

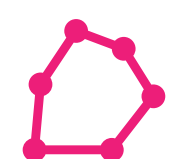


Investment Potential of the Sakhalin Region

2015

Sakhalin Region is

02



Area:
87,1
square kilometers



Time Zone
**VLAT MKS
+7, UTC +11**



Population
489,7 тыс.
people



More than
100
nationalities

The only island region of Russia

59 islands

The largest - the Island of Sakhalin



Administrative Center
City of Yuzhno-Sakhalinsk



Distance (by plane)

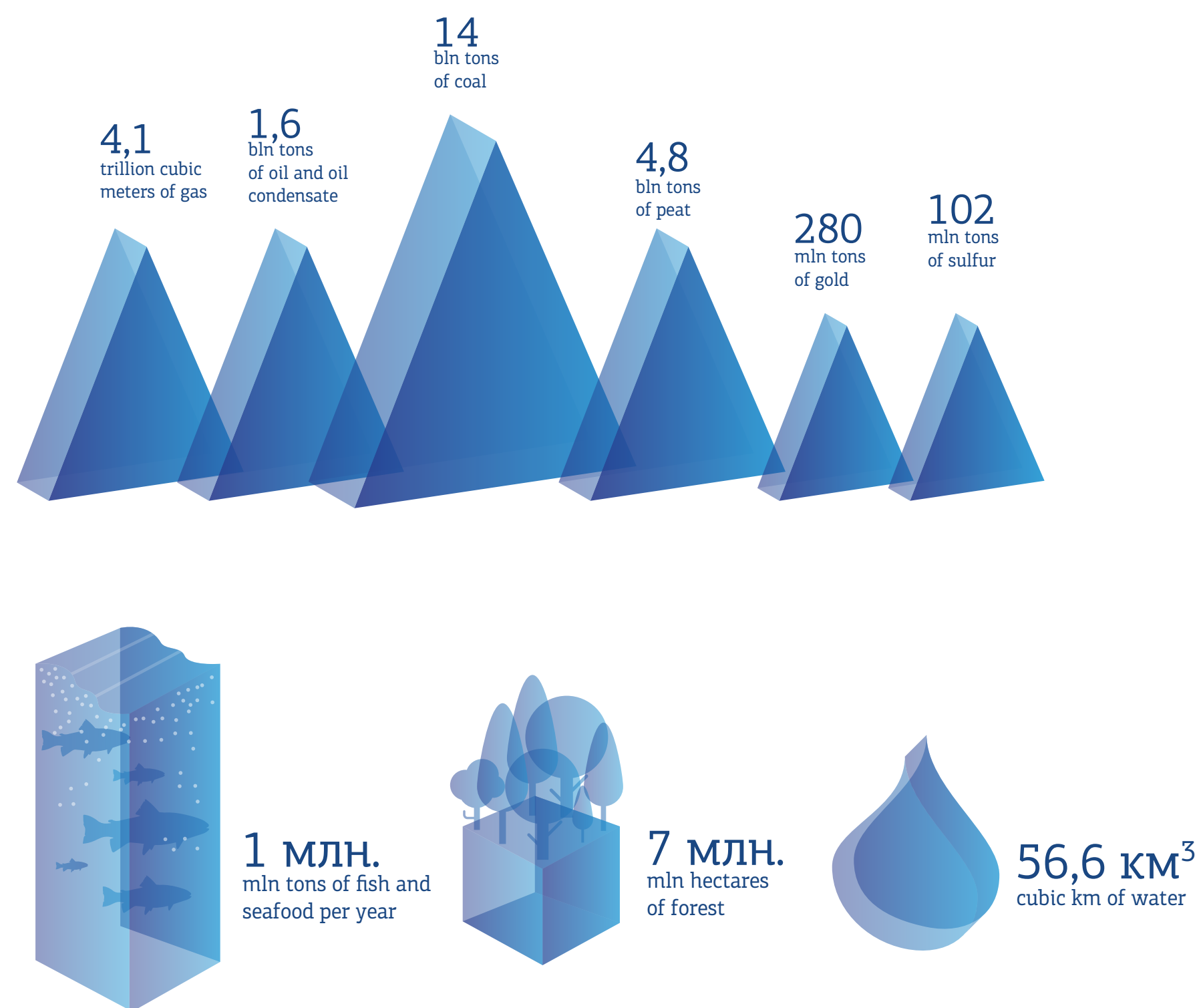
9,600 kilometers
New York (11 h 24 min)

6,600 kilometers
Moscow (7 h 53 min)

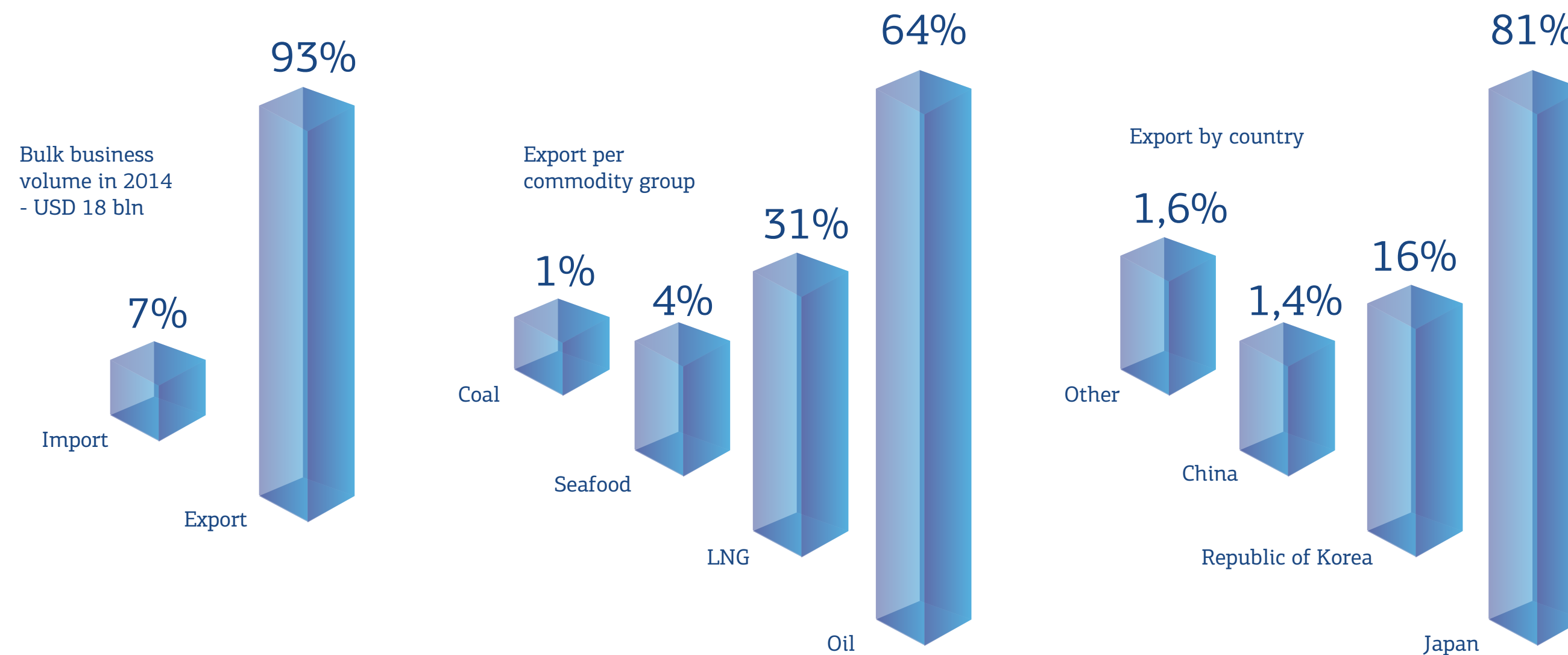
1,700 kilometers
Seoul (1 h 58 min)

