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KALUGA
REGION

MINISTRY FOR ECONOMIC DEVELOPMENT OF KALUGA REGION

September / 2017

VESTNIK

VIII international forum on development
of automobile and automotive component
manufacturing in Russia



AutoEvolution

EXPORT AS A GROWTH DRIVER

2017

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Export is a key direction

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One of Gestamp's biggest cold forming plants in Europe

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Our goal is to further develop our business and maintain our competitive advantages

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Everything is just starting for us in Russia

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The biggest foreign project of FUYAO Group

- REYDEL AUTOMOTIVE RUS LLC:**

Winner of the PSA supplier award

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The first Benteler AG plant in Russia and the 69th in the world

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Collaboration with consumers is one of the key principles of our operation

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HP PELZER RUS LLC

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LITC-CCU:

Kaluga Laser Innovation and Technology Center – Center for Collective Use

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CONTINENTAL AUTOMOTIVE SYSTEMS LLC

VOLVO COMPONENTS LLC



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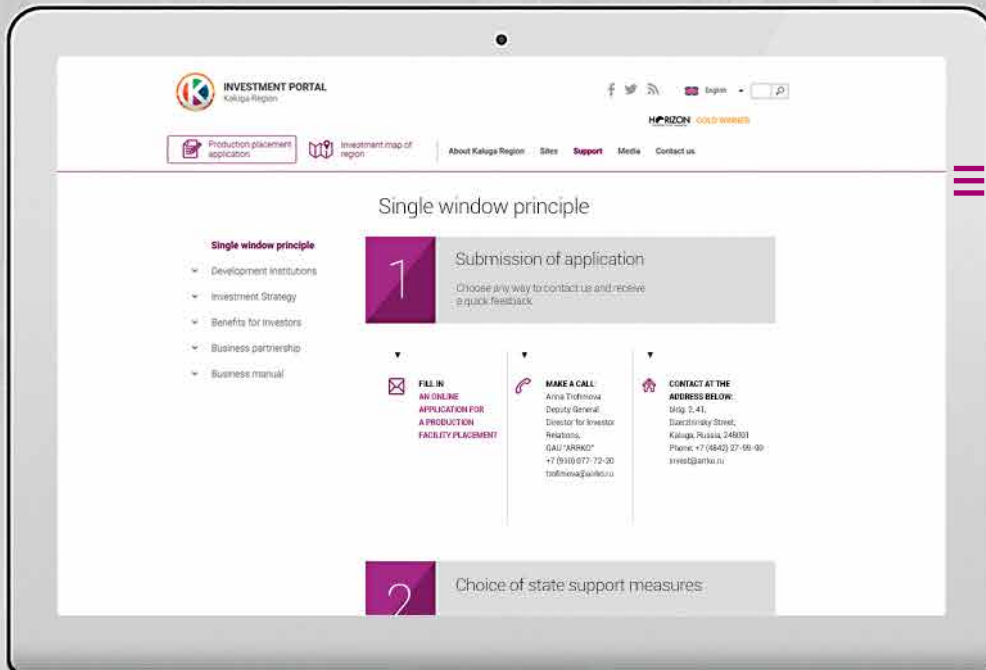
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INVESTMENT PORTAL OF KALUGA REGION

