

Projects for Regional Development and Modernisation of Single-Industry Towns

As at the end of 2014,
Vnesheconombank signed **58**
cooperation agreements with
Russian regions.
During the year, the Bank was
involved in the implementation of
5 joint action plans on
integrated territorial development
of Russian regions

Our efforts to ensure integrated sustainable development of territories seek to encourage economic growth and enhance business activity in the country's hinterlands and reduce the gap in life quality between different groups of its population. Our regional policy provides for a range of measures to set up new economic growth hubs powered by regional competitive advantages and to facilitate more diversified economies in single-industry towns.

The Bank's regional policy aims to develop territories of strategic importance, including those in the interests of national security. They primarily include the Far East, the Baikal region, North Caucasus, the Kaliningrad Region and Arctic areas. The Bank's Development Strategy for 2015–2020 also includes the Republic of Crimea and Sebastopol as a city of federal significance in the list of priority territories.

Vnesheconombank runs its regional policy in close cooperation with government authorities of Russian regions. To build strategic partnerships and promote long-range and efficient investment relations, we have entered into cooperation agreements with 58 Russian regions, including 3 agreements signed in 2014.

In setting up new economic growth hubs, we focus on taking advantage of capabilities of all members of the Group, including by implementing joint action plans with Russian regions regarding integrated territorial development.

In 2014, we were involved in the implementation of 5 integrated territorial development plans under which Vnesheconombank Group and regional authorities joined their efforts to procure and implement investment projects, including on PPP terms, develop industrial parks and clusters, support single-industry towns, encourage SME and promote educational activities. This approach has proved to be efficient with the example of the Kaluga Region where we completed the first integrated development plan between 2011 and 2013 that gave a strong impetus to industrial and economic growth of the Region.

For more efficient operation of Vnesheconombank and the Group, we are regularly updating our pool of investment opportunities in Russian regions. This process is spearheaded by the Bank's representative offices in Russia that actively select investment projects and promote products and services of the Group at the regional level.



Cooperation agreements were signed with 3 Russian regions (Moscow and Yaroslavl Regions, and the Republic of Khakassia)

As at the end of 2014, Vnesheconombank approved the financing of 34 projects with a total value of RUB 306.1 bn, with the Bank's commitment standing at

176.5 RUB bn

These projects will be implemented in the Russian regions that signed agreements with the Bank in 2014

The Bank is considering 10 projects with a total value of RUB 110.8 bn and a potential commitment of the Bank exceeding

87.9 RUB bn

The projects are planned to be implemented in the Russian regions that signed agreements with the Bank in 2014



The joint action plan for integrated territorial development of the Samara Region was approved for 2014–2019

The joint action plan of Vnesheconombank Group and the Government of the Samara Region provides for implementation of 10 projects with a total value of RUB 157.4 bn and a potential commitment of the Bank of

103 RUB bn

The plan includes 13 projects in the SME sector with the financing to be provided by Vnesheconombank Group totalling RUB 5.2 bn.

The comprehensive development plan's implementation is expected to create over 6.3 thousand new jobs and provide c. RUB 4.2 bn of taxes and similar payments

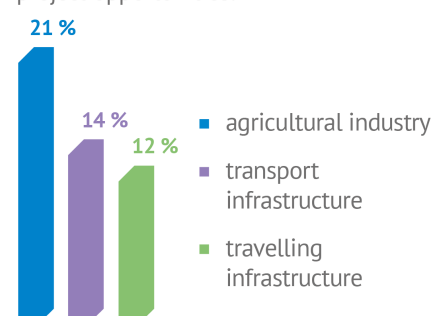


The database of investment opportunities in Russian regions was updated

As at the end of 2014, the database of regional investment project opportunities of Vnesheconombank comprised 239 projects, including projects in single-industry towns, totalling

2.4 RUB tn

Projects that accounts for the largest shares in the database of regional project opportunities:



Information on industrial sites in single-industry towns was collected and processed

We have collected and analysed information on the state of

445 industrial sites

in 165 single-industry towns in 45 Russian regions

Materials on

164 industrial sites

in 65 single-industry towns in 23 Russian regions are published on the Bank's website

Implementation of Integrated Territorial Development Plans Involving Vnesheconombank Group in 2014

Rostov Region 2013–2018

Priority sectors



Samara Region 2014–2019

Priority sectors



Astrakhan Region 2013–2018

Priority sectors



Kemerovo Region 2012–2015

Priority sectors



Primorye Territory 2013–2018

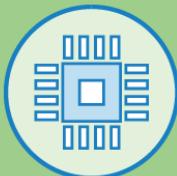
Priority sectors



Priority sectors:



Manufacturing



Innovations



Infrastructure



Machine
building



Agricultural
industry



Transport

Priority Areas for Implementation of Integrated Territorial Development Plans



Investment activities
of Vnesheconombank
and its subsidiaries



Support to small and
medium-sized enterprises



Development of industrial
parks and clusters



Support to single-industry towns



Cooperation between regions
and Vnesheconombank Group



Educational project,
public events

Modernisation of Single-industry Towns



As at the end of 2014,
Vnesheconombank's single-
industry town portfolio included
37 projects with a total value of
RUB 641.39 bn, with the Bank's
commitment standing at RUB
383.43 bn
Once implemented, these projects
are planned to create over **12
thousand** new jobs in single-
industry towns

According to the list approved by the Russian Government, Russia currently has 319 single-industry towns, including 94 that face the most challenging social and economic circumstances and are included into Category 1 that requires government support in 2015–2017. Efforts in this area are coordinated by the Working Group on Modernisation of Single-Industry Towns operating under the auspices of the Governmental Commission for Economic Development led by Irina Makiyeva, Deputy Chairman of Vnesheconombank.

In 2014, the working group prepared proposals for the draft Federal Law 'On Accelerated Social and Economic Development Territories' (ADT) regarding the expansion of special legal entrepreneurship treatment to organisations that implement investment projects in single-industry towns facing the most challenging social and economic situation. The Federal Law capturing these proposals was enacted on 30 March 2015. This will help build the prerequisites

for economic growth in crisis-facing single-industry towns, primarily by making them more attractive for investors.

The creation of the Foundation for Development of Single-Industry Towns by Vnesheconombank in 2014 became an important step toward stabilising the social and economic situation in Category 1 single-industry towns. The Foundation will act as a project office for implementing investment projects that aim to diversify the economy and add new jobs in crisis-facing single-industry towns.

The federal budget provides for RUB 29.1 bn of subsidies to be allocated to the Foundation until 2018. The Foundation is planned to support 50 single-industry towns over that period. As at the end of 2014, a RUB 3 bn subsidy was already transferred to the Foundation's account, while Vnesheconombank made a property injection for RUB 16.4 mn.

Foundation for Development of Single-Industry Towns: Priorities and Outlooks

Purpose



Set the prerequisites for new jobs and investments in single-industry towns with the most challenging social and economic situation

Focus areas



Finance the building of engineering infrastructure in single-industry towns



Draft project documents and originate the financing for investment projects aimed to diversify the economies of single-town industries



Train project managers for single-industry modernisation projects

Outlooks

The list of investment projects planned to be implemented with the Foundation's financing includes 234 projects for a total of

454.6 RUB bn

248 measures related to the construction, renovation or upgrade of infrastructure facilities for a total of

48 RUB bn

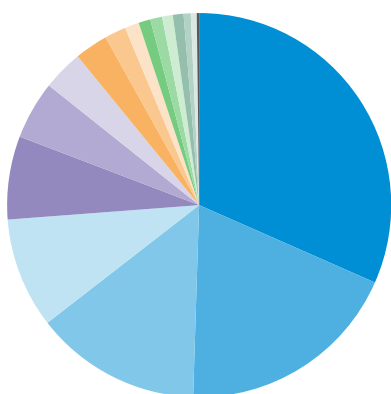
need to be implemented to launch investment projects that are planned to be financed by the Foundation

The Foundation's investment projects are planned to create

>47 thousand new jobs

Developing single-industry towns is among our investment priorities. The Bank's portfolio includes 37 projects aimed at financial recovery and modernisation of backbone businesses of these towns and their economic diversification. As at the end of 2014, 29 of these projects with a total value of RUB 595.07 bn and the Bank's commitment of RUB 351.18 bn were already fully financed, at the stage of financing or approved by the Bank's governing bodies. Another 8 projects with a total value of RUB 46.32 bn and the Bank's potential commitment of RUB 32.25 bn are at the review stage.

Sectoral breakdown of Vnesheconombank's projects in Single-Industry Towns as at the End of 2014 (% of the Bank's Total Commitment)



- **31.6%** Transport machine building
- **18.9%** Chemical and petrochemical industry
- **14.0%** Defence industry
- **9.3%** Agricultural machine building
- **7.0%** Rocket and space industry
- **4.9%** Construction materials industry
- **3.4%** Engine building
- **2.8%** Extractive industry
- **1.8%** Metallurgy
- **1.2%** Machine building
- **1.0%** Aircraft industry
- **1.0%** Electronics (microelectronics)
- **0.9%** Agricultural industry
- **0.9%** Shipbuilding
- **0.6%** Timber processing industry
- **0.5%** Energy infrastructure
- **0.2%** Other

Priority Regions: the Far East and Baikal Region



As at the end of 2014, Vnesheconombank was involved in the financing of **10 projects** implemented in the Far Eastern Federal District, with a total value of RUB 349.4 bn and the Bank's commitment of RUB 196.8 bn

The Far East and the Baikal region is among the top priorities of Vnesheconombank Group's investment policy. Our commitment to this macro-region is driven by its specific geographic location in the immediate proximity to burgeoning Asian economies, its immense reserves of mineral resources, and huge upside opportunities in agriculture, fishery and tourism.