Key Advantages of Sakhalin Region

03



Natural Resources



Closeness to markets of Pacific Asia

Sakhalin Region in the rating of socio-economic positioning
of Russian regions in 2014* - rating position:

Integral Rating - 13

Sakhalin Region Integral
Rating Position in terms of
Investment Development

8th place

ECONOMY DEVELOPMENT SCALE

Products and Services	24
Consolidated budget revenues	23
Workforce	71

ECONOMY EFFECTIVENESS

Products and services per capita	4
Investments into fixed capital per capita	4
Foreign investments per capita	4
Share of profitable enterprises	36
Tax collection	21

* RIA Rating

BUDGETARY SPHERE

Consolidated budget revenues per capita	4
Share of tax and non-tax budget revenue	5
Consolidated budget deficit	10
Level of debt load	8

SOCIAL SECTOR

Ratio between population income and cost of products and services	9
Unemployment level	63
Life expectancy at birth	70
Infant death mortality rate	10

Major macroeconomic indicators of socio-economic development of Sakhalin Region

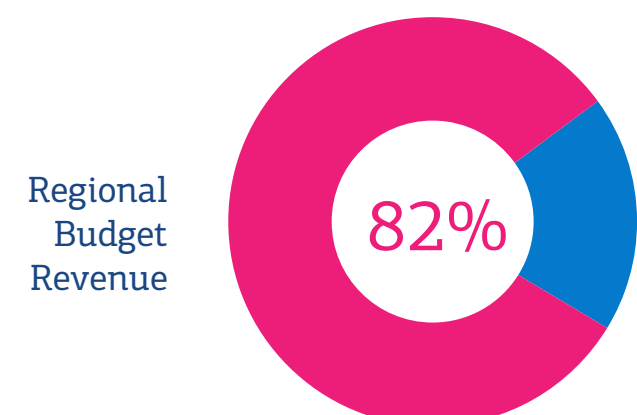
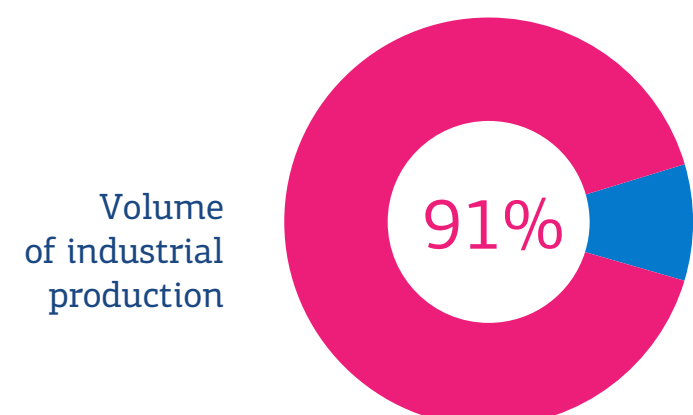
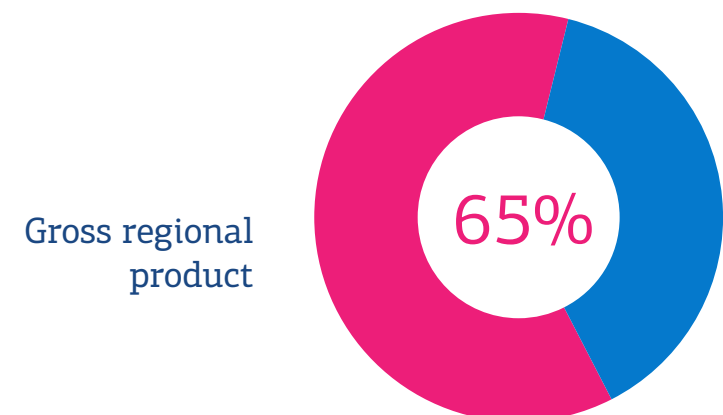
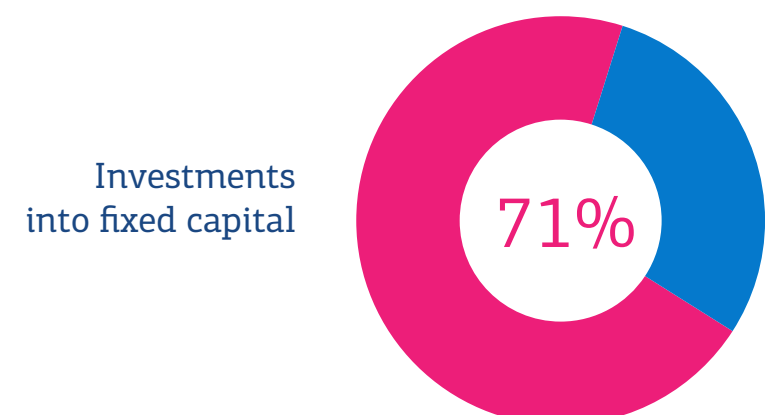
05

		1996	2000	2005	2010	2014	2015	2020
Investments into Fixed Capital	RUB bln	1,04	8,07	110,244	135	210,3	215,9	232,5
Gross Regional Product	RUB bln	9,6	35,4	121	487,7	792,7	844	1131,1
Industrial Production Volume	RUB bln	6	30,2	54,4	302,2	771,8	791	1037,4
Regional Budget Revenue	RUB bln	2,1	6,1	16,6	45,3	134,7	116,3	160,8
Average income per person	RUB thousand per month	0,98	2,79	12,55	30,7	45	47,4	59,3
Registered unemployment rate	%	4,1	2,4	1,6	1,2	0,6	0,7	0,7

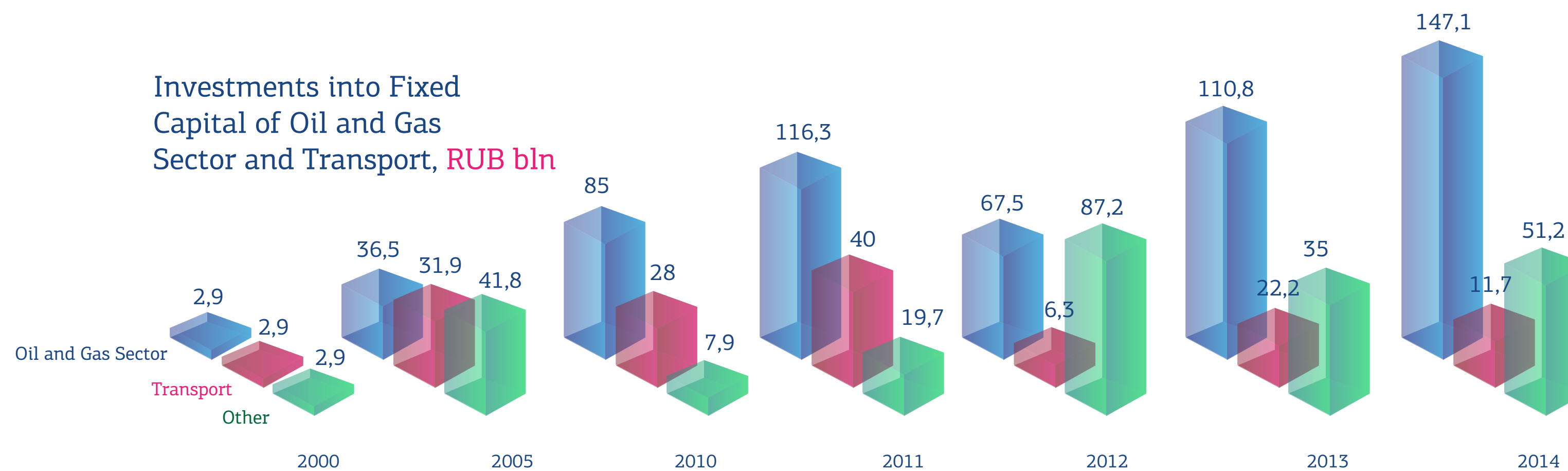
Oil and gas sector is a driver of regional economic development