Investkaluga.com

8X

Eight languages



SINGLE WINDOW — algorithm for investment project support

Online requests for production plant placement

Support measures

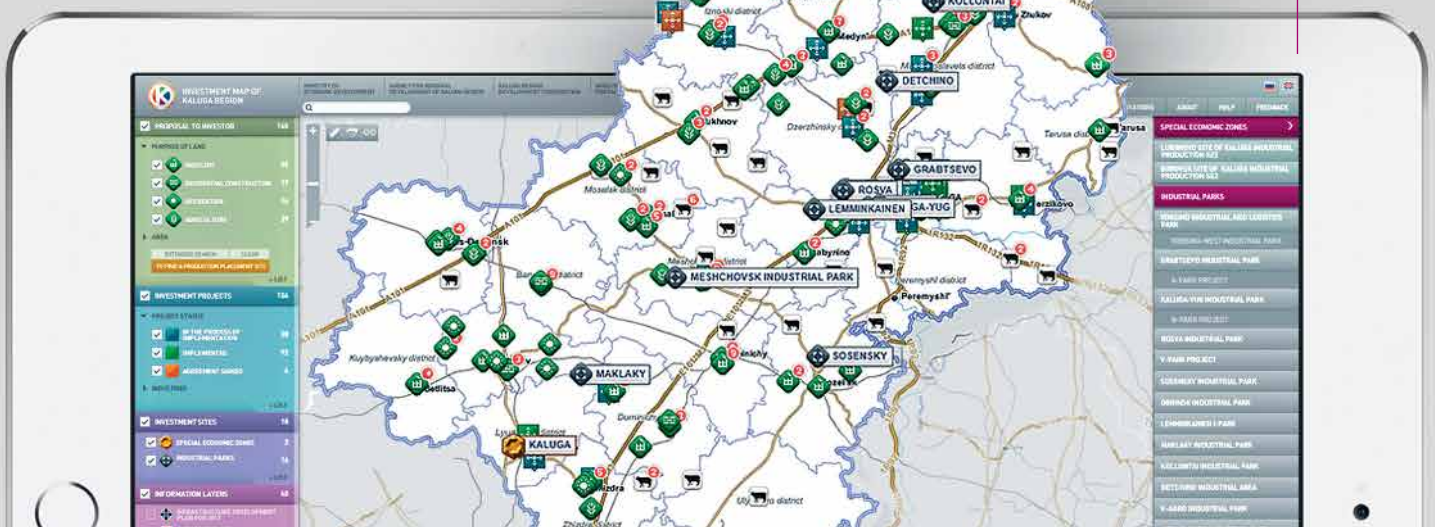
map.investkaluga.com

INTERACTIVE INVESTMENT MAP

Industrial parks, Kaluga SEZ, brownfields and greenfields

Mobile version

01





over

100

applications per year through the feedback form – requests, questions and suggestions

support



in social networks

over

500

visitors per day



Kaluga Region Vestnik in convenient formats for reading and downloading



Regional economic news, photo and video gallery



List of useful online resources of the region's economic block



2014

RUNET RATING

among 10 finalists in the category Non-Commercial and Government Organizations



2015

HORIZON INTERACTIVE AWARDS

golden prize in the category Government Agency



2016

HORIZON INTERACTIVE AWARDS

golden prize in the category Government Agency

1

The resource maintains leadership status since achieving the ASI standard in 2012.

The region's experience in operating the investment portal was considered by the State Council workgroup in development of new models for working with businesses in Russian constituent subjects (2016).

LEADERS OF THE RUSSIAN AUTOMOTIVE MARKET

First half of 2017*

TOP-10 MANUFACTURERS

Group	Sales	Var.%	Share%
AVTOVAZ-RENAULT-NISSAN	249 800	+11.9	34.8
HYUNDAI-KIA	156 292	+16.5	21.8
VW GROUP	79 931	+7.6	11.1
TOYOTA Group	54 472	-1.5	7.6
GAZ (LCV)	25 053	+1.2	3.5
MERCEDES-BENZ	21 907	+5.9	3.0
UAZ	20 813	-5.4	2.9
FORD	18 410	-13.6	2.6
GM Group	15 615	+1.5	2.2
BMW Group	15 265	+3.3	2.1

TOP-20 MODELS

Brand	Model	Sales	Share%
KIA	Rio	45 158	+17.0%
LADA	Granta	41 996	-4.5%
LADA	Vesta	34 595	+51.5%
Hyundai	Solaris	32 745	-28.7%
Hyundai	Creta	24 143	-
VOLKSWAGEN	POLO	21 718	+1.7%
Renault	Duster	19 809	-15.0%
Toyota	RAV4	16 016	-0.9%
LADA	XRAY	15 453	+92.2%
Chevrolet	Niva	14 436	-0.7%
Renault	Kaptur	14 141	+2452.5%
Toyota	Camry	13 984	+6.1%
SKODA	RAPID	13 936	+11.9%
LADA	Largus	13 687	-5.9%
Renault	Sandero	13 472	-0.2%
Renault	Logan	13 334	-3.6%
LADA	4*4	13 025	-0.3%
KIA	Sportage	12 800	+48.2%
VOLKSWAGEN	TIGUAN	12 048	+192.0%
Skoda	Octavia	10 779	+1.8%



* According to AEB, including LCV.

MARKET RESULTS FOR JANUARY-JULY 2017



Azat TIMERKHANOV,
head of the press
service, AUTOSTAT analytic
agency

In the six months of this year, the Russian car market gained almost 7%.

AVTOVAZ is still in the lead with 135.3 thousand LADA cars sold in the first half of the year – a gain of 11.4%. The national brand now has a 20% market share. The second place is held by KIA - the Korean brand leads among international brands. Hyundai maintained its position in the third place.

The trio is followed by Renault, with Toyota closing the top five. The top 10 brands with most sales in the first half of the year also includes Volkswagen, Nissan, Skoda, Ford and Mercedes-Benz.

The leader among brands is KIA Rio. The second place in the model rating is held by LADA Granta, the third – by LADA Vesta with sales of 34.6 thousand (+51%). Hyundai Solaris fell to fourth place with a significant market drop (-28.7%). The top five is closed by another Hyundai

representative – the new Creta crossover (24.1 thousand).

The top ten also includes Volkswagen Polo (21.7 thousand cars; +1.7%), Renault Duster (19.8 thousand; -15%), Toyota RAV4 (16 thousand; -0.9%), LADA XRAY (15.5 thousand; +92.2%) and Chevrolet Niva (14.4 thousand; -0.7%). It's worth emphasizing that all 10 leading models are locally manufactured.

FORECASTS

The main market growth driver, along with the growing confidence of Russians in economic stability, is significant deferred demand.

State automotive market support measures were also a considerable factor. From July, they were expanded to include several new designated programs, including First Car and Family Car.

Car manufacturers are carefully adjusting their prices to maintain the resumed growth. Auto lending is also consistently developing.

It should be noted, however, that state programs are intended to promote demand only in the economy brand segment. The situation is quite varied among premium brands, where advantages will be gained by those manufacturers that have prepared and are bringing new models to the market.

