling equipment

The Russian drilling equipment market is driven by the impending significant renewal and upgrade of the fleets, both in quantity and technological terms. A large number of drilling rigs is about to reach the limits of its useful life. In the near future, most of this market potential will be covered by players who offer advanced technologies and also have domestic production facilities: an essential requirement from leading oil and gas companies. Russian and international manufacturers will find in Yekaterinburg all the necessary infrastructure for their greenfield, brownfield and joint venture projects in this sector. There is also a more remote opportunity, the industrial park Bogoslovskiy. On the one hand, it is located 400km away, to the north of Yekaterinburg. On the other, it is closer to oil & gas operations and entitles residents to significant tax preferences.

➤ **Industrial Park Bogoslovskiy offers production sites, infrastructure and tax preferences**

➤ **Significant portion of the drilling rigs operating in Russia are produced in Yekaterinburg**



Drilling Rigs

> Giant Absorbers for Nord Stream 2



Uralkhimmash Absorbers

Equipment for oil & gas transportation systems

A recent example of the region's competencies in manufacturing of large-scale equipment for oil and gas transportation systems is the delivery of four enormous absorbers for Nord Stream 2, the world's longest offshore gas pipelines with 1,230 km to become operational in 2020. On the day of delivery, the 186-tonne absorbers with a height of 19.1 metres and a diameter of 5.8 metres each were moving through the streets of Yekaterinburg on specialised platforms with 22 axles. The journey was heading to the compressor station 'Slavyanskaya', the starting point of the gas pipeline located on the shores of the Baltic Sea. After arriving in Perm, 350 km north-east of Yekaterinburg, the absorbers were reloaded onto barges that took them to their final destination.

Giant mining excavators

Thousands of quarry excavators and hundreds walking excavators manufactured in Yekaterinburg are mining iron, copper, manganese and zinc ores, bauxites, coal and other resources in Russia and beyond.

For example, Uralmash traditionally maintains close ties with Indian partners. In 2018, two walking excavators were delivered to coal mining giant NLC India. Other major Indian companies, such as mineral fertiliser producer NMDC or zinc specialist Hindustan Zinc, are actual or potential customers of the company.



Uralmash Mining Excavator

Siemens trains

Ural Locomotives is a joint venture between the Sinara Group and Siemens AG, established at the site of the former Ural Rolling Stock Manufacturing Plant near Yekaterinburg. In 2013, the company launched the production of its Lastochka, the Russian version of the Siemens Desiro train.

The plant boasts aluminium welding, machining, painting systems and passenger train assembly fixtures supplied by leading equipment makers.

In 2014, following rapid rouble weakening, the company initiated a large-scale import-substituting project which increased the share of local sourcing to 85 percent in a short time period. Presently, over 150 suppliers form a full-competence cluster around the locomotive production site.

The next step in the venture's development is the production of the high-speed Sapsan, the Russian version of Siemens ICE train, operating at speeds over 250km/h. Last year, Russian Railways ordered 11 Sapsans, and Ural Locomotives was ready to gear up the production within a short time frame.

> Ural Locomotives gears up the production to high-speed train

> Local Manufacturing Depth 85%



Lastochka train

Railroad freight cars, rails, wheels, tramps and battle tanks

UralVagonZavod (UVZ) is one of the largest state-owned scientific and industrial complexes in Russia and a leading battle tank manufacturer. The headquarters and significant production assets are located in Nizhny Tagil, 140km north of Yekaterinburg.

The civil portfolio includes road-building vehicles, trams, agricultural vehicles and the revenue strongest product – the railroad freight cars which are produced in different types. The production capacity exceeds 15,000 units per year.

➤ **Production Capacity
15,000 Railroad
Freight Cars per Year**



UVZ Railroad Freight Cars



Rails

The neighbor of Uralvagonzavod is EVRAZ NMTK, or Nizhny Tagil Iron and Steel Works, one of the largest metallurgy enterprises in Russia. Its ore supplier, the Kachkanarskiy mine, is located 110 km north of Nizhny Tagil. The product portfolio includes railway goods (rails and wheels), construction steel, pipe blanks, as well as semi-finished products. In 2012, the railway wheels were certified by Deutsche Bahn, and the same year, EVRAZ NMTK was added to the list of approved suppliers of the American Railways Association.

> Yekaterinburg is stable platform for manufacturers of power supply equipment

Power turbines, transformers and high-voltage equipment

Ural Turbine Works (UTW)

The company currently specialises in manufacturing steam cogeneration turbines, as well as maintaining and repairing already delivered turbines of different types.

Since its foundation, Ural Turbine Works has produced over 900 steam turbines with a total capacity exceeding 63 thousand megawatt. Around 40 percent of them were delivered to other countries, including China, Mongolia, Korea, Poland, Romania, Egypt, Kazakhstan, Belarus, Uzbekistan and the Baltic States.



Power Turbine



UETM High-Voltage Equipment

Uralelectrotyazhmash (UETM)

UETM is producer of transformers and high-voltage equipment. The customers are around 3,000 companies from Russia and 60 other countries, including:

- Power plants and power grid operators;
- Ferrous and nonferrous metallurgy, oil and gas, mining and chemical enterprises;
- Railways and manufacturers of electric vehicles.

The company offers customer-tailored designing and manufacturing, as well as installation and commissioning services.

> Yekaterinburg is stable platform for pharmaceutical companies

Pharmaceutical Cluster

In 2010 several pharmaceutical companies teamed up in the Ural Pharmaceutical Cluster.

In the last eight years, the leading resident Zavod Medsintez has built the domestic production of important pharmaceutical products, in the strategic cooperation with BayerHealthCare. This covers the finished dosage forms of recombinant human insulin, offered under the trademark Rosinsulin, and finished dosage forms of antiviral drugs, e.g. an innovative medication Triazavirin.

Yekaterinburg is a stable platform for Russian and international pharmaceutical companies.

Aviation

The Ural Works of Civil Aviation (UWCA) has been a repair and maintenance shop for aircraft engines since 1939. In recent years, the company extended its business portfolio with the production of light aircraft, helicopters and military drones.

The twin-engine aircraft Diamond DA-42T is manufactured under license from Diamond Aircraft Industries, an Austrian composite aircraft manufacturer. Production started in 2017 with a local manufacturing depth of 30 percent. The company announced that it would reduce the share of imported parts, including composite materials, to nearly zero in 2019. The onboard equipment is already made in Yekaterinburg.

This type of aircraft is a popular choice of pilot schools.

> Potential Local Manufacturing Depth 90%



Diamond DA-42

**> SKB Kontur
1.9 million customers
and 8,000 employees**

IT Competence Center

The Ural Federal University is a leading IT institution in Russia, while the city is the host to three IT companies listed in the country's TOP-100. The region's leader is SKB Kontur developing Accounting and ERP Software and employing 8,000 people. The company serves, from its headquarters in Yekaterinburg and other 66 offices across the country, 1.9 million customers covering the range from small businesses to industrial holdings. SKB Kontur is represented through a partner network in CIS countries as well as in Europe and the USA.

Based on its IT-competencies, Yekaterinburg should become a Smart City front runner in Russia. In 2018, the regional government released the Smart Region Development Framework Report specifying and prioritising the services to be developed and implemented in three stages by 2035. The register counts 130 services aggregated in 6 areas covering an extensive scope of Smart City technologies.

**> Important
logistics hub and
transport corridor**

Logistics

Yekaterinburg is part of the Trans-Siberian Railway and the railroad corridor connecting China and Europe. In general, the Ural Region has a developed logistics infrastructure allowing to ship cargos by railway, road, water and flight/air. National and international logistics providers (e.g. DB Schenker and Rhenus) offer customer-tailored solutions.

Potential investors notice that the internal road cargo volumes flowing from Moscow and Central Russia to Yekaterinburg are higher than vice versa. Logistics companies consequently offer lower tariffs for empty trucks heading to Moscow, which can be another location advantage for manufacturing companies.