06

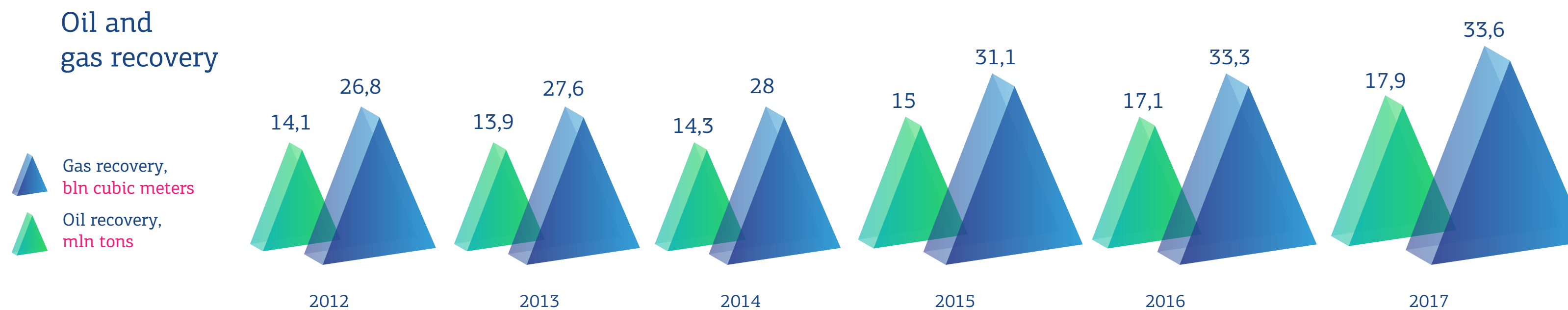
Share of oil and gas recovery in:



Investments into Fixed Capital of Oil and Gas Sector and Transport, RUB bln

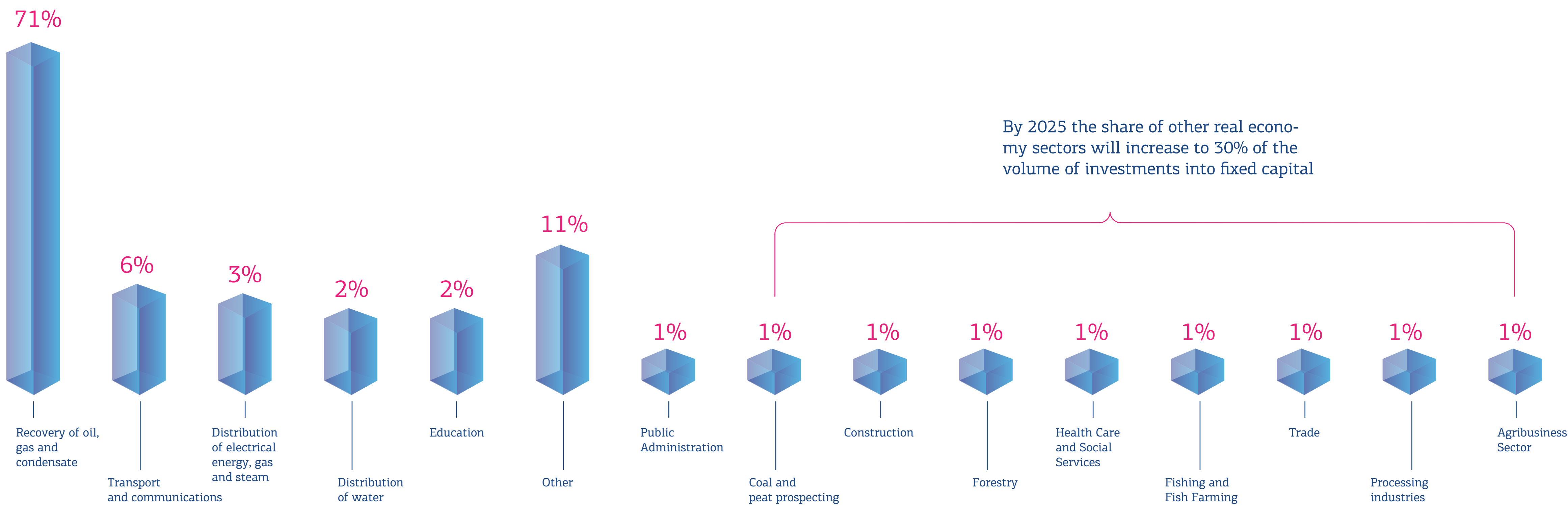


Oil and gas recovery



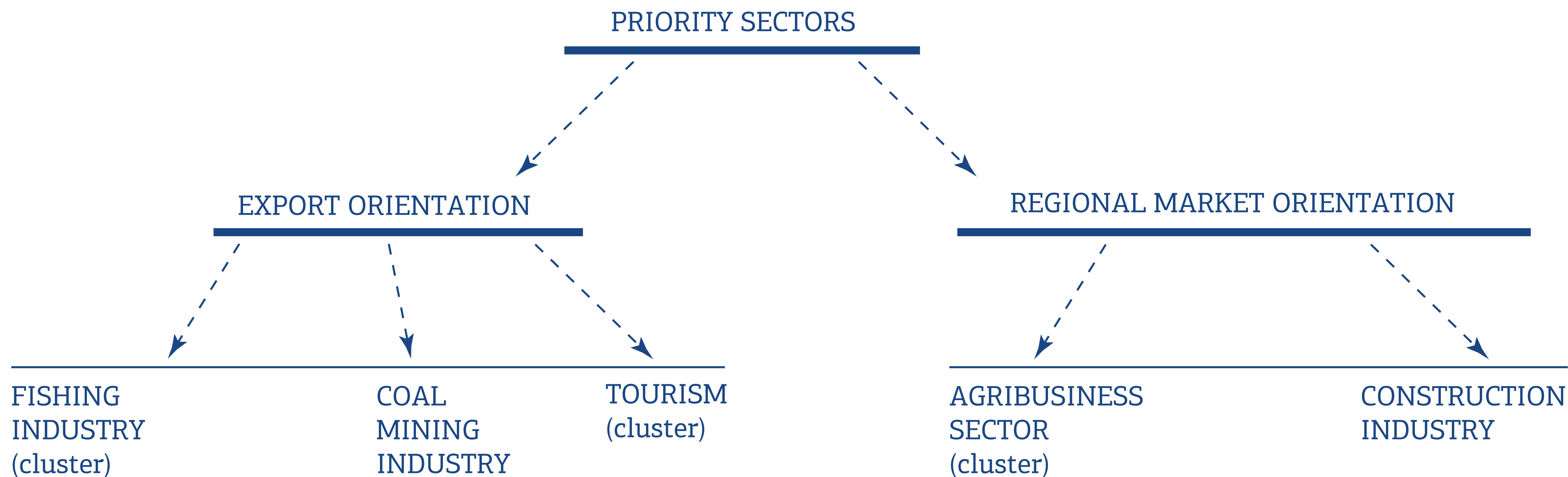
Economy diversification is the foundation of regional investment policy

07



Outrunning growth of priority sectors

08



Investment potential – what has already been implemented?