The deterring factor in development of the Russian market is lack of real income growth.

Considering the above, we estimate that in 2017 the national market of new passenger cars will gain almost 10% exceeding the 1.4 million mark.



KALUGA AUTOMOTIVE CLUSTER: EVOLUTION STAGES

3

OEM

VW

PCMA

VOLVO

27

automotive
component
manufacturers

20
1st tier
suppliers

6
2nd tier
suppliers

1
3rd tier
supplier

SHARE OF AUTOMOTIVE MANUFACTURING IN OVERALL INDUSTRIAL MANUFACTURING:

1%

in 2007



39.2%

in first half of 2017

112.3%

industrial production index
in January-June 2017 against
same period in 2016

148.1%

growth of automotive
component
manufacturing

103.4%

growth of manufacturing
of automobiles and
automotive components
in first half of 2017

x 3.7

growth of truck manufacturing in
first half of 2017

The history of the Kaluga automotive cluster began in 2007 with the commissioning of the Volkswagen Group Rus plant

AUTOMOBILES MANUFACTURED IN KALUGA REGION SINCE 2007







1,314 thousand
passenger cars



22.5 thousand
trucks



LEGEND:

-  airport
-  rail infrastructure
-  customs
-  logistics center
-  SEZ
-  industrial park



THE AUTOMOTIVE CLUSTER IS A TOP-3 RUSSIAN AUTOMOTIVE MANUFACTURER

0.1%

share in the Russian automotive industry (2007)

11.1%

share in the Russian automotive industry (first half 2017)

1.2 thousand

cars manufactured in 2007

62 thousand

cars manufactured in first half of 2017

33.9% of all Russian-manufactured automobile combustion engines are manufactured at the VW plant in Kaluga

3.7% to budgets of all levels, incl. **0.14%** to the regional budget – share of taxes paid by automotive cluster companies in 2007

9.5% to budgets of all levels, incl. **5.1%** to the regional budget – share of taxes paid by automotive cluster companies in first half of 2017

OPPORTUNITIES FOR LOCALIZATION OF MANUFACTURING

- 2 sites in SEZ Kaluga, total area – 1042 hectares
- 12 technologically equipped industrial sites
- Greenfields – wide selection of sites for plant construction
- Brownfields – ready to use production facilities
- Free connection to utility systems
- Access to customs and logistics terminals

CENTERS FOR TRAINING OF SPECIALISTS FOR THE AUTOMOTIVE INDUSTRY

- Center for primary and enhancement training of specialists for the automotive industry
- Kaluga Branch of the N.E.Bauman Moscow State Technical University
- A.T.Karpov Transport and Technology College
- Multi-Specialization Cadet College
- Kaluga technical college, etc.

IN 2010, KALUGA REGION INTRODUCED AND IS CURRENTLY IMPLEMENTING THE SYSTEM OF DUAL TRAINING

PRODUCTION CHAINS



A FLEXIBLE TAX SYSTEM IS AN INCENTIVE FOR INDUSTRY DEVELOPMENT



Dmitry RAZUMOVSKY
Minister for Economic Development of Kaluga Region

?

Russia has established a rather competitive and flexible tax system that complies with modern standards of tax administration. We discussed possible changes in the national tax policy, tax authorities of regions, privileged tax regimes for investors with Kaluga Region's Minister for Economic Development Dmitry Razumovsky.

The region does a lot to support investment activity, to establish predictable, clear and transparent conditions for business. At the same time, support measures are constantly changing. Why is that?

Our system of working with businesses is based on minimization of manufacturers' costs, regardless of the prevailing foreign economic conditions. That is why regional legislation is adjusted to meet the current needs and why additional incentive mechanisms are introduced at difficult times. Investors are guaranteed stability of conditions for doing business, with clear rules and transparent administrative procedures. The benefits available today have been in place for over 7 years and are only being upgraded with consideration of application practice and to expand the number of qualifying categories.

Thus, in 2013 we managed to considerably simplify the procedure for obtaining of investor tax benefits. Specifically, we abolished the system of cooperation agreements that had to be

signed with the regional government as a precondition for their receipt. State support is now provided after registering of investment projects in the relevant register. As a result, the number of documents submitted to tax authorities was greatly reduced.

In 2014, after the creation of SEZ Kaluga, we introduced income tax benefits for the zone's residents. They were adjusted this year to provide competitive advantages against other regions. Today, a lot for plant set-up can be obtained in our economic zone in the shortest time and almost for free.

In 2015, we significantly expanded the list of priority types of economic activity qualifying for state support and introduced additional tax benefits for investors implementing projects in the format of our pharmaceutical cluster. Also, to guarantee stability of regional tax legislation, amendments were introduced that establish the possibility to claim benefits that were provided by legislation in force on the date of commencement of an investment project within a period of 7 years.

Of course, all regional benefits are available to representatives of the local automotive industry, and combined with federal support measures will surely provide an additional incentive for industry development.

How are existing financial measures of investor support being improved? Are there any new instruments introduced?

We have thoroughly addressed the issue of introducing tax benefits within the scope of the new support mechanisms offered by federal legislation. I mean the register of regional investment projects and special investment contracts. New mechanisms are being introduced in addition to those that are already available to our companies, including automotive plants.