International greenfield investments

The Coca Cola plant is an example of international greenfield investments in Yekaterinburg. It was opened in 1998, has a capacity of 48,000 bottles per hour, and is regarded as one of the best performing in quality terms.

In recent years, the plant was ranked twice the number one in company's quality rating, among the 272 Coca-Cola plants in Eurasia and Africa. The rating is established by an independent laboratory procuring and examining product samples for compliance with quality standards. The compliance rate of beverages produced in Yekaterinburg was 100 percent.

Neil Spickett, Coca-Cola HBC Russia Manufacturing Director, comments: „This impressive achievement is like winning the Olympics twice.“

Lyudmila Rumyantseva, quality manager, says: „The cornerstone of our success is the rigorous adherence to the standards throughout the production cycle.“

Source: Coca-Cola Hellenic Bottling Company

**Best Quality
Performance
in Eurasia**



COCA-COLA HELLENIC BOTTLING COMPANY

Coca Cola Plant Yekaterinburg

 **Top 5 out of
85 Regions in Russia**

Investment Grade

A leading rating agency, RA Expert, ranks the investment potential of the Sverdlovsk Region in the top five of 85 Russian regions. The assigned investment grade is 1B (high potential; moderate risk).

International investments 2018 (medium-sized businesses)

Sika (Switzerland) has opened a new production site for concrete admixtures.

Ivo Schädler, Regional Manager EMEA, comments: 'With the foundation of the new production site near Yekaterinburg, we are investing in a region that has dynamic growth and booming construction industry. We have now created the ideal framework for tapping into this potential and further accelerating our growth in Russia'.

Hüttenes-Albertus (Germany) and its local partner are investing \$20 million to localise the production of a chemical binder used by foundries for making sand casting moulds. The product is an essential component in manufacturing high-quality engine and machine cast parts for automotive and machinery manufacturers.

Lasselsberger (Austria) acquired Plast-Rifey LLC, developer of the largest kaolin deposit in Russia. With new investments, the company will produce fibre cement plates and kaolin for Lasselsberger's ceramic tile plant, which has been operating in the neighbouring town of Ufa since 2009. The investments are estimated at \$60 million.

For more information please contact:

Eduard Muntanion
CPA / FD / Strategy Consultant

Phone: +7 (982) 757-62-11

E-mail: info@mac-consulting.net

Social Media: [linkedin.com/xing.de](https://www.linkedin.com/company/mac-consulting)

No reason for arrogance

„There’s really nothing we could do better. The production is at the same technological level as in Germany“.

By Jens Boehlmann
German Eastern Business Association

Somewhere in Ural, an inconspicuous monument separates Europe from Asia

In the midst of an endless change of forests, rivers and rolling hills lies a place of a special significance. An inconspicuous spot here separates Asia from Europe, at least in geographical terms. Visibly bored, some construction workers try, with moderate success and interesting tools, to stop the decay of the monument dedicated to the Russian statesman and geographer Vasily Tatishchev, the man who established the border between the two continents about 250 years ago. In the middle of the Ural, in the middle of nowhere. The prolific all-round talent was not only engaged in geography and Russian history, the foundation of cities Perm and Yekaterinburg is also attributed to his work. Czarina Anna Ivanovna had entrusted him with the administration of the Ural factories and mines that were already at that time of great importance.

300 years of metallurgy

Metalworking has existed in the Ural for aeons. Industrial metallurgy was established about 300 years ago, even before the industrial revolution in England and soon afterwards in Central Europe fundamentally changed manufacturing. Even then, as today, iron and later steel were exported. One industrial centre is the town of Polevskoy. Do not worry if you haven’t heard the name; it’s probably not a gap in education. The town, with 70,000 inhabitants, owes its fame to TMK – Russia’s largest producer of pipes for the oil and gas industry and the one of the largest Russian metalworking companies. With eight plants in Russia and Kazakhstan, thirteen in North America (thereof twelve in the US), four in Europe and one in Oman, TMK is a truly global



player. And you can see and hear that, too. The factory site is huge, the output of tubes is gigantic, and the production methods are state-of-the-art. The company was founded as recently as 2001, but perhaps this is the great advantage of a “late birth”, not having to carry much burdens from the past.

Rapid development

The rolling mill technology originates, to a large extent, from the SMS Group rooted in Dusseldorf (Germany); electronics, vehicles, machinery, equipment and many other things are the most modern the market has to offer and come not only from Germany, but also from Japan, South Korea, Switzerland, the USA and in the meantime from China as well.

TMK is another example of what I have recently noticed in several other Russian enterprises: the companies are competitive, internationally positioned and excellently managed. The owners have turned an industrial complex from the Soviet era into a global enterprise. Including social responsibility, the company supports local infrastructure and public life as well as leisure facilities. Environmental standards are at an European level,

and even sustainability, safety and worker codetermination are not unfamiliar terms here. I was most impressed by the employee's pride in „their“ factory. This kind of thing was known earlier in Germany from „Opelner“ (Opel worker), the coal miners in the Ruhr area or the AEG's employees, and sometimes even from the staff of Air Berlin.

„Then we'll do it ourselves“

200 kilometres further south, a state giant has built a factory that makes even the most experienced German managers freeze their smiles. In Chelyabinsk, under the pressure of sanctions and localisation policies, Transneft Oil Pumps has emerged as a subsidiary of the state holding Transneft with the sole task to ensure the parent company is supplied with the horizontal and vertical pumps, spare parts as well as maintenance and repairs. With Italian help, a plant was built that could compete with any other pump manufacturer in the world. The word „could“ because while production was established with its own foundry, its own metalworking and test benches, nobody, of course, thought of creating sales channels outside the Group. This is all about self-sufficiency. When it became increasingly difficult to source from the international market (due to sanctions), especially for state-owned enterprises, the Russian state responded — a bit offended — to the motto: „Then let's do it ourselves“.

Technologically, there is no longer a disadvantage

At this point, I often wrote about the rationality of all-covering self-sufficiency, but in parts this strategy works terrifying well. Chelyabinsk is tangible proof of that. Ultimately, profitability is not the focus of such projects. But in this way production capacities are created, which can become serious competition for German companies as well. Modern technology, the rouble exchange rate and export orientation make this possible. „There's really nothing we could do better. The production is at the same technological level as in Germany“, says a German manager, both appreciative and frightened.

No reason for arrogance

This state of affairs makes it clear that there is no reason for arrogance. The Russians have

managed, in a comparably short time, something that most observers would not have thought possible. In some selected industries, they have not only offset their technological disadvantage, but they have also become serious competitors. There should be no misunderstanding, the positive examples listed are just that: positive examples, alongside existing negative developments and stagnation. But they make it clear that several Russian companies and entrepreneurs are operating at the same level as European companies. Exactly for this reason the opportunity should be taken now to set the course for a future with a different political climate.

RSPP and OAOEV sign Initiative Technical Regulation

„Technical regulation is the beginning of all trade and therefore of fundamental importance for our two economies“, emphasises Dmtriy Pumpyanskiy, the majority shareholder of TMK and the head of the Technical Regulation Committee of the Russian Business Association RSPP. With exactly this body the German Eastern Business Association (OAOEV) has signed a cooperation agreement at Innoprom 2018, Russia's largest industrial fair in Yekaterinburg. The purpose of this initiative is to harmonise technical regulations, quality infrastructure, including accreditation, conformity assessment, certification, standardisation and market oversight. The interest on both sides is so overwhelming that in its first phase the initiative will only be limited to the most important industries for both sides.

Equality as a prerequisite

In this initiative, equality is the basic requirement. Therefore, cooperation has been founded on the grounds of reciprocity. There are areas where the Germans can learn from the Russians. And it offers the chance to get closer, at least in the economic field, since the cooperation between the companies and the associations continues to work well, despite all the difficulties. Furthermore, all interested companies are invited to participate actively in this process.

The original article was written in German, and translated to English by The Yekaterinburg Times.