	Number of Projects	Cost, RUB mln	Financing Sources		new Jobs Created	Effects		
			non-budgetary	budgetary		including high performing jobs	contribution to Russian Federation budgetary system, RUB mln	contribution of GRP of Sakhalin Region, RUB mln
TOTAL FOR SAKHALIN REGION	75	2 039 895	2 010 608	29 288	16 201	9 764	321 403	945 458
Economics (production and services)	56	1 255 981	1 244 451	11 530	8 440	5 331	282 389	662 249
Infrastructure	14	777 768	760 510	17 258	7 606	4 401	38 303	280 990
Social Sector	5	6 147	5 647	500	155	32	711	2 219
ECONOMY SECTOR	56	1 255 981	1 244 451	11 530	8 440	5 331	282 389	662 249
Oil and Gas Sector	4	974 541	974 541	-	2 934	2 050	232 196	462 788
NOT Oil and Gas Sector	52	281 440	269 910	11 530	5 506	3 281	50 143	199 461
Coal Sector	8	237 912	237 912	0	1 226	734	23 731	126 965
Fuel and energy sector processing	2	228 336	228 336	0	45	25	190	312
Construction Sector	3	13 724	11 834	1 890	1 212	812	1 910	1 500
Forest Industry	1	7 367	7 167	200	686	686	14 030	35 587
Agribusiness Sector	20	6 883	2 320	4 563	605	572	4 856	27 292
Fishing Sector	15	5 168	4 330	838	1 253	251	4 304	4 173
Tourism	2	8 727	4 688	4 039	446	181	997	3 319
Household services	2	1 090	1 090	0	33	20	176	313

Mechanisms of State Support of Investment Activities

1

STATE SUPPORT OF INVEST- MENT ACTIVITIES (LAW NO. 16-30)

- Budgetary investments in registered capital of economic entities
- Budgetary subsidies
- Tax breaks:
 - Income tax, decreased from 18 to 13.5%
 - Property tax, decreased from 2.2 to 1.1%
 - Investment tax credit, 5 year grace period
- State guarantees
- Comprehensive support of investment projects

2

INVESTMENT FUND OF SAKHALIN REGION (LAW NO. 54-30)

- Budget investments into creating infrastructural objects of state and municipal property
- Investment projects are being implemented with use of the public-private partnership principles
- PPP Principles:
Infrastructure projects are financed by the budgetary sources
Production facilities are financed by private investments

3

GREEN FIELD PROJECTS ARE GIVEN TAX PREFERENCES IN THE FAR EAST (TAX CODE, LAW NO. 51-30)

- Business income tax rate:
- 0% over the first five years of the project
 - 10 % over the next five years of the project
- Conditions:
- Volume of investments: at least RUB 50 mln over 3 years and RUB 500 mln over 5 years of the project
 - The project must not be related to oil and gas recovery or processing, or production of excisable goods

4

OTHER MECHANISMS OF STATE SUPPORT OF INVESTORS (LAW NO. 362)

- Lower business income tax rates:
 - From 18 to 15% for companies financing construction of social projects (at least RUB 150 mln per year)
- Lower business income tax rates:
 - From 18 to 13.5% for organizations carrying out electricity generation project valued at minimum RUB 7.5 bln and with capacity of 50 MW, by means of deposits to regional credit organizations

Mid-range investment projects

11

Investment projects being implemented with state-sponsored support of the Government of Sakhalin Region

	Number of Projects:	Cost, RUB bln
2010	1	1,07
2011	1	0,81
2012	3	9,14
2013	3	3,63
2014	13	2,32
total	21	16,97

Investment projects, implemented with state financing support in 2015-2018

AGRIBUSINESS SECTOR (Σ > RUB 6 BLN)

1. Animal Feed Farm with annual output of 50 thousand tons in the Village of Troitskoe
2. Pig Farm with annual output of 50 thousand tons, Village of Taranay
3. Dairy Farm in Penzenskoe Village
4. Agribusiness Park
5. New projects in the Ministry of Agriculture

SERVICE

6. Oil Sector Services Industrial Park
7. Industrial Logistics Center

FISHING SECTOR (~RUB 1.98 BLN)

8. Biotechnopark

CONSTRUCTION BUSINESS (Σ ~ RUB 6.5 BLN)

9. Metal Rolling Plant
10. Housing Construction Company
11. Modern Construction Technologies Technopark

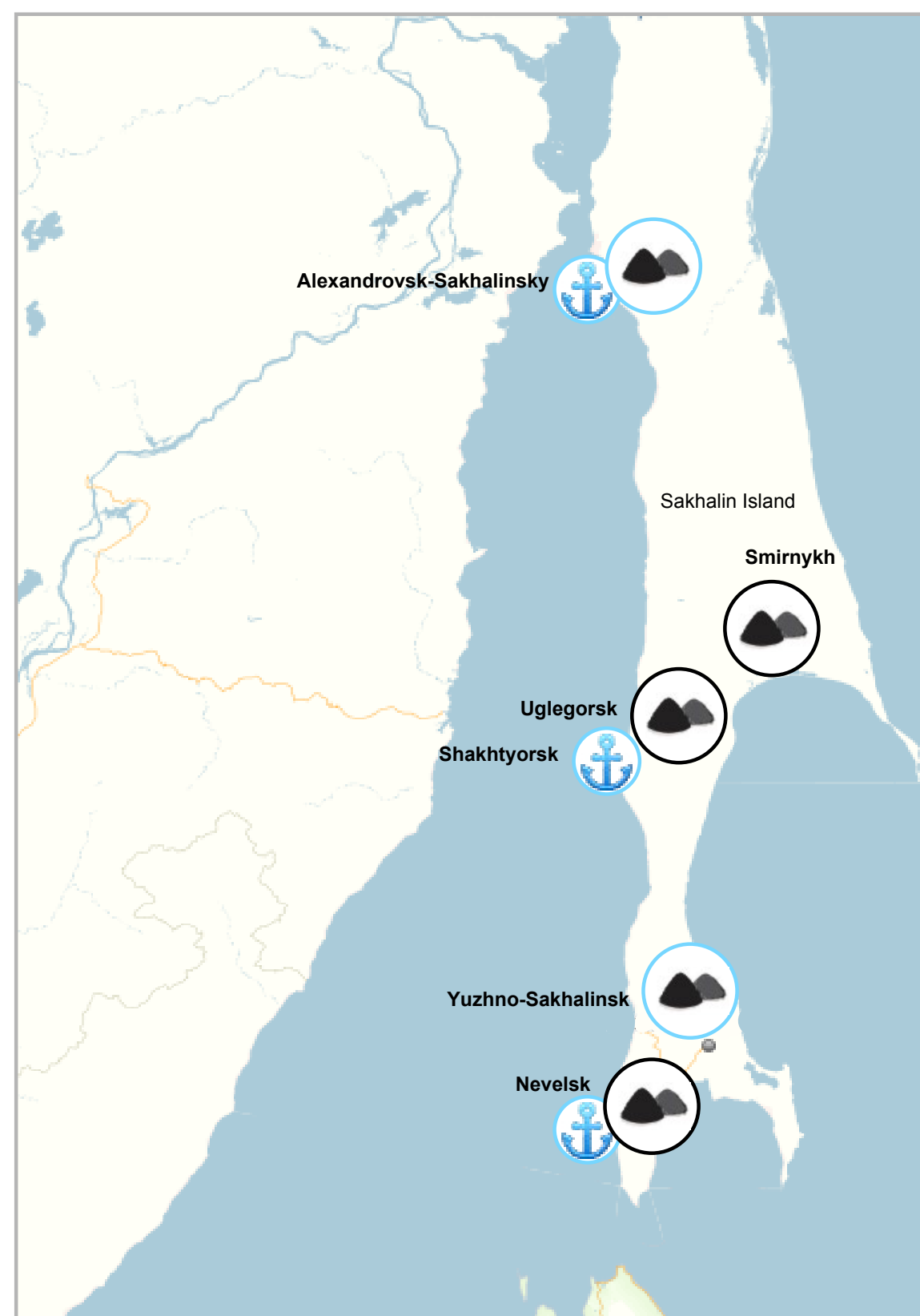
TRANSPORT (Σ ~ RUB 5.5 BLN)