As a result of this work, already from this year the regional legislation establishes three new groups of beneficiaries: participants of regional investment projects, federal and regional special investment contracts. From 2018, these groups will be entitled to apply reduced rates for corporate income tax paid to the regional budget – 13.5%, 10% and 13.5%, respectively. New regulations will also allow participants of regional investment projects and federal special investment contracts to apply a zero rate for the corporate profit tax paid to the federal budget.

The ministry is prepared to provide comprehensive assistance to companies in obtaining statuses of regional investment project participants and executing special investment contracts, including with the region's participation as a third party. Some companies are already considering the possibility of executing such contracts with the Ministry of Industry and Trade.

Is there any difference in benefit packages provided to major investors and small and medium businesses?

The main condition that must be met to obtain tax benefits for corporate property and profit tax of investors covered by the general taxation regime is the volume of capital investments – they must invest at least 100 million

rubles.

The region's small and medium businesses are offered various measures of financial and non-financial support. We are closely collaborating with federal development institutions including the SME Corporation, the Industry Development Fund and the Russian Export Center. A lot of work to support small and medium entrepreneurship is done by the Kaluga Chamber of Industry and Trade. It should be said that these support measures are of demand, which implies that they work: in six recent years, the number of small and medium enterprises in the region almost doubled.

Kaluga Region successfully introduced territory development instruments like industrial parks and a special economic zone. It is currently creating territories of advanced social and economic development. What benefits and preferences will they provide?

Indeed, there are 12 industrial parks in Kaluga Region, four of which were included into the federal register of industrial parks. At the same time, regional tax benefits offered to investors are of general nature and are established by law as applicable throughout the region, regardless of industrial park residency. The only exception is made for residents of the special economic zone. Depending on the nature of their activities, they can be entitled to regional profit tax rates of 13.5% to 0%. SEZ residents also have transport tax benefits – 10 years of tax exemption.

As I said earlier, we are continuously improving our offers to investors – not just by providing preferences, but also by introducing cost-saving infrastructural initiatives. Massive efforts are being applied to creation of territories of advanced social and economic development in mono-towns Kondrovo and Sosenskiy. Their creation will entitle residents to federal tax and insurance benefits as well as regional and local benefits. Thus, they will have access to a wide range of considerable benefits and preferences.



BENEFITS FOR RESIDENTS OF TERRITORIES OF ADVANCED SOCIAL AND ECONOMIC DEVELOPMENT

Federal corporate profit tax rate:

0% FOR 5 YEARS

Regional corporate profit tax can be established by regional legislation at:

FROM 0% TO 5% FOR 5 YEARS

FROM 10% TO 18% FOR THE FOLLOWING 5 YEARS

CORPORATE PROPERTY TAX RATE

General reduction to 0% for investors for up to three years; the issue of introduction of more benefits is currently addressed in detail and will be resolved after assignment of relevant statuses to Kaluga Region's mono-towns.

Land tax rate (at the discretion of local authorities):

UP TO 0%

Insurance payments:

7.6% FOR 10 YEARS



NEW AUTOMOTIVE INDUSTRY DEVELOPMENT STRATEGY

The Ministry of Industry and Trade is developing a new strategy for automotive industry development. 2018 is the expiry year of industrial assembly agreements signed by automotive manufacturers with the Ministry for Economic Development. These agreements entitle companies to benefits and preferences in return for achievement of specific levels of localization and investments in enterprises in the Russian Federation. The new program will emphasize the mechanism of the special investment contract. According to Minister of Industry and Trade Denis Manturov, coordination of the updated strategy for automotive industry development up to 2025 will be completed in the nearest future. He noted that there are no substantial differences between the ministries' approaches to the updated strategy. "There were several concepts, which included generalization of investment agreement principles with a more in-depth approach after second stage completion, but we believe that special investment contracts have already proven their efficiency as instruments and are the most suitable for implementation", said the Minister.

New automotive industry support programs – First Car, Family Car, Russian Hauler, Russian Farmer And Private Business – are available from July, according to the press service of the Russian Ministry of Industry and Trade. These support measures will be financed by a total of 7.5 billion rubles until the end of the year, with equal portions going to leasing and lending programs. Updated subsidized car loan programs (First Car and Family Car) entitle consumers to a 10%

discount off the car price. Leasing programs apply to commercial vehicles – Russian Hauler (trucks), Russian Farmer (light commercial vehicles (LCV) and trucks for farming) and Private Business (LCV sales to small and medium businesses) – and will increase the subsidized percentage to 12.5% (currently – 10%).

MORE THAN 360 THOUSAND AUTOMOBILES SOLD UNDER STATE SUPPORT PROGRAMS SINCE BEGINNING OF YEAR

More than 360 thousand Russian-manufactured automobiles were sold with state support in the first half of 2017, according to Russian Minister of Industry and Trade Denis Manturov. He also said that the combination of all programs stimulating the industry's development was expected to secure production of around 670 thousand automobiles by the end of 2017. According to the Ministry of Industry and Trade, last year automobile manufacturing

declined by 5.5% to 1.29 million units in comparison with the previous year, with passenger car manufacturing dropping by 8.1% to 1.1 million units. The combined volume of automotive industry support in 2017 is 62.3 billion rubles. Of this amount, 17.5 billion rubles is allocated to the fleet updating program, 10 billion rubles each – to privileged-rate car loans and leasing, and 7.4 billion – for subsidies to reimburse investment loan interest payments.