АО РЕМ

Launching Ceremony Russian Electric Motors

Italy PM Conte launches new factory in Chelyabinsk

Italy has been a sceptic of the sanctions policy, and Italian companies were playing a notable role in developing of new production capacities in Russia reducing its dependency on imports, especially in the oil&gas industry.

Only a few months after taking office in June 2018, Italy Prime Minister Giuseppe Conte made his first trip to Russia. The overall tone of the visit was that both countries look to boost economic ties, despite sanctions against Russia. Italy has been sceptical of the sanctions policy, and Italian companies played a notable role in developing new production capacities in the country, reducing the dependency on imports, especially in the oil and gas industry.

Following hours of talks in the Kremlin, public officials and business leaders held a meeting where Russia President Putin and Conte took part in a video call to give symbolic meaning

to the launch of a new factory established in Chelyabinsk. The factory is a cooperation between Russian Electric Motors (REM) and the Italian branch of Nidec, a leading motor manufacturer from Japan.

REM was set up in late 2015 as a joint venture between Transneft (51%), Russia's largest oil transportation company, and Konar (49%), a manufacturer of valves and fittings for pipelines, with the goal to localise the production of high-voltage electric motors for modernising the pump systems of Transneft's pipeline network, measuring around 80,000km. The project was funded with \$180 million.



Plant Russian Electric Motors

“ I will note that the new enterprise is already the fifth created with Italian support in the industrial park Stankomash in Chelyabinsk. Italian partners helped to create a whole industrial cluster.”

Nidec’s task was to develop a customer-tailored motor solution with the ability to work at temperatures as low as -60°C and to engineer the local production site. In less than three years a state-of-the-art plant was erected, which not only fulfils all the requirements of Transneft but is also competitive in the world market. Nidec’s representative stated that his company shared more than 100 years of experience with the Russian partner.

Vladimir Putin called the venture an excellent example of successful and mutually beneficial co-operation: ‘The project was the result of a close partnership between Russian companies Transneft and Konar and the world leader in the field of industrial solutions Nidec. The motors are supposed to be used primarily in pumping oil and petroleum products. They are highly demanded by the domestic oil and gas industry and will, no doubt, be in demand in the markets of other countries. The company’s products will also be used in other key sectors of the Russian economy, primarily in the shipbuilding industry. In years to come, new ships operating on the Northern Sea Route can be equipped with the motors, as well as the pipelines of the Arctic LNG 2, Baltic LNG and Vladivostok LNG projects. There are further opportunities in mining, metallurgy, wind power



REM high-voltage electric motor

generation and transport sectors. I will note that the new enterprise is already the fifth created with Italian support in the industrial park Stankomash in Chelyabinsk. Italian partners helped to create a whole industrial cluster’.

Another prominent resident in Stankomash Park is Transneft Oil Pumps (described in the above article ‘No reason for arrogance’).

While both leaders watched the launching ceremony, Russian and Italian business executives signed a package of cooperation agreements in shipbuilding, automotive, energy and other sectors.

Source: kremlin.ru

Nidec (Japan) acquired the Italian company, Ansaldo Sistemi Industriali (ASI) in 2012. The company offers customised solutions across the globe for a wide range of industrial applications. Its target markets are petroleum, traditional and renewable energy, steel, marine and industrial automation. The multinational is specialised in heavy applications requiring high power and performance: electric motors and generators with a capacity of up to 65 MW (87,000 horsepower); electronic power inverters and converters; automation and industrial process software; power station and hydro-electric generator retrofitting; integrated systems for the production of electricity from renewable sources and stabilisation of connections to the national grids. In November 2015, Nidec ASI was awarded a large contract for the storage of energy in Germany in order to stabilise the domestic electric grid, as required when transferring from nuclear to renewable sources following the post-Fukushima referendum.

Sika expands production capacities in Russia

„With the foundation of the new production site near Yekaterinburg, we are investing in a region that has dynamic growth and a booming construction industry. We have now created the ideal framework for tapping into this potential and further accelerating our growth in Russia.“

Sika Media Release

Sika (Switzerland) opens a new production plant for concrete admixtures near Yekaterinburg, Russia. In the area around the plant, there are five cities with populations of over one million and attractive construction markets. Large parts of the Volga region and Siberia can also be supplied from the new site.

The Ural region, with its capital city of Yekaterinburg, is one of the most prosperous regions in the country. Around 90% of Russia's natural gas and two-thirds of its oil production come from this region. The proximity to clients and shorter transport routes significantly strengthen Sika's competitive position. The new production plant in Beryozovsky, to the north-east of Yekaterinburg, will thus deliver cost-savings and make it possible to supply customers in this fast-growing region with customized concrete admixtures for demanding construction projects.

Ivo Schädler, Regional Manager EMEA: „With the foundation of the new production site near Yekaterinburg, we are investing in a region that has dynamic growth and a booming construction industry. We have now created the ideal framework for tapping into this potential and further accelerating our growth in Russia.“



SIKA GROUP

Diversification of the economy driving construction demand

The Russian economy and, thus, the construction industry are currently benefiting from increasing investment in infrastructure projects, particularly in transport and energy infrastructure, but also in urban redevelopment programs and the expansion of port and airport capacities. According to estimates, the construction industry is expected to record substantial growth in 2018 and over the next five years.

Source: provided by Sika Group / ska.com

Entry market strategy: buying assets at 50% discount

The country's current economic cycle and the upcoming generation change open attractive acquisition opportunities to be noticed by smart multinational players.

The time is perfect for international companies to buy Russian assets. Starting a business in the 1990s, many founders of Russian businesses have come to an age of retirement from active duties. After 25 to 30 years of hard work, making money, creating values, upgrading manufacturing assets, growing market shares, those founding shareholders reached their limit of energy, knowledge and financial strength.

The next stage for Russian assets would be either a scalable growth outside its home region with a potential for exporting goods globally, or in many cases, a sale of the whole business to a strategic market player. For retired founders, whose children often moved to Europe, the best exit strategy is to sell all of it as is. Indeed, when there are no financial resources to scale a business globally, and I speak of unreasonably expensive Russian bank loans, the only other choice would be to find a buyer. But there is a catch. A valuation of business is often based on a figure that every founding owner has in his or her mind. The problem is that the only true valuation is the value given by a buyer at the time of the acquisition. What price a buyer is ready to give is exactly the valuation of a business, not a vague number in seller's mind. Many Russian sellers understand this idea well, hence, they are ready for a potential interest from global buyers. Many owners believe a global company thinks strategically and has the cash.

The recent devaluation of Russian Ruble gives a global buyer at least 50% discount on asset values in Euros or US Dollars, while having the same value in Rubles. If a global company considers to stay in Russia long-term, buying good assets is a smart thinking. In case a global buyer considers the right entry market strategy before the next cycle of growth in Russia starts, what better alternative there is than to buy a local business preferably with manufacturing assets to enter the market „on shoulders“ of an existing market player? Buy for 50 cents, while you can! Use cheap global finances at less than 1% bank loans, grow business in Russia. The time for action is now.

Author: Dr. Viacheslav Permiakov. Strategy Consultant.
[Linkedin.com/in/drpermiakov](https://www.linkedin.com/in/drpermiakov)



The Days of Sweden in Yekaterinburg

“Yekaterinburg is an important city in Russia, whose potential is underestimated”.

The Days of Sweden, a programme of business and cultural events organised by the Swedish Embassy in cooperation with the Administration of the Sverdlovsk Region and the Ural Chamber of Commerce and Industry, took place in Yekaterinburg in late 2018.

The visiting delegation was headed by Ambassador Peter Ericson and counted representatives from seven Swedish companies, including Volvo Trucks, Ferronor-dic Machines, Alfa Laval, Flex-Link and three others.

In a meeting with Governor Kuyvashev, both sides expressed the desire to take cooperation to a new level.

Mr Kuyvashev stated: ‘Despite the difficult political situation, we continue to maintain and develop contacts with foreign partners. In the first half of this year, trade with Swedish companies has more than doubled. I am convinced that we have the potential for new projects; we have concrete proposals’.