12. Nevelsk Seaport
13. Alexandrovsk Seaport
14. Korsakov Seaport

NATURAL RESOURCES (~ RUB 1 BLN)

15. Production of Peat Bricks

 - Industrial Park Development



CURRENTLY OPERATING COAL INDUSTRY ENTERPRISES:

- Shebuninsky Coal Deposits
OOO Gornyak-1, OOO Gornyak-2
Cost: RUB 4,888 mln, incl.:
 - Open cut excavating: RUB 728 mln
 - Nevelsk Port: RUB 4,160 mln

Investment schedule: 2012-2016

Recovery: 1 mln tons

Export: 500,000 tons

SOLNTSEVSKY COAL DEPOSITS

- OOO Eastern Ore Mining Company
- OOO Refinery Plant

Cost: RUB 3,157 mln, incl.:

- Open cut excavating: RUB 2,400 mln
- Mining Port: RUB 757 mln

Investment schedule: 2013-2018

Market: Export

Recovery: 5 mln tons

Cargo Turnover: 5 mln tons

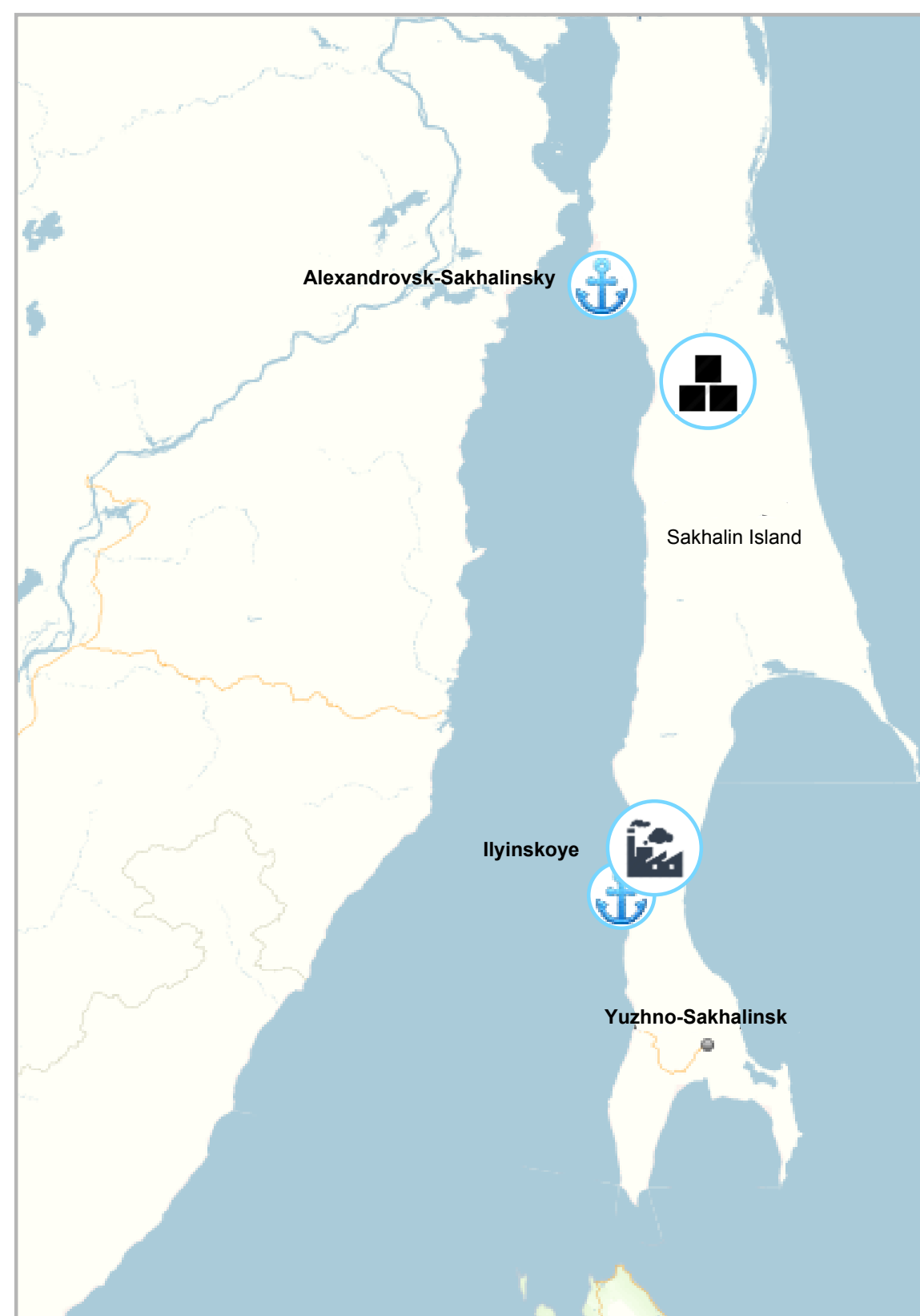
FUTURE OF COAL RECOVERY:

- Alexandrovskie Coal Deposits
A 2001 feasibility study found that 23.3 mln tons of coal could be recovered by open pit mining, and 94.5 mln tons of coal - by deep mining.
- Southern pad (Lopatinskies 1, 2, 4, 5, Dolinskaya Mining Field, Zagorskaya Mining Field)
No feasibility studies had been done for recovery operations. Total deposits estimated at 462.8 mln tons of coal.

Fuel and energy sector

Processing facilities

13



■ CREATION OF AN ENTERPRISE TO INCREASE RECOVERY AND PROCESSING OF PEAT BY 1 MLN FUEL PELLETS IN TYMOVSKY DISTRICT

Investment schedule: 2 years

Cost: RUB 600 mln

Market: Export

New Jobs Created: 45

Contribution to budget: RUB 190 mln

Contribution to GRP: RUB 312 mln

Logistical optimization is required.

Solution: Reconstruction of Alexandrovsk-Sakhalinsky Port is underway.

■ CREATION OF A COAL CHEMISTRY PRODUCTION TO PRODUCE 2 MLN TONS OF METHANOL, ABOUT 700,000 TONS OF POLYOLEFINES.

Investment schedule: 5 years

Cost: RUB 227.8 mln (~\$4.2 mln at RUB 54.2 per \$1)

Market: Export

Products will have to be shipped by sea.

Solution: Construction of a seaport in the Village of Ilyinskoe

Forestry sector

14



CONSTRUCTION OF A COMPREHENSIVE WOOD PROCESSING FACILITY IN ALEXAN- DROVSK-SAKHALINSKY

Investment schedule: 2015-2018

Planning horizon: 2012-2025

Production Volume:

- Sawn timber: 150,000 cubic meters
- Surface lumber: 50,000 cubic meters
- Wooden chips: 100,000 solid cubic meters
- Pellets: 100,000 tons

Cost: RUB 7,367 mln

- Plant: RUB 5,432.5 mln
- Timber Port: ~ RUB 1 bln
- Haulage Roads: RUB 203.6 mln
- Mini heating plants: RUB 730.9 mln