In order to foster efficient relations with government authorities of the Far Eastern Federal District, Vnesheconombank signed cooperation agreements with most constituent entities of the Russian Federation that make up the macro-region, including the Republic of Sakha (Yakutia), Khabarovsk and Primorye

Territories, and the Amur and Sakhalin Regions. Vnesheconombank Group is currently also putting in place a joint action plan with the Administration of the Primorye Territory for integrated territorial development of the region in 2013–2018.

[The Far East and Baikal Region Development Fund](#) founded in 2011 is responsible for accelerated development of this macro-region. The Fund's operations focus on structuring and carrying out investment projects that offer considerable social and economic potential for the macro-region's economic growth and on creating new opportunities to attract investments to the Far East.

Involvement in the building of Accelerated Development Territories (ADT) is another opportunity for the Fund. Under the Federal Law adopted in 2014, ADT may so far be set up only in the Far East. Implementation of the task given by Russian President Vladimir Putin to design a mechanism to increase the capitalisation of the Fund with extra tax income from new projects implemented in the Far Eastern Federal District will give a further impetus to the Fund's growth.

Performance of the Far East and Baikal Region Development Fund in 2014

Building a high-potential investment project portfolio



As at the end of 2014, the Fund explored the possibility of getting involved in 28 investment projects with a total value of

>430 RUB
bn

In 2015, the Fund is planning to take part in the implementation of at least 3 investment projects

Procurement and structuring of investment projects



The Fund took part in the procurement of a project for construction of the Nizhneleninskoye–Tongjiang border crossing, a railway bridge via the Amur River, to be implemented under an intergovernmental treaty between Russia and China

The project is being implemented jointly with the Russia-China Investment Fund established by RDIF in cooperation with the China Investment Corporation



The Fund took part in the preparation of a project for development of Vladivostok International Airport

The project will be financed by a consortium involving Basic Element (Russian industrial group), Changi Airports International (a subsidiary of Changi, the Singapore Airport operator), and RDIF



Project: Creation of Wood-Processing Facility in the Solnechny District of the Khabarovsk Territory

Project initiator / borrower: OOO Aziya Les

Total project value: RUB 8.2 bn

Vnesheconombank's commitment: RUB 6.7 bn

Project goal: creation of a new knowledge-intensive timber-sawing and wood-processing facility in the Far East.

The project will help unlock the economic potential of the Far East that accounts for one fourth of the country's reserves of commercial timber. The Order of the Russian Ministry of Industry and Commerce dated 18 January 2012 includes the project into the list of priority projects for investment in wood management.

The project is the second stage in a long-term development programme of the Business Marketing Group that aims to set up a vertically integrated wood-processing facility in the Khabarovsk Territory that will provide 1.15 mn cubic metres of round timber and 750 thousand cubic metres of processed wood every year.

The timber-logging and sawn-timber processing capacities of the new facility will be 650 thousand cubic metres and 450 thousand cubic metres respectively. The project will also offer finished products:

- ✓ sawnlog (110 thousand cubic metres per year);
- ✓ dry timber (132 thousand cubic metres per year);
- ✓ dressed timber (30 thousand cubic metres per year);
- ✓ moulded timber (30 thousand cubic metres per year);
- ✓ shavings (108 thousand tonnes per year);
- ✓ fuel pellets (70 thousand tonnes per year);
- ✓ round timber (90 thousand cubic metres per year).

Priority Regions: the North Caucasian Federal District

As at the end of 2014, NCDC was financing 6 projects, with the Corporation's commitment of RUB 6.8 bn. These projects are planned to create c. 2 thousand new jobs within the projects, and another 6 thousand new jobs in related sectors, as well as bring RUB 1.85 bn of annual tax proceeds

Vnesheconombank Group pays particular attention to the development of the North Caucasian Federal District due to its strategically important location and huge potential in such sectors as the agricultural, manufacturing and hydro power industries. The region also boasts a unique combination of balneology resources, including mineral drinking water sources, thermal waters and therapeutic muds, which is a strong tourism driver.

We have in place cooperation agreements with all regions of the North Caucasian Federal District with an aim to establish strategic partnership relations with public authorities of this macro-region.