In this context was mentioned that the Region is a traditional competence centre for the manufacturing of machinery and equipment for the mining, metallurgy and oil and gas industries, and all these areas would offer opportunities for new investments and joint venture projects.

Mr Ericson pointed out that Yekaterinburg is an important city in Russia, whose potential



ДЕПАРТАМЕНТ ИНФОРМАЦИОННОЙ ПОЛИТИКИ СVERDLOVSKOY OBLASTI

Swedish Ambassador (left) and Governor of Sverdlovsk Region

is underestimated. He also thanked the governor and the people for the warm welcome given to the Swedish fans during the FIFA World Cup.

The following Russia-Sweden business forum was held under the motto ‘7 Swedish ideas for the Sverdlovsk Region’. The visiting companies presented their innovative solutions and technologies and connected with local businesses.

A number of Swedish companies are already operating in the Region. The most prominent names being IKEA and Tetra Pak.

German-Russian Year of Municipal and Regional Partnerships

„I knew our countries had close ties at the municipal and regional level. But when I look at all those who are being awarded a certificate today — not to mention all the projects to which it was not possible to give an award — I am impressed all over again by the breadth and closeness of our relations.“

The city’s Philharmonic and its German partner RCCR Projects were honored at the event to mark the end of the Russian-German Year of Municipal and Regional Partnerships for their joint project „Summer Orchestra Academy“. The Academy organized not only rehearsals, master classes and concert performances in Yekaterinburg and Berlin, but also events on the sidelines, discussions with students, city tours and interviews on local TV and radio. Tatyana Rexroth (RCCR Projects) says the exchange between the young people and the opportunity to communicate are very important in today’s world. Out of professional contacts, friendships can evolve.

The award was handed over by the Russia’s and Germany’s foreign ministers Sergej Lavrov and Heiko Maas in Berlin.

Heiko Maas stated: „Although today’s event marks the end of the German-Russian Year of Municipal and Regional Partnerships, the links forged in the projects and the friendships made will remain. And that is the whole idea! Musicians, businesspeople, school pupils, football fans, fire fighters, doctors, stage actors and engineers — I knew our countries had close ties at the municipi-



ИНФОРМАЦИОННЫЙ ПОРТАЛ СЕВЕРДЛОВСКОЙ ОБЛАСТИ

pal and regional level. But when I look at all those who are being awarded a certificate today — not to mention all the projects to which it was not possible to give an award — I am impressed all over again by the breadth and closeness of our relations.“

In words of Sergey Lavrov: „Foreign Minister Maas and I agree that this initiative was successful and helped to promote mutual understanding and neighborly relations and to develop practical cooperation at the level of contacts between cities, regions and civil societies. We are not putting an end to the tradition of holding cross years. As my counterpart said, another initiative — the Year of Scientific and Educational Partnerships — will be launched in the near future. We agreed to do what we can to make this undertaking useful for our citizens and relevant research and educational institutions. Germany is our important partner in Europe and the world. We share an interest in constructive joint work on all bilateral and international issues, including complicated issues.“

Source: Federal Foreign Office of Germany; The Ministry of Foreign Affairs of the Russian Federation.



ZAHA HADD ARCHITECTS

New Concert Hall to be opened in Yekaterinburg

The orchestra's new home should provide an inspirational venue to meet the increasing popularity of its program of concerts and also create a new public plaza. The innovative design is inspired by sound waves and will create unique acoustics.



ZAHA HADID ARCHITECTS

The city's Philharmonic Orchestra is one of Russia's most renowned classical music institutions, collaborates with many international musicians, and performs worldwide.

The current hall was built in 1936 and is struggling to accommodate the increasing number of visitors. The orchestra's new home should provide an inspirational venue to meet the increasing popularity of its program of concerts and also create a new public plaza for the people of the city.

These requirements are reflected in the Zaha Hadid Architects' futuristic architectural concept, selected out of 47 proposals from leading architectures. The innovative design is inspired by sound waves and will create unique acoustics.



ZAHA HADID ARCHITECTS

The Guardian of London called the Iraqi-British architect Zaha Mohammad Hadid as the „Queen of the curve“, who „liberated architectural geometry, giving it a whole new expressive identity“. Her major works include the aquatic centre for the London 2012 Olympics, Michigan State University's Broad Art Museum in the U. S., and the Guangzhou Opera House in China. The architectural bureau founded by Zaha continues her work and traditions.

Providing a 1,600-seat Concert Hall and a 400-seat Chamber Music Hall of the highest acoustic standards, these new auditoria are nestled within the surface deformations of the suspended canopy. The lobby serves not only as an introduction to the world of symphony music, but also as a welcoming public plaza for all members of its local community. The existing Sverdlovsk Philharmonic Hall is housed within the city's old Civic Assembly Building that was originally built as a club for all citizens to gather. The new design revives and enhances this commendable civic legacy; its spaces designed to function as a centre of Yekaterinburg's civic, social and cultural life.

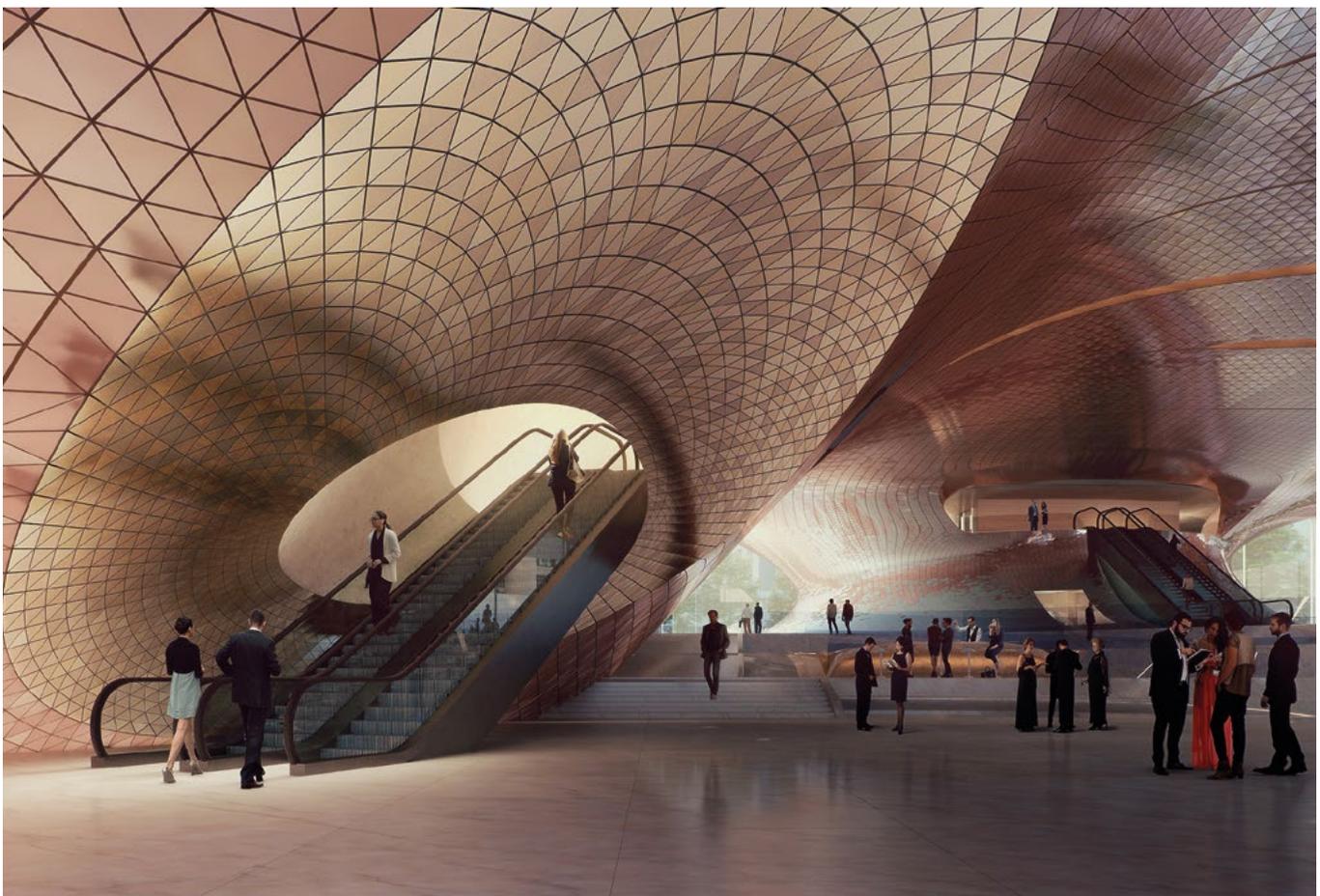
Enhancing its connections with the surrounding urban fabric of the city, large glazed facades blur the boundary between interior and exterior; inviting visitors to experience the spaces within that celebrate public gathering, civic

forum and creative endeavor. The Philharmonic Concert Hall’s procession of interconnected public spaces continues through the building to its rooftop terrace overlooking the city’s Church of All Saints.