BUSINESS EVENTS AT HILTON GARDEN INN KALUGA


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- Three conference halls with daylight illumination
- Advanced audiovisual equipment
- Comfortable areas for guest relaxation
- New area for open-air events
- Catering in any format from The Garden Grille & Bar



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EXPORT AS A GROWTH DRIVER



Petr FRADKOV,
head of the Russian Export Center Group

?

ABOUT THE CENTER

Russian Export Center JSC (also – REC) was created as a specialized organization representing the “single window” for collaborating with exporters in relation to financial and non-financial support measures, including through interaction with relevant ministries and departments responsible for development of foreign economic activities of the Russian Federation.



RUSSIAN EXPORT CENTER

- ▼ EXIAR
- ▼ EXIMBANK OF RUSSIA

Export development is essentially ranked as a strategic national objective now. REC is directly involved in its achievement. What tasks and how fast is REC solving? What REC initiatives are already in place? What are the most demanded “products” offered by REC to Russian manufacturers?

In the two years of its existence, the Russian Export Center managed to achieve quite a lot – we combined financial and non-financial services for exporters within a “single window” by integrating the Center, EXIAR insurance agency and Roseksimbank in a single group. The experience and competences accumulated by EXIAR and Roseksimbank over many years of operation allowed us to quickly achieve high results – already in 2016, we provided support to over 500 exporters from very different sectors. Today, we are offering more than 100 solutions – from basic consulting on issues of export operations to solving of specific objectives, such as product certification,

intellectual property protection, customs administration.

Judging from our experience, the most demanded services are associated with identifying potential clients abroad, due to which REC is now focusing on developing its international network. We already established representative offices in Kazakhstan, Belarus, Iran, Vietnam and Tajikistan. There are plans to open offices in India, Indonesia, China, Argentina and Azerbaijan. The central office also has a REC representative specializing on South Africa.

At the end of last year, the Russian government organized a project office that is focusing on international cooperation and export as a key direction of operations. REC has become the coordinating headquarters for the project. This, on the one hand, charges us with additional responsibility, and on the other – allows us to enhance our functionality and, consequently, to expand the range of support instruments offered to our clients. Thus, REC was assigned the functions of an agent of the Russian government in implementation

of a number of special support programs allowing exporters to partly reimburse costs relating to certification and homologation, logistics and product promotion on external markets, which is a step forward.

With these and other measures we are planning to provide support for at least US\$ 20 billion in exports until the end of the year. For comparison, in 2016 REC supported exports of US\$ 8.9 billion (without account of the Yamal-LNG transaction).

Thus, we are closely collaborating with the automotive industry – support of Russian mechanical engineering exports has a separate passport within the International Cooperation and Export in Industry project that, apart from the automotive industry, assigns priority to railway and agricultural engineering as well as the aircraft industry.

Experts say that further development of the national automotive industry is inseparably linked to expansion of export potential. Is this true? What are the hurdles and opportunities in export development?

Indeed, further success in development of the Russian automotive industry is directly linked with the export component. One of the reasons is that the internal market has considerably shrunk so the drop in sales needs to be offset by supplies to foreign markets.

The automotive industry has high export potential – even more pronounced in specific segments. These include trucks, like KAMAZ, and commercial vehicles (e.g. GAZel Next by GAZ group), as well as products of global manufacturers like Ford with its Transit vans and Mercedes with its minibuses.

The situation with passenger car exports is not bad as well – they are generally in line with global trends, especially in the economic segment. This covers both products of global manufacturers that localized production in Russia and Russian brands like Avtovaz (LADA Vesta).

Thus, the automotive industry in general is capable of competing by prices and is not lagging from foreign-produced analogues in terms of technical characteristics.

There are technical specifics associated with adaptation of products to external market requirements. Specifically, Europe has special safety requirements and environmental standards (Euro-6). REC now has a special program for certification and homologation that helps resolve issues of product compliance with international standards.

The same program handles the issue of “special modifications”. Thus, due to specifics of local roads, automobiles exported to South America require a special type of suspension, while temperatures in the Middle East require vehicles with “hot climate modifications”.



Last year experience showed that the program has already gained popularity among our manufacturers.

Of course, there are difficulties as well, including difficulties associated with the absence of a well-developed maintenance infrastructure abroad. The trend in exports today is that it is no longer enough to export products, that exports must be supported with post-sale maintenance services. The passport of the priority project provides for measures to resolve this problem. This will be a special-purpose program that we are currently developing and planning to launch as early as 2018. The program’s main objective is to help establish a dealership network

and technical repair base that will ensure provision of warranty services.

The program will identify priority markets. The list will be prepared with consideration of industry strategies due to be adopted in the nearest future and consolidated demands of automotive manufacturers.