[North Caucasus Development Corporation](#) (NCDC) set up in 2010 is a key entity of Vnesheconombank Group that aims to promote investment opportunities in the North Caucasian Federal District. Under NCDC's Strategy for 2011–2015, the Corporation's mission is to set up a successful investment business so as to encourage economic growth in North Caucasian regions. The Corporation focuses on supporting the implementation of the government

programme for development of the North Caucasian Federal District, attracting investors to the region and creating new jobs.



Project: 'North-Caucasian Mountain Club'

Project initiator / implementer: NCDC

Total project value: RUB 210 mn

NCDC's commitment: RUB 210 mn

Number of new jobs: 31 within the project and 200 in related sectors

Annual tax proceeds: RUB 4.6 mn

Project goal: set up a framework for round-the-year adventure and environmental tourism in the North Caucasus.

The project provides for regular individual, group and corporate tours of unique natural territories of the North Caucasus. Customised itineraries that give a fresh perspective on well-known attractions of the region will appeal both to outside visitors and local residents of the North Caucasus.

Tourists take particular interest in the high-mountain hotel / tourism facility that offers all the necessary infrastructure to climb the Elbrus. The facility is a part of LeapRus, an advanced comfortable and environmental high-mountain hut.

As part of the project, we have created the PosetiKavkaz (Visit the Caucasus) Fund to promote active leisure in the North Caucasus, and a web-site where visitors can book, and pay for, tours, hotels and tickets.

Sochi Olympics: a Year Later

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The long-term legacy of the Sochi Olympics is multifaceted. The organisers had a very clear vision of the Olympic project. Now you have sports facilities of world level that can be used by both elite and other athletes. Before the Olympics, many Russian athletes had to go outside the country to train, for Russia lost all of its winter sports centres when the Soviet Union dissolved. Now, Russia is again able to host winter sports competitions.

Thomas Bach,

President of the International Olympic Committee

The Winter Olympics in Sochi has proved to be one of the largest scale and sophisticated projects implemented in Russia over the last 20 years. Tremendous sports and touristic facilities were built on a tight schedule, almost from scratch, while the region's transport and energy infrastructure was also upgraded. This allowed not only a successful holding of the Olympics, but also left the region with advanced infrastructure that makes the Greater Sochi a major recreation hub of international level.

In many respects, these impressive results were made possible only due to the involvement by Vnesheconombank that financed major Olympic construction projects. These include the now world-famous Roza Khutor ski resort, Mountain Carousel sports and tourist complex, Ice Cube curling centre, modern hotels, airport and cargo port of Sochi, and energy infrastructure facilities.

A year after the Olympics, Vnesheconombank sees its mission in ensuring the necessary conditions to recover the money invested by the Bank in the preparations for the Games. Given the troubled economic situation, the Bank decided to extend maturities for the principal and interest under loan agreements for the construction of Olympic facilities. Loan restructuring will be negotiated with each borrower on a case-by-case basis.

Seeking to speed up investment payback, we are directly involved in the process of identifying the ways for Olympic facilities to be efficiently used after the Games. These efforts are fully supported by the Russian Government, regional authorities and other investors, including by an ad hoc interdepartmental commission led by Dmitry Kozak, Deputy Prime Minister of the Russian Federation.

Roza Khutor ski resort is an example of successful post-Olympics utilisation of Olympic facilities. In 2014, over 1 mn people attended the resort. Additional chairlifts and new skiing routes were built in the resort. Roza Khutor is also planning to host the Alpine Junior World Ski Championships in 2016.

During the post-Olympic year, the Greater Sochi already hosted the Channel One Cup hockey tournament, games of the Continental Hockey League, Formula-1 World Championship, Russian Figure Skating Championship, a Fed Cup tennis games, the World Chess Championship and other sports events. Coming down the pipeline are the final stage of the Bobsleigh and Skeleton World Cup and a Luge World Cup stage to be held in 2015, as well as 2017 Bobsleigh and Skeleton World Championships, and 2018 FIFA World Cup.

Importantly, the Olympic project increased the prestige of sports and healthy lifestyle among Russians. This was witnessed by the interest they took in the

Winter Olympics (according to the Russian Public Opinion Research Centre (WCIOM), 80% of the country's residents followed the Games) and the rapid growth of mass sports in Russia. The sports and tourism infrastructure built for the Olympics and designed to offer all-year-round healthy lifestyle activities will add to these positive trends.

According to a survey run by WCIOM in January 2015, a year after the Sochi Olympics Russians still have positive recollections about the Games. Two thirds of the respondents (64%) refer to the Sochi Olympics as the most prestigious event of world scale. For 46% they were a special event that made them proud for their country. Every second respondent (54%) noted that such large-scale competitions gave an impetus to the development of fitness and sports. Three thirds of Russians (75%) support holding similar large-scale sports events in Russia.