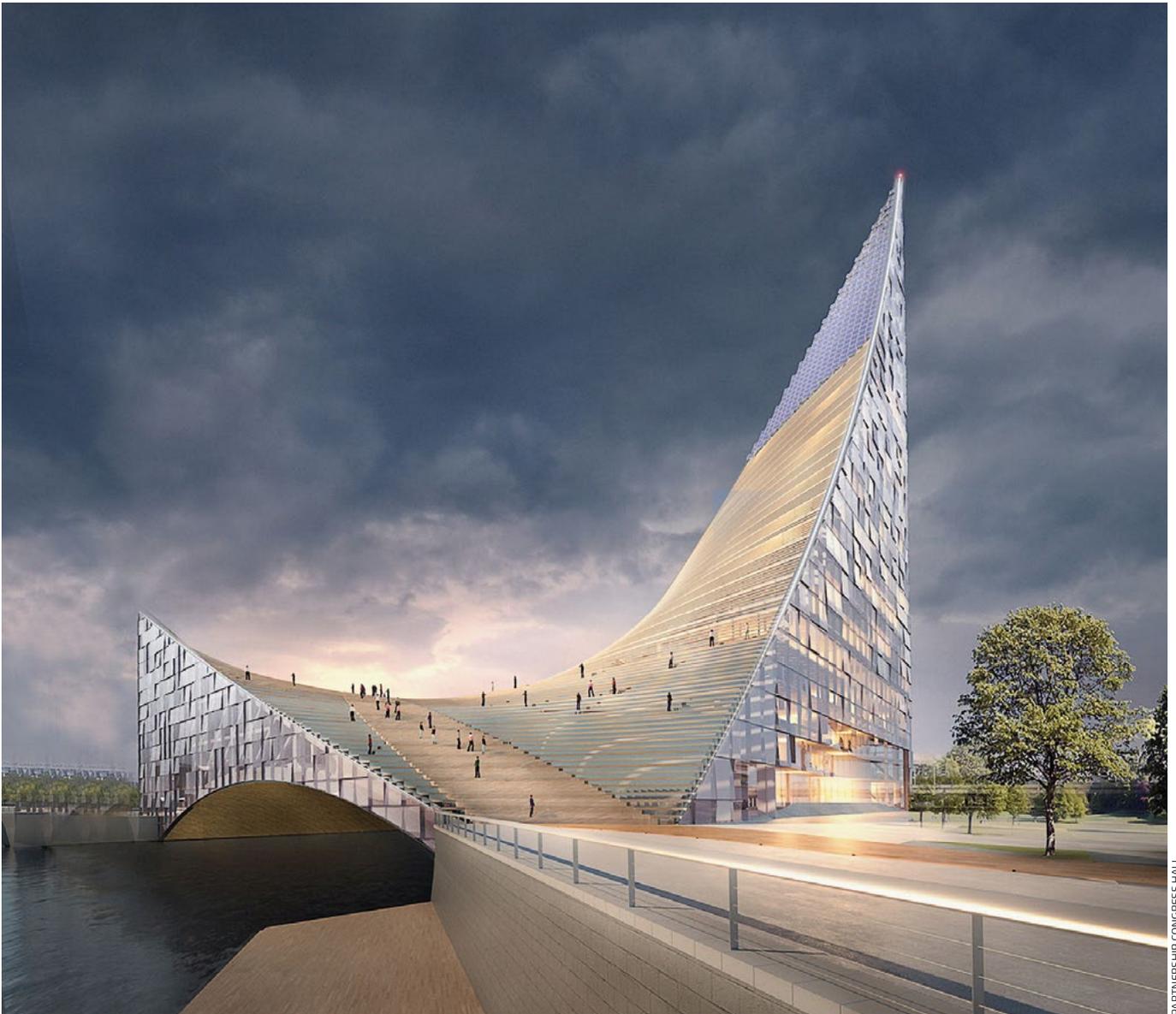
Christos Passas, Project Director at Zaha Hadid Architects, said: „Russia has been a formative influence on Zaha Hadid Architects’ creative work. From very early in her career, Zaha was attracted to the Russian avant-garde who conceived civic spaces as urban condensers that catalyse a public realm of activity to enrich creativity and community; allowing space itself to enhance our understanding and well-being. These principles are embedded within the design of the new Sverdlovsk Philharmonic Concert Hall.“

Dmitry Liss, Artistic Director and Principal Conductor of the Ural Philharmonic Orchestra and member of the design competition jury, said: „For musicians, this new hall is crucial. It will be a musical instrument that brings the sound to life.“

Source: Zaha Hadid Architects / Wikipedia



ZAHA HADID ARCHITECTS, WIKIPEDIA



PARTNERSHIP CONGRESS HALL

Chelyabinsk to host BRICS and SOC summits in 2020



PARTNERSHIP CONGRESS HALL

The investments in infrastructure upgrades are estimated at \$550–650 million.

Last year Chelyabinsk was confirmed to be the host city for the upcoming summits for both the Shanghai Cooperation Organization (SCO) and the BRICS countries (Brazil, Russia, India, China, and South Africa), taking place in 2020. The city’s authorities had been working towards this decision for several years, and embrace now the opportunities to accelerate the infrastructure development with the support of federal funding.

A remarkable new Congress Hall (draft on the photo) for \$120 million will span the Miass River like a bridge and curve upwards like a sail on two ends, rising to heights of 61 and 150 meters. Its placement across two riverbanks also opens the site up to public use opportunities along the bridge. The bridge, located at one of the river’s narrowest points and arched to allow small boats to pass under, divides the complex into two sail-like parts

to create a dramatic urban landmark. Both curved structures are clad in glass and topped with observation decks. The larger 150-meter-tall swooping structure will house the Congress Hall, a mixed-use concert hall, a hotel, an office complex, a conference hall, and VIP offices. The 61-meter-tall structure opposite contains the recreational area and exhibition hall. The landscape design, including the flora, paving, and street furniture, will be based on a parametric grid pattern of parallelograms.

The airport upgrade for \$160 million includes the construction of an additional new terminal meeting all international standards with a capacity to service 2.5 million passengers per year.

The total investments for the infrastructure upgrades including roads and hotels are estimated at \$550–650 million.

Yekaterinburg to host GMIS 2019

Heads of states and high-ranking guests are expected to attend the event.



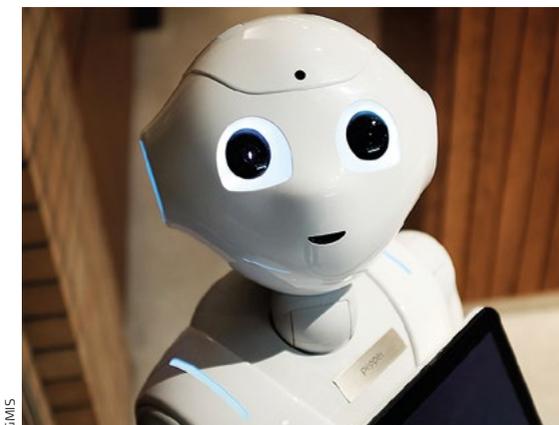
The next Global Manufacturing and Industrialisation Summit (GMIS) 2019 will come to Russia, the city of Yekaterinburg.