Apart from measures for development of post-sale servicing, industry strategies can provide for instruments like reduction of the tax burden for exporters, which would be quite interesting for the automotive industry. The specific method of implementation of this is still to be developed.

What specific support programs developed by REC are already available to automobile and automotive component manufacturers? What is the algorithm for receipt of support? Have any (automotive) companies already used the “services” provided by REC?

Like other export oriented companies, automotive manufacturers have access to the entire spectrum of services currently offered by REC. These include financial and insurance instruments offered through EXIAR and Roseksimbank, assistance in

participation in exhibitions and fairs and much more.

EXIAR and Roseksimbank have always been active in supporting Russian manufacturers of automobiles and spare parts. One of the successful examples of the operation of our financial and insurance block is support of KAMAZ exports to Cuba. The Cuban buyer received a syndicated loan of nearly EUR 150 million.

KAMAZ Group companies also get direct financial support - in two recent years we provided them with 7.6 billion rubles in pre-export financing as support of hi-tech exports. We also supported supplies of trucks and repair kits to Kazakhstan, Vietnam and Cuba.

Another service that is especially popular among automotive manufacturers and adjacent segments is insurance of receivables generated when products are exported with deferral of payment. This service expands the opportunities for our manufacturers, allowing them to not only enter markets that are traditional for the Russian automotive industry, i.e. CIS countries, but also to expand to new regions like Asia and Africa.

It is important to note the EXIAR support is actively sought by automobile tire manufacturers as

KALUGA REGION IS ACTIVELY DEVELOPING NON-RESOURCE NON-ENERGY EXPORTS. IN THE FIRST HALF OF THE YEAR, THE VALUE OF THESE EXPORTS WAS US\$ 541.7 MILLION – ALMOST 85% OF ALL EXPORTS FROM KALUGA REGION TO FOREIGN COUNTRIES

manufacture products for export, as well as to joint ventures. In this field, EXIAR has long-running cooperation with partners like VTK KAMAZ JSC, RENAULT Russia JSC, Pirelli Tire Rus LLC and many other of the industry's companies.

Loans to foreign buyers of Russian products through Roseksimbank with EXIAR support are another rapidly growing direction. The bank is prepared to issue loans, including loans with privileged rates. Apart from this, we recently launched a program for Russian commercial banks that allows lending to foreign buyers or their banks. The terms that we offer are on par with those prevailing on international markets. This is a big step forward.

We think that the most interesting products for automotive industry

Russian automobile and automotive component manufacturers to immediately take advantage of our services.

The certification and homologation support program is of bigger demand. It was already available to REC clients in 2016. The program allows our exporters to overcome technical barriers and adapt their products to requirements of foreign consumers that we mentioned earlier. We reimburse Russian manufacturers for a part of those costs that are spent on bringing products in compliance with international requirements. Those who used the program are already finalizing technical parameters of their products and producing vehicles that are adapted to their target markets.

We expect automotive component



well, who often can't find specialized financial solutions on the commercial market due to specifics of their segment like the seasonal nature of products and high competition.

EXIAR short-term receivables insurance services are available both to national manufacturers and foreign manufacturers localized in Russia that

manufacturers are our special programs dealing with certification, homologation, patenting and transportation.

The patenting program is of interest to automotive companies primarily due to the need to protect their trademark rights. We are currently adjusting it and expect a number of

manufacturers to be interested in the program as well. Thus, the issue of product adaptation to countries with hot climates is essential to manufacturers of climate units exported to Africa, Latin America and South-East Asia.

The most demanded REC special program is the program for support of

product transportation. Most requests received by REC from automotive manufacturers are for this particular product.

In 2016, REC certification, homologation and transportation programs were used by more than 20 vehicle manufacturers, including Kamaz, Avtovaz, Volkswagen, Nissan and others. The value of exports supported under these programs in 2016 was almost 24 billion rubles. This year, direct support under these programs is expected to be realized in autumn.

What is the current system of REC collaboration with regions like? What are the chances of, specifically, Kaluga Region's manufacturers to reach the international level?

More than 80% of all Russian exports, especially in mechanical engineering, are region-based, so collaboration with regions is one of our key priorities. It is a comprehensive effort. First of all, we are developing our own regional presence network. REC currently has representative offices in 12 regions throughout Russia - from Kaliningrad to Vladivostok. We are also actively cooperating with export support centers, branches of business associations and regional executive authorities.

There are several directions in this work. We coordinate efforts to create efficient export support infrastructures within regions. We also do all we can to ensure that regional exporters have access to REC support measures. And we are developing our educational project - School of Exports, the main objective for which is to enhance awareness of regional businesses about export issues. Educational courses embrace virtually all aspects of export operations, including marketing, customs administration, legal aspects of transaction execution and much more. There are over 40 Russian constituent subjects involved in implementation of the project, while exporters from other regions have access to online courses.

For this, the Russian Export Center developed the regional export standard that describes all instruments and can be used by regional executive authorities to contribute to development of export activities of



companies and create an efficient infrastructure for export support.

The standard will be introduced in stages. We will first test it in pilot regions. There are currently more than twenty of them, including Tula, Vladimir, Leningrad and other regions. We will then analyze the results and adjust the standard as necessary. We expect the standard to be introduced throughout the country in the second quarter of 2018.