New Jobs Created: 686

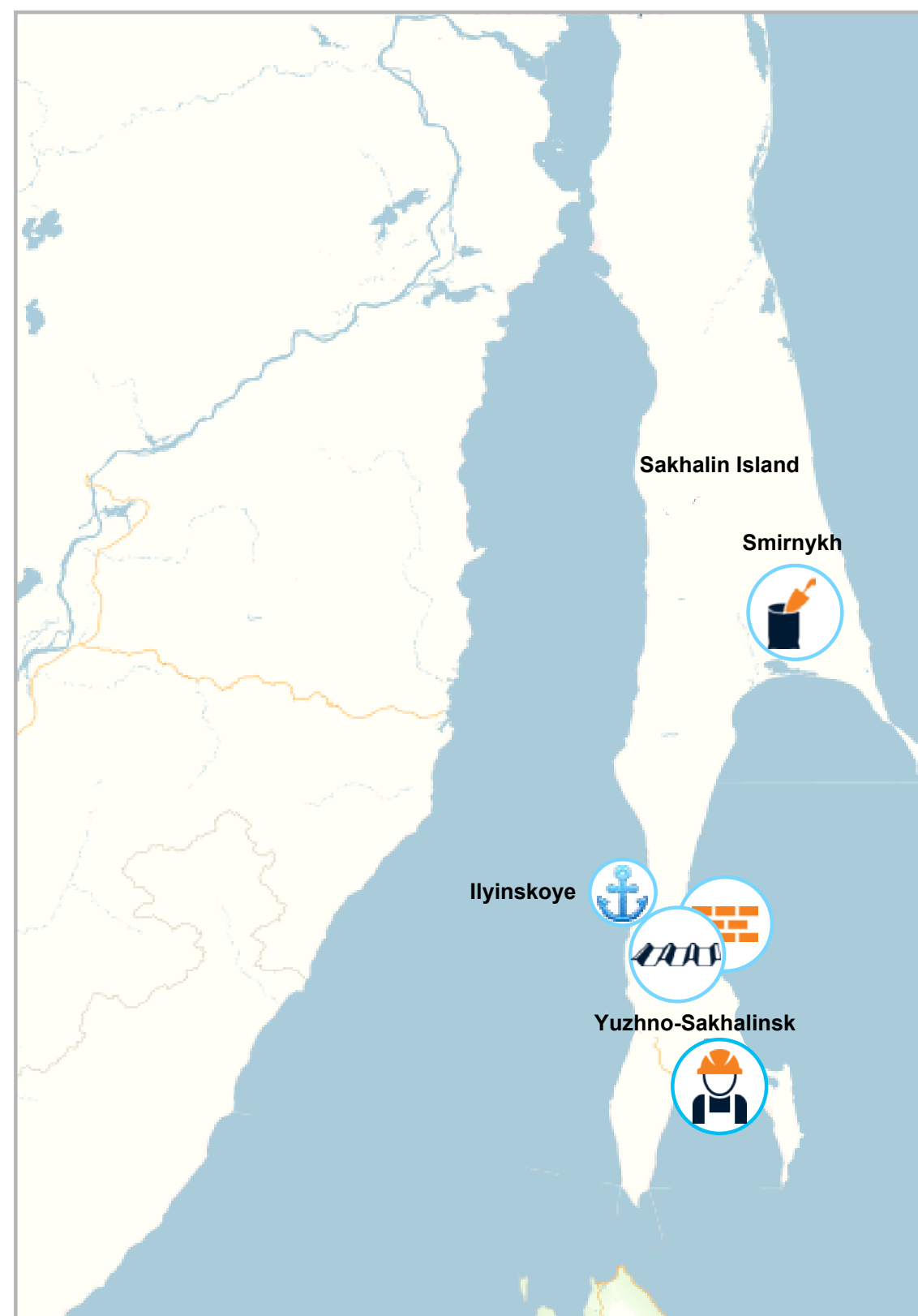
Contribution to budget: RUB 14 bln

Contribution to GRP: RUB 32.5 bln

**Reconstruction of Alexandrovsk-Sakhalinsky
Port is underway.**

Construction business

15



CONSTRUCTION MATERIALS AND STRUCTURAL UNITS PRODUCTION

Investment schedule: 2014-2015
Cost: RUB 400 mln
New Jobs Created: 30
Contribution to budget: RUB 96 mln



CREATION OF A METAL ROLLING PLANT

Investment schedule: 2 years
Cost: RUB 4,400 mln
New Jobs Created: 300
Contribution to budget: RUB 500 mln



HOUSING CONSTRUCTION FACTORY STARTUP PROJECT FPR 100,000 SQUARE METERS

Investment schedule: 2 years
Cost: RUB 1,350 mln
New Jobs Created: 300
Contribution to budget: RUB 800 mln
Contribution to GRP: RUB 468 mln

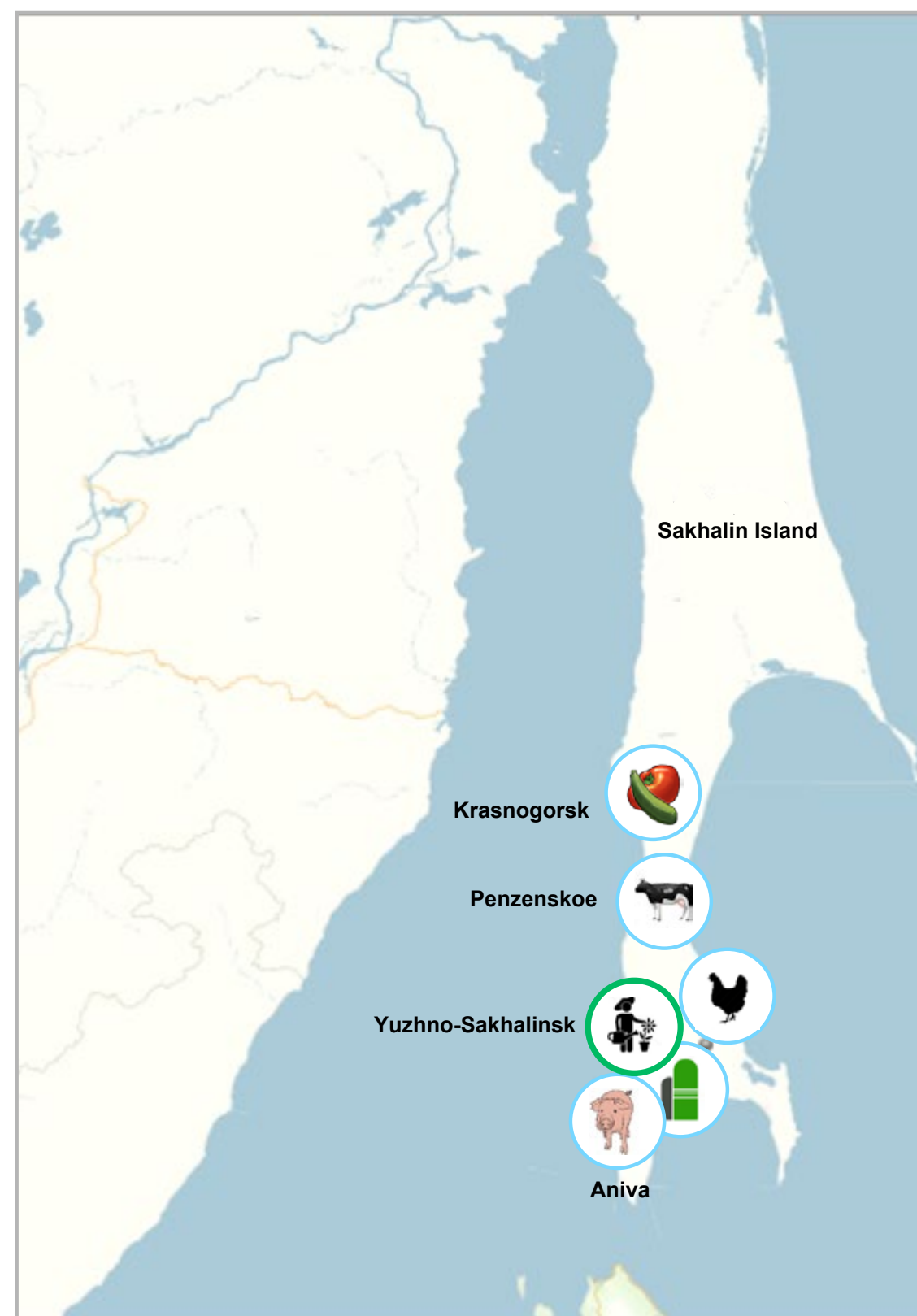


CEMENT PRODUCTION PLANT 670,000 TONS A YEAR

Investment schedule: 5 years
Cost: RUB 11,974 mln
New Jobs Created: 612
Contribution to budget: RUB 960 mln
Contribution to GRP: RUB 918 mln