The announcement was made by President Vladimir Putin at the St. Petersburg International Economic Forum (SPIEF) in May 2018, in presence of France President Emmanuel Macron, Japan Prime Minister Shinzo Abe, China Vice President Wang Qishan and the IMF Managing Director Christine Lagarde. The heads of states and other high-ranking SPIEF visitors were invited to attend the event.

The Global Manufacturing and Industrialisation Summit is a pioneering cross-industry forum aiming to unify the world in shaping the future of manufacturing. It was founded by the United Arab Emirates and the United Nations Industrial Development Organization (UNIDO). The forum bridges the gap between manufacturers, governments and NGOs, technology players, and investors in harnessing the Fourth Industrial Revolution's transformation of manufacturing.

The first summit was held in Abu Dhabi (UAE) in 2017. The second edition in 2019 will look at nature-like technologies, otherwise known as biomimetic design and biomimicry. The science of mapping design challenges to the natural world to find innovative solutions has led to some of the world's most important inventions. By using nature to inspire manufacturing innovations, GMIS 2019 will promote strategies and designs to deliver solutions that achieve sustainable industrial development.

The Summit will be staged in conjunction with the annual International Industrial Fair INNOPROM that in July 2019 will be held for the tenth time in Yekaterinburg.



Source: GMIS

Ural's High-Speed Railroad to be built with German partners

The \$5 billion mega project is likely to be implemented with the participation of the German Initiative for High-Speed Transportation in Russia.

The high-speed railroad link between Yekaterinburg and Chelyabinsk, with trains running at speeds over 250km/h, will cut the current journey time of 5 hours to just 1 hour and 10 minutes in as soon as 2024, consolidating the Ural's two major cities with a population of 2.5 million people.

The \$5bn mega project is likely to be completed with the participation of the German Initiative for High-Speed Transportation in Russia. In February 2019, the Ural Expressway signed on the sidelines of the Munich Security Conference a cooperation agreement with this body, operating under the auspices of the German-Russian Chamber of Foreign Trade. The most prominent members are Siemens, Deutsche Bahn, Deutsche Bank, Strabag, Bauer and Vossloh. 'The twelve participants in this initiative are specialists from the railway industry, as well as construction and finance, and are prepared to actively support the Russian railway company RZD', writes the initiative in describing its objectives.

The bigger picture of the project goes beyond the regional impact. The 220km line is part of the envisaged high-speed railroad corridor from Beijing to Berlin via Kazakhstan, Chelyabinsk, Yekaterinburg, Kazan, Moscow and Belorussia with a total length of 9,500km. The new high-speed Silk Road is more of a 'when' than an 'if' question. The project fits into the 'One Belt, One Road' ini-

tiative of the Chinese government aiming to invest billions in infrastructure projects including railways, ports and power grids linking Asia, Africa and Europe.

The cost of the Ural segment will be shared by the participants of the public-private partnership Ural Expressway, which will obtain the right to operate the railroad under a concession agreement. On board are public funds and institutional investors as well as potential suppliers, including the German Initiative.

The project will boost the local economy and benefit local suppliers as soon as the implementation begins. For example, EVRAZ Nizhny Tagil Metallurgical Plant is a potential supplier for innovative rails, and Ural Locomotives is the country's only manufacturer of high-speed trains.

Today, South Ural is already embracing the opportunities of this transport corridor, with trains passing through the region daily from China to Europe. A new logistics hub for agricultural products is set to facilitate the Ural's export of wheat to China, employing the available empty railway cars heading back from Europe to Beijing. The \$100 million project is being executed in conjunction with the Jinsha Group, one of the biggest noodle producers and wheat consumers in China.



AAPSKEY/SHUTTERSTOCK.COM



AJMM GRAPHIXPHOTO/SHUTTERSTOCK.COM

Garage start-up finds its golden ticket with Ural Locomotives

Small and medium-sized businesses are fueled by „made in Russia“ trend. „Everything is possible, if one works hard“.

The history of Stankomatika began in a 40-square-meter garage in a small town of Aramil near Yekaterinburg, when Yavar Aliyev and his partners started assembling equipment for the production of plastic windows. For a period of time the business was doing well, until in 2008 a crisis hit the construction industry and the orders decreased dramatically.

Forced to survive, they started producing small components for machine building companies, focusing on non-standard metal structures and components for electric locomotives. The beginning was not easy, they participated in all possible tenders and took all the work they could get. But step by step the partners were moving forward, continuously expanding the product portfolio and investing in more and more advanced tools for metalworking.

And in 2014 their company won a tender for supplying Ural Locomotives (JV Siemens and Sinara Group), more specifically the electric locomotive „Lastochka“ developed on a Siemens platform. Ini-

tially, most of the components were sourced from Germany. In 2014, following the abrupt rouble weakening, Ural Locomotives started a large-scale import-substituting project which allowed to increase the share of local sourcing to 84% within a short period of time.

Lastochka turned to be a breakthrough for Stankomatika. Yavar Aliyev says no special connections were necessary. They more or less stumbled upon the tender which proved to be their golden ticket.

Now Stankomatika occupies a production floor of 4.5 thousand square meters and employs 109 people. Another major production expansion with additional 20–30 employees will come in the near future, thanks to Ural Locomotives orders.

So far, around 200mn roubles (\$3.5mn) have been invested. In the words of Yavar Aliyev, everything is possible, if one works hard.

Source: Olga Selezneva/ekb.dk.ru



SERGEY STUDENNIKOV IN CHELYABINSK / SOURCE: KRASNOE & BELOE

Fast-growing chain of discount liquor stores creates Ural's newest billionaire

Note: the original interview in full length is available at rbc.ru in Russian / The presented translation of selected interview questions and answers, elaborated by The Yekaterinburg Times, is intended to render the meaning of the texts, rather than to provide a literal, word-for-word translation. Some text parts are also shortened.

From zero to \$4.5 billion revenue and 100,000 employees in 12 years.

“The goal is to save our customer the trouble to work through several stores looking for the best price. Come to us, and trust us. We monitor the market for our customer, and offer the best price available today. This is the main service we provide.”

The Bloomberg Billionaire Index has revealed in late 2018 the name of Russia’s new billionaire — Sergei Studennikov from Chelyabinsk. Even in his home city, with over 1mn people, he remains unknown beyond business circles and prefers not to draw too much media attention.

Quite the opposite can be said of his discount liquor stores, which can be found on many street corners throughout the nation. Krasnoe & Beloe (Red & White) is not only well-known; it has the reputation of ‘best price’. Probably there are only a few people, at least in the chain’s home region, who would never have frequented Krasnoe & Beloe.

The first store was opened in the small town of Kopeysk on the outskirts of Chelyabinsk in 2006. Only 12 years later, the retailer boasted 6,700 outlets in 57 of the 85 regions across the country, and 100,000-plus employees. A sales jump of about 50 percent to 215 billion roubles (\$3.3 billion) in 2017, and another 40 percent in 2018, has turned the company into the fastest-growing major retailer in Russia, a rollout that has intensified in the last few years: noteworthy in a period that most industry players considered a challenging economic environment. In 2018, six new stores were opened every day on average, and there was no intention to slow down. Krasnoe & Beloe was on track to overtake Metro, Dixi, Auchan and Lenta for third place among Russian chains by 2021.

However, in January 2019 the company surprisingly announced a merger with Dixi and Bristol. Now the three partners have amassed 13,000 stores together and are the third largest retailer in Russia. The analysts called Krasnoe & Beloe as ‘the pearl of the deal’.