As far as REC cooperation with Kaluga Region is concerned, this is definitely a very important direction.

We have been closely cooperating with Kaluga's exporters for quite a while. Thus, over the years of its operation EXIAR supported exports of US\$ 19.7 million, including exports of products from manufacturers in metallurgy, rail engineering, chemical industry and other sectors. Kaluga's exporters also took advantage of REC's non-financial support - from basic consulting to assistance in obtaining of free trade certificates.

In June, we signed a cooperation agreement with Kaluga Region, and will begin introducing the regional export standard mentioned earlier there in 2018. Our partner in this will be the regional Chamber of Industry and Trade. Also, Kaluga Region's Export Support Center is implementing our educational program.

It should be noted that the region is actively developing non-resource non-energy exports. In the first half of the year, the value of these exports

was US\$ 541.7 million - almost 85% of all exports from Kaluga Region to foreign countries. Compared with last year, there was growth of 118% driven by active supplies of top tier goods, including automotive industry products. There's dynamic growth in exports of goods like television sets, monitors and video tuners (+14.1%), washing machines (+224%), wooden construction products (+40.1%), ceramic bathroom fixtures (+23.1%).

Successful examples of Kaluga Region's exports are certainly worth emphasizing. Firstly, automotive component manufacturer Continental that is a very active exporter. This year the company applied for participation in our special program dealing with transportation issues. Remarkably, they initially reflected the opportunity to reimburse part of their costs in their business model. The program will allow the plant to become more competitive on foreign markets than other automotive component manufacturers.

Secondly, the Volkswagen plant that supplied 10 thousand Skoda cars to Czech Republic this year.

Notably, Volkswagen has another export oriented product - Tiguan, which is also exported to Europe. It should be emphasized that Europe has its own production of the model, but cars assembled in Russia seem to have a competitive edge. And this is largely due to the success of our export support measures.

TOP 10 RUSSIAN AUTOMOBILE EXPORT DESTINATIONS

Czech Republic	53.8
Ukraine	8.6
Latvia	8.2
Lebanon	5.3
Hungary	4.8
China	3.1
Mexico	2.8
Azerbaijan	1.8
Slovakia	1.3
Germany	1.3
Other	9.0

Almost half of those exports were represented by Skoda with total exports of 11.8 thousand units. Almost all exported Skoda cars were of the same model – the Yeti crossover.

According to AUTOSTAT, in the first half of 2017, the volume of Russian exports of passenger vehicles (excluding Customs Union states) was 23.9 thousand units.

This is 61% more than in the same period of the preceding year.



The second place among brands belongs to national manufacturer LADA accounting for 23% of exports or 5.5 thousand units. The top five also includes Hyundai, Renault and Volkswagen – each of these manufacturers exported over 1000 cars in the first half of 2017.

Among the principal export destinations, the lead belongs to the Czech Republic with over half of Russian exports in the stated period going to the country (11.8 thousand units). The second place in the destinations rating belongs to the Ukraine (2.3 thousand units), followed by Latvia (1.8 thousand units). Hungary and Lebanon also deserve a mention – over 1000 cars were exported to each of these countries.

THE MINISTRY OF TRADE DEVELOPED A STRATEGY FOR AUTOMOTIVE EXPORT DEVELOPMENT

The Ministry of Industry and Trade published a draft strategy for automotive industry export development up to 2025. The basic scenario expects exports to grow to US\$ 4.9 billion: up to 240 thousand cars per year (10% of overall production) and US\$ 1.6 billion in automotive components. The ambitious scenario anticipates export growth of up to US\$ 7.8 billion: 400 thousand cars and car kits (16%) and US\$ 2.5 billion in components. In the basic scenario, state subsidies for exports in 2018-2025 are estimated at 136 billion rubles; in the ambitious scenario – 215 billion rubles, reports AUTOSTAT.

Export is viewed as an instrument that can contribute to the restoration of an industry that suffered from a drop in internal demand in 2013-2016. Last year, automotive export was valued at US\$ 2.4 billion (US\$ 3.4 billion, if tires are included), represented by 82 thousand automobiles (67,000 passenger cars, 6,000 LCV, 8,000 trucks and around 2,000 buses). Since 2013, exports of finished automobiles declined by 32%, from US\$ 2.2 billion to US\$ 1.5 billion, with exports to CIS dropping by 2.7 times.

Priority markets for export from Russian automotive concerns include the CIS, Middle East (Iran, Lebanon, Jordan), certain countries in Europe (Czech Republic, Germany, Austria), Asia (India, PRC), Africa (Egypt, Algeria, Tunisia, Ethiopia), Latin America and South-East Asia. Priority destinations identified for international automotive manufacturers are the CIS, Iran and Lebanon, as well as Turkey, South Africa, Egypt and Tunisia.

Overall, the draft does not introduce

substantially new measures of export support. There are plans to establish a consistent system for support of exports for eight to ten years that will make it possible to make business case calculations covering model lifecycles. A stake is made on development of suppliers of sub-components and second and third tier materials in order to reduce costs and dependence on the ruble exchange rate. Also, on elimination of system barriers and expenditures associated with delivery of products to foreign markets (free trade zone agreements, harmonization of technical regulations with international standards). There are plans to introduce special purpose programs to support international automotive concerns establishing export-oriented production facilities in Russia (80-100 thousand automobiles per year over seven to ten years). The draft incorporates the idea lobbied by Volkswagen Group – a system of tax bonuses for exports that can be used to offset import duty.