Agribusiness sector

16



A total of 20 investment projects are underway in the Agribusiness Sector. The total cost of the projects: RUB 7,8 bln

New Jobs Created: 605

Contribution to budget: RUB 4.8 bln

Contribution to GRP: RUB 27.3 bln

LARGE AGRIBUSINESS PROJECTS: KRASNOGORSK VEGETABLE FARMING, STORAGE AND PROCESSING FACILITY

Cost: RUB 824.2 mln

Investment schedule: 2012-2016

DAIRY FARM FOR 670 HEADS OF CATTLE IN THE VILLAGE OF PENZENSKOE

Cost: ~ RUB 1 bln

Investment schedule: 2015-2016

PIG FARMS FOR 62,000 HEADS OF CATTLE IN THE VILLAGE OF TARANAY)

Cost: RUB 2,324.5 mln

Investment schedule: 2013-2018

ANIMAL FEED FARM WITH ANNUAL OUTPUT OF 50,000 TONS IN THE VILLAGE OF TROITSKOE

Cost: RUB 1,222.5 mln

Investment schedule: 2014-2015

MODERNIZATION OF OSTROVNAYA POULTRY FARM CITY OF YUZHNO-SAKHALINSK

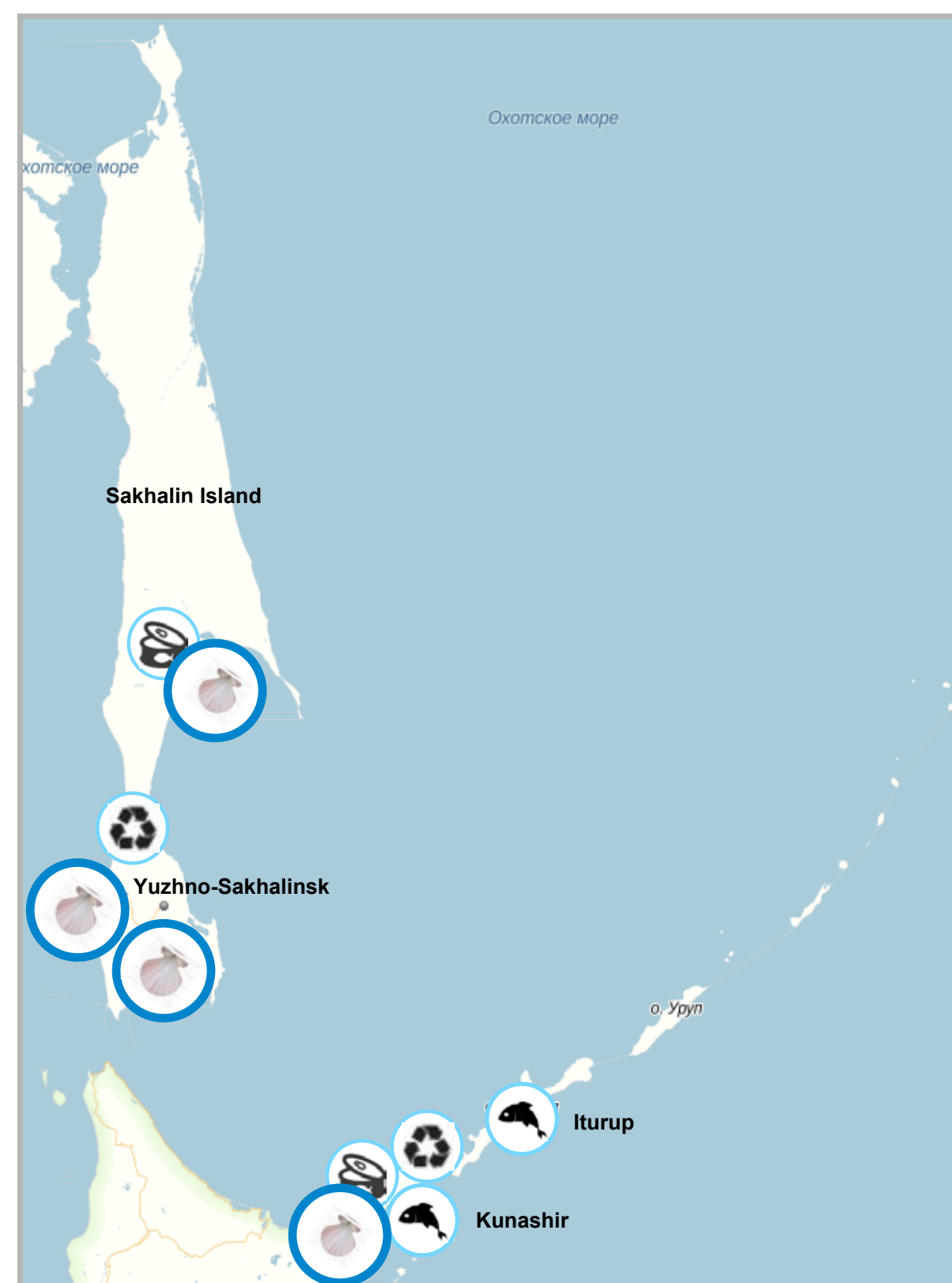
Cost: RUB 802,6 mln

Investment schedule: 2014-2016

AGRIBUSINESS PARK FOR SMALL BUSINESSES

Fishing industry

17



A total of 13 investment projects are currently underway in the fishing industry.