A typical Krasnoe & Beloe store is located in a residential area and has a selling space of just 80 square meters, so shelf space is allocated to a strict selec-

tion of items and suppliers. The portfolio changes regularly to some extent, but the number of products is held at about 1,300, including groceries and general goods.

➤ ‘The most efficient retailer is the one who offers a limited assortment — as Aldi does in Europe’, Studennikov said.

Krasnoe & Beloe offers roughly 800 types of alcohol, mainly wine (520) and beer (100). The price segments range from cheap booze to brands such as Barton & Guestier wine, Corona beer, Jack Daniel’s whiskey or Martini. About 400 items are basic food-stuffs like coffee, milk and sausages, with the rest allocated to cigarettes and whatever the chain can get a good deal on. The portfolio is a combination of a liquor store and a typical corner shop, but with the difference that the prices are at the level of supermarkets, or even lower.

The limited assortment, priced to be the best offer available and offered around the corner, is probably the main success factor. How to get there, is the company’s unique know-how. The chain is known for its robust approach towards suppliers and employees, smart logistics concepts and real estate management. Studennikov also says there is no corruption in his company, while other major retailers would have to price in corruption costs.

In a rare interview, given to Russian business news outlet RBC in 2015, Studennikov talks about his successful business model. Below parts are quoted, which provide compelling insights even from today’s perspective.

Back in 2006, when you opened the first Krasnoe & Beloe store, did you have the idea of a big retail chain?

Yes, starting with the first store, from the first minute. Our company had been engaged in this kind of business for quite some time before. My experience dates even back to 1988, still the times of Soviet Union, when I was dealing with alcohol...I tried many things, but at the end it all came back to it.

I was very lucky in my life to meet people who started to develop retail chains in 1990s. They inspired me and extended my horizons. I realized that the future belongs to retail chains, and not to those with just a local presence in a particular city or region. In retail, to say it short, you are the number one or none. This is the position to be.

You don't have a business education, is it right?

No, I don't have a business education, I don't have MBA. I come from Bakal, a small ore mining town in Chelyabinsk Region. I studied in (neighboring) Satka at a mining school. I was lucky, the education was surprisingly good, although I was not a very diligent student. After graduating, I took a job in the mine, and a short time later I went to the army. When I came back, I moved to Chelyabinsk. It was winter, before the New Year's Eve, and I had some gym shoes and fufaika (a cheap winter jacket) on. And that's all I had. For a couple of weeks, a train station was my shelter. It was tough.

Your retail prices were sometimes even below the purchasing prices of other retailers, is it still the case?

No, not anymore. Now we do not experiment anymore. In the past, we were experimenting, driving the prices down in the market. Now, our pricing is 100% market determined. For example, if today Auchan has the best offer for an item, let's say, they sell it for 1 rouble, we will set the price at 1 rouble. When Auchan's special offer expires, but the item is now available at Lenta for 1 rouble, we will keep the price. Tomorrow there is no special offer anywhere available, and the price goes up

to 1.2 rouble, we will adjust accordingly. The goal is to save our customer the trouble to work through several stores looking for the best price. You don't have to run from store to store. Come to us, and trust us. This is the main service we provide for our customer. We monitor the market for our customer, and offer him the best price available today.

➤ Squeezing out suppliers, minimizing logistics costs, efficient real estate management and no corruption.

What is your profitability?

Our margin is about the average. Gross margin in grocery retail today is somewhere around 26–27%. We are slightly below, by 2–3%.

How do we get the low price? First of all, we get premium discounts for being the number 1 customer for our suppliers. Initially, our target was to get there for the Ural Region, and in the next step for the whole country. With this position, of course, we get certain bonuses and more. Everything we can squeeze out from our suppliers, is passed on to the shelf. It is clear that we are minimizing our logistics costs, we have our own logistics concepts, and with it we are doing probably better than the industry average. And I think we are ahead with a very efficient real estate management, we have a strong development team. We rent 100% of our store facilities. This was our position from the beginning — to rent only. And until recently, I looked at each rental facility personally and made the final decision to take it or not.

At each of 1800 rental facilities?

1800 stores are opened. And to get there, you have to look at a number of facilities multiplied by 20. It means out of 20 pre-selected proposals, 1 gets approved. I personally challenged the conditions, payment terms, rent price indexing etc. This is a serious job, taking time.

Are you a tough leader?

Of course. Our company, like our state, has a tough vertical of power. There is no other way, at all, oth-

erwise there is confusion and vacillation. On top, the corruption risk is high. It's very important to control everything personally. Because the absence of corruption affects the price on the shelf.

Thanks to personal control?

Of course. All retail chains, if we take the major ones in the country, have a high corruption component in their product prices. The procurement department is usually the most corrupt one. The number 1 problem for any retailer, any owner of retail business, is how to control this issue. Everyone has its own method of some kind, less or more effective than ours. But in our company it's impossible to take a single SKU (stock keeping unit) into the sales portfolio without a collegial management approval, and my personal approval. Meanwhile we have also a certain image among suppliers. They all know, if, God forbid, they make an illegal move, we will never work with them again. They will lose our sales channel forever, be-

cause I consider corruption as a theft personally from me, as taking money out of my pocket. Nobody needs that.

Do I understand correctly that your suppliers do not pay for listing?

We don't practice that at all. This is some stuff other retail chains engage in. We don't take money to list a merchandise in our sales portfolio, we have other valuation criteria for new items. If a SKU is not working, we take it out. We have no obligations to the supplier. In case with paid listing, you will have this useless stuff on your shelf for a year, doesn't matter, if you want it or not. No, this stuff will stay as long as it takes for us to realize that this is useless That's all.

In Chelyabinsk Region you have more than 470 stores. Don't you think, it's too much?

Yes, I do. The Chelyabinsk Region was our testing ground, we did all the experiments we could here.



We had to find out where the limit for the store density is. Now we do have the understanding, which area and how many people a new store should cover in order to be effective.

And what is this density?

Well, let everyone figure it out by himself, this is a serious work.

Did you buy other chains to grow faster?

We grow fast enough without it. I don't understand, what can I buy? There are plenty offers, with 50, 100, and even 300 stores. But what do you want me to buy? (Sergey quotes a conversation below)

- What do you have, tell me?
- Well, we have 300 stores there
- Good. Is it your property?
- No, we lease
- What about the merchandise?
- It's not paid yet
- And what else do you have, technology? Are you better than us?
- No.

And what is it to buy? In general, this is some kind of nonsense, an idea from a decade ago: we will develop a chain with 100 stores and then sell it to a bigger retailer like X5 or Magnit. Or to those idiots from „Krasnoe & Beloe“. Oh, look, we have a liquor store, buy it! And the morons will buy it.

- Why should I?
- You will get a quick access to our region, for example, to Omsk
- Ok, but we can do it without you anyway
- You are wrong, there is no room in Omsk. For twenty years we have been taking the market, everything is taken here
- Are serious, guys? So for the sake of experiment, let's try it.

Two years later we have 100 stores there. End of story. Any more questions? Is there room?

 **We can do the same thing in New York and Guangzhou.**

Are you kidding when you describe the situation like that?

Three years. You enter any region, and in three years you cover it 100%. Doesn't matter where, at all. St. Petersburg is a city with a high number of retail chains. But it's sure, we can take it in three years. Well, St. Petersburg maybe in five. It's never too late. We can do the same thing in New York. What's the difference? New York is even better. And somewhere in Guangzhou you can open even four stores in an apartment building.

Source: rbc.ru / bloomberg



DENISKABELEV/SHUTTERSTOCK.COM

Ural Airlines to purchase 14 Boeing aircraft for \$1.5 billion

In 2018 Ural Airlines achieved a new record, the passenger number increased to over nine million passengers, up 13 percent on the previous year. This year the airline is targeting another increase to at least 10 million passengers.

Ural Airlines, Russia's third largest air carrier by passenger numbers after Aeroflot Group and S7 Group, will purchase 14 Boeing 737-800 aircraft for \$1.5 billion in the coming three years. The first delivery is scheduled for the IV quarter 2019.

Presently, the carrier operates a fleet of 50 Airbus A320-family. In the last decade, the airline has been steadily improving its operational results, even as the overall Russian commercial aviation industry experienced periods of downturns. Since 2009, the number of passengers increased six-fold. In 2018 Ural Airlines achieved a new record, the passenger number increased to over nine million passengers, up 13 percent on the previous year, and this year the airline

is targeting another increase to at least 10 million passengers.

In anticipation of the fleet extension with new type of aircraft, the in-house maintenance capabilities will be expanded as well. The airline is getting ready to start construction of additional facilities for its Aviation Maintenance Center in Yekaterinburg.

The Boeing Corporation operates manufacturing units focusing on titanium forgings near Yekaterinburg. The long-term contracts with the Russian partner VSPMO Avisma cover around 35 percent of Boeing Commercial Airplanes' demand for titanium, and should top \$ 18 billion over the next 30 years.

Stopping chaotic waste disposal

Waste mountains around the cities and illegal waste disposals have become an acute issue across the country.

In the last few decades, the recycling rate has remained at a shallow level or has even deteriorated. While in the times before 1990 the collection and recycling of glass and paper was more or less a well-functioning system, the waste disposal approach in the 1990s was simplified to dumping unsorted garbage on the fast-growing disposal sites around the cities. Moreover, the waste volume itself has grown dramatically, reflecting the increasing incomes and consumption in the country. The resulting environmental impact and air pollution have sparked political protests, especially in the towns neighbouring large disposal sites around Moscow.

The national programme ‘Environment’ rolled out for the period 2019–2024, and donated with billions of dollars, is supposed to bring the long-awaited turnaround. The central piece of the envisaged new waste management system is a significant increase in waste recycling.

In this regard, the city of Tyumen is a front runner in Russia. Back in 2014, the city concluded a PPP agreement with a private investor for the construction and operation of a waste sorting facility with the capacity to process 350 thousand tonnes of waste per year or 90 tonnes per hour. Four years later, the 25mn euro facility was ready to go. The equipment made in Germany and Spain separates solid waste in glass, paper, plastic, metal and other components. Around 60 percent of the processed volumes is turned to recyclable materials.

The launching ceremony was attended by high-ranking guests, the federal minister for the environment and the governors of Tyumen and Sverdlovsk, emphasising the high importance of the topic. On this occasion, plans were revealed to build a whole cluster for waste sorting and recycling around Yekaterinburg in the near future.

Experts view the public-private partnership agreements in this area as an attractive business model for potential investors. The chances are high that a large number of new waste processing plants will be built shortly, especially when viewed in conjunction with the political will to stop chaotic waste disposal. It opens business opportunities for international equipment suppliers as well.



New Waste Sorting Plant in Tyumen

Soyuzpishcheprom starts first non-dairy milk production in Russia

As more people choose a plant-based lifestyle or simply cut down on animal products, non-dairy milk is becoming quite popular.

The consumer staples producer Soyuzpishcheprom launched Russia's first production line for non-dairy milk. Out of the variety of plant-based milk alternatives, the company's portfolio includes at first rice, soy, oats and wheat milk. Later, almond and coconut should be added.

The company based in Chelyabinsk explains the investment of \$15 million with a growing demand and a significant price advantage compared with imported analogues. As more people choose a plant-based lifestyle or simply cut down on animal products, non-dairy milk is becoming quite popular, not only as a drink, but also in yoghurts and other milk-based products.

The installed equipment (made in Italy) runs fully automated with two packaging lines for tetrapak and plastic bottles. The output capacity is 100 tonnes per day or 35,000 tonnes per year.

The company's target markets are the major cities in the region, including Chelyabinsk, Yekaterinburg, Tyumen and Ufa, as well as the both capitals Moscow and St. Petersburg. The expected sales amount to \$33 million per year.



11,500 years old wooden sculpture in new spotlight around the globe

The sculpture is 4,000 years older than Stonehenge and double the age of the Egyptian Pyramids.



SVERDLOVSK REGIONAL MUSEUM / СВЕРДЛОВСКИЙ

The Shigir Idol



The Shigir Idol exhibited at Sverdlovsk Regional Museum in Yekaterinburg was recently confirmed as one of the oldest pieces of monumental art ever uncovered.

The sculpture is at least 4,000 years older than Stonehenge and double the age of the Egyptian Pyramids, and could only survive due to the unique conditions of the Shigir peat bog located 100 km north of Yekaterinburg, where it was discovered in 1894 during gold mining. Since then, the idol has been an object to archaeological studies but the unusual character of the sculpture made it difficult to assign a date from its typology, and indeed it remained undated for decades, until in the 1990s, scientists removed a portion and used radiocarbon detectors to date it. It produced an age of about 9,800 years. Any scholars rejected the result as implausible. Hunter-gatherers did not have the ability to make such a huge work or have the complex symbolic imagination to decorate it in the way that the idol has been adorned, skeptics argued.

The latest international study on the idol, published by the Cambridge university, not only confirmed the initial assumption but it estimated the age even with 11,500 years. More sophisticated dating technics were used, so there is almost no doubt. The results attracted not only great attention in archeologists circles, the Guardian dedicated an article with a headline „Carved idol from the Urals shatters expert views on birth of ritual art“, in which the archaeologist Professor Thomas Terberger is quoted with his statement: „Our analysis indicates that the Shigir Idol is around 11,500 years old. At that time, Europe and Asia were still emerging from the ice age. There were no farmers then. The only humans in this part of the world at this time were hunter-gatherers. Yet they created the Shigir Idol. The discovery of its antiquity therefore changes, dramatically,— our views about the birth of ritual art.“

In this regard, the Shigir Idol is in new spotlight around the globe.

Mike Tyson attends opening ceremony in Korkino



RCCBOXING.PRO

Opening Ceremony in Korkino

Boxing stars Mike Tyson and Konstantin Tszyu took part in the opening ceremony of a sports complex in Korkino. It was a bit surreal to see Mike Tyson attending a local event in a small Ural town.

The complex offers play-fields, fitness and workout places as well as boxing and judo studios. The outdoor area is equipped with an artificial pitch for mini soccer and a tribune with 250 seats. All in all, a good place for fitness, local sport events as well as professional training.

Konstantin Tszyu, a boxing champion, commented: „When I started boxing, we did not have this kind of sport centres, there was only a great desire to achieve high results. Today, the kids get all the necessary equipment to become world-class athletes and champions.“

The venue was sponsored by Russian Copper Company (RCC) with \$3 million, which is known for its sports engagements. RCC Boxing Promotions organizes top MMA fights and boxing events regularly attended by stars and celebrities, including Mike Tyson. In late 2018, Yekaterinburg hosted the quarterfinal of World Boxing Super Series. That night, south African Zolani Tete defended his WBO bantamweight belt against Mikhail Aloyan and Andrew Tabiti from Chicago defeated Ruslan Fayfer.

WBSS promoter Nisse Sauerland commented the event on his twitter account: „It was amazing, grateful to the organizers for the hospitality. It was very pleasant to be in Yekaterinburg, the show was organized perfectly. I hope that we will return to Russia soon.“

Russian Copper Company

New Headquarters in construction

FOSTER+PARTNERS



MONTHLY BUSINESS EVENT: MANUFACTURING IN YEKATERINBURG

**Industrial Parks
Local Sourcing
Experience of International Companies**

Programm

- Reception & Coffee
- Local Investment Climate and Industrial Profile
- Manufacturing and Localization in the Region
- Case Studies of International Companies (on-site)
- Visiting of pre-selected industrial parks
- Networking and exchange with international manufacturers and local authorities

Where: Yekaterinburg / Russia; Hotel Hyatt Regency

When: Every second Friday of the month upon confirmation / individual appointments are possible

Registration fee: 50 EUR

Languages: English, German, Russian

Organizer: MAC Consulting / mac-consulting.net

Please send your request to info@mac-consulting.com
or give us a call **+7 (982) 757 62 11**