Total project costs: RUB 5.2 bln

New Jobs Created: 1,253

Contribution to budget: RUB 4.3 bln

Contribution to GRP: RUB 4.2 bln

CONSTRUCTION OF A FISHING FARM FOR 140 MLN SPAT

Cost: RUB 1,183 mln

Investment schedule: 2012-2020

PROCESSING FACILITIES

Cost: RUB 3,292 mln

Investment schedule: 2014-2019

PROCESSING OF FISH BYPRODUCTS

Cost: RUB 300 mln

Investment schedule: 2015-2017

BIOTECHNOPARK

Cost: RUB 1.98 bln

Investment schedule: 2014-2018

FISHING FLEET

Cost: RUB 400 mln

Investment schedule: 2016-2020



MINERAL WATER SPA, 50 ROOMS ISLAND OF ITURUP

Investment schedule: 2013-2017

Cost: RUB 981 mln

New Jobs Created: 53

Contribution to budget: RUB 91 mln

Contribution to GRP: RUB 353 mln

CREATION OF APLINE AIR RESORT

Investment schedule: 2013-2024

Cost: RUB 8,239 mln

New Jobs Created: 393

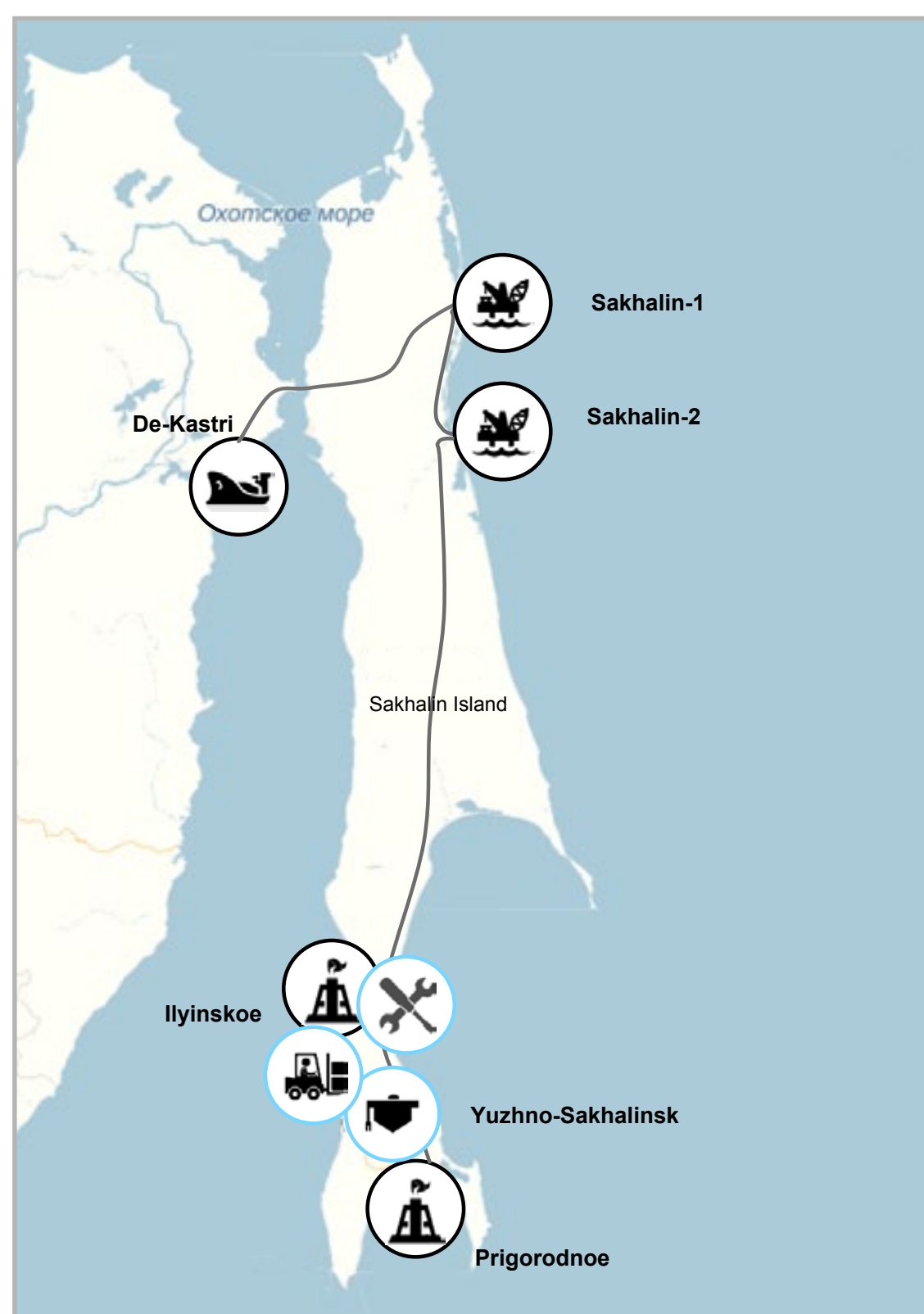
Contribution to budget: RUB 906 mln

Contribution to GRP: RUB 2,966 mln

TOURISM DEVELOPMENT TRENDS

 Balneologic Springs

 Cruise Tourism



DALNEVOSTOCHNYI LNG FACILITY IN THE VILLAGE OF ILYINSKOE

OAo NK Rosneft

Investment schedule: 2014-2019

Cost: RUB 390 bln

New Jobs Created: 535



3RD STAGE OF LNG FACILITY IN PRIGORODNOE

OAo Gazprom, Shell Concern

Investment schedule: 2015-2020

DIRECTIONS FOR DEVELOPMENT OF OIL AND GAS SECTOR



Further development of the Oil and Gas Institute of Sakhalin State University



Production of service equipment and parts, repair operations



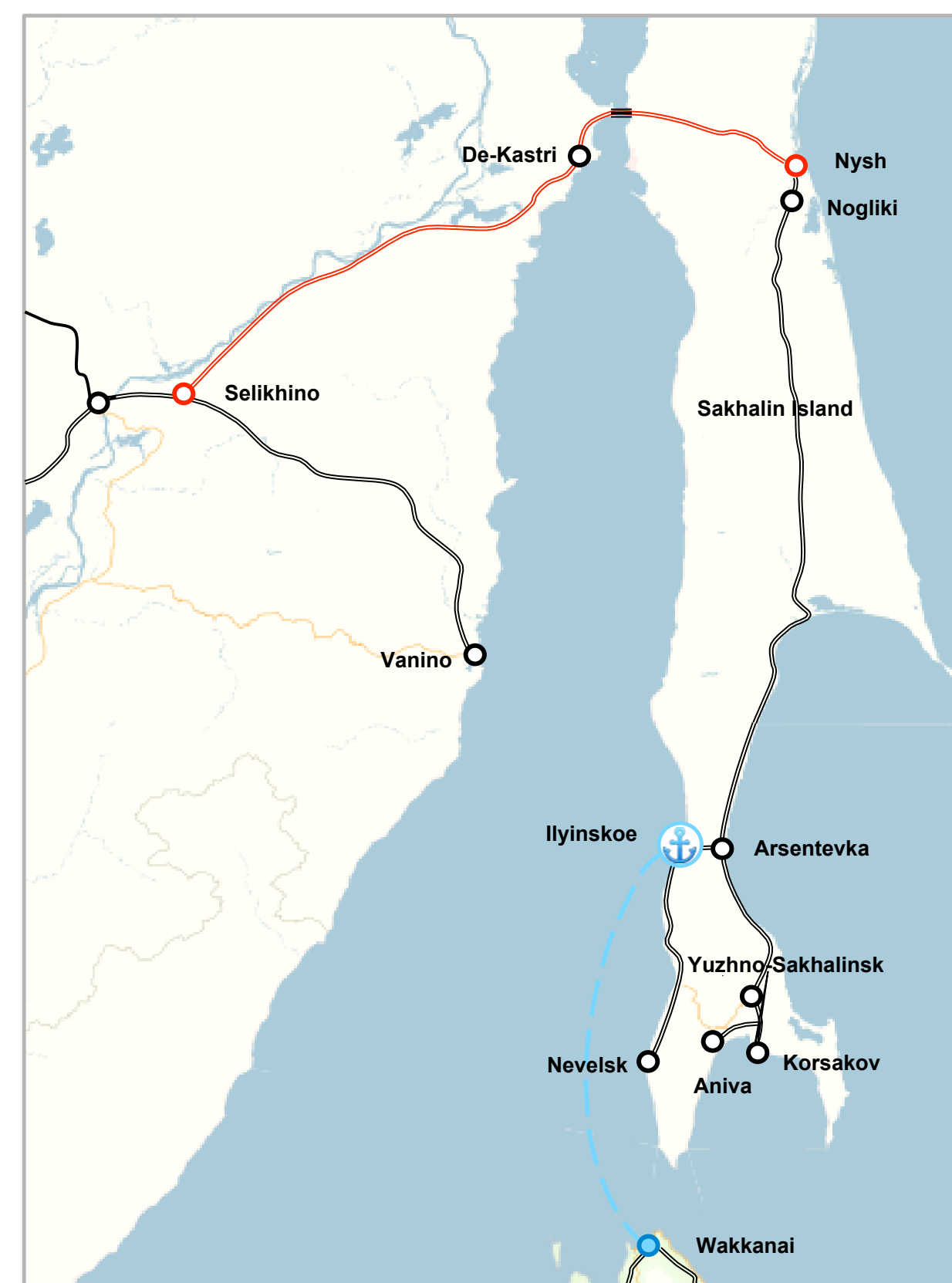
Industrial Logistics

Long-range Investment Projects

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Sakhalin Hokkaido
Energy Bridge



Sakhalin-Mainland
Overland Pass