EXPORT

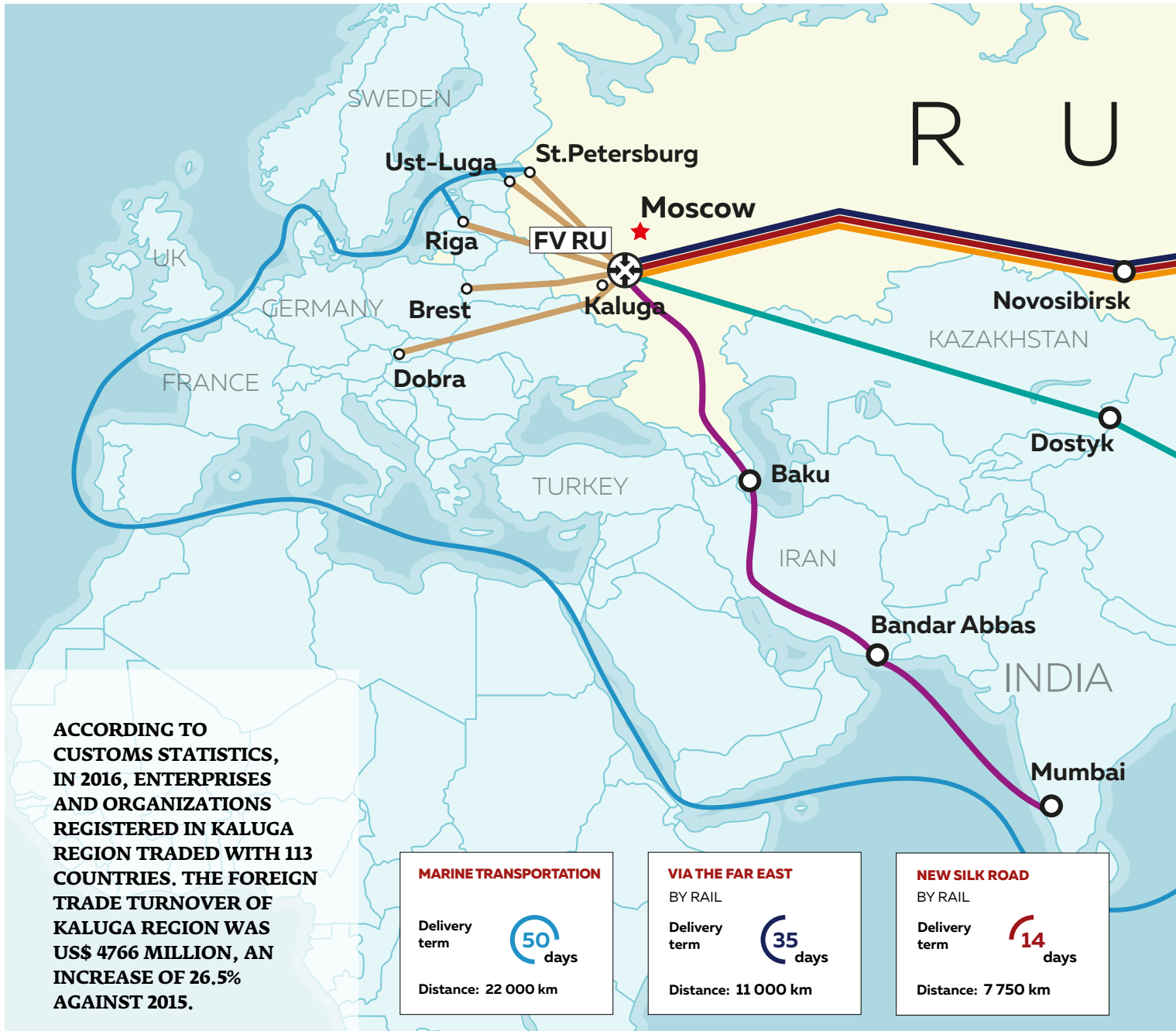
US\$ 2.4 billion

automotive exports in 2016

SUPPLIED IN 2016:

67 000	6 000
passenger cars	LCV
8 000	2 000
trucks	buses

EXPORT CAPABILITIES OF KALUGA REGION



ACCORDING TO CUSTOMS STATISTICS, IN 2016, ENTERPRISES AND ORGANIZATIONS REGISTERED IN KALUGA REGION TRADED WITH 113 COUNTRIES. THE FOREIGN TRADE TURNOVER OF KALUGA REGION WAS US\$ 4766 MILLION, AN INCREASE OF 26.5% AGAINST 2015.

KALUGA REGION - PARTICIPANT OF THE NEW SILK ROAD

Rail route:

Vorsino station (Freight Village Vorsino, Kaluga Region, RF) – Dalian port (Dalian, Liaoning Province, PRC)

Cargo transit

from North-Eastern China and South Korea via the Chinese Eastern Railway and the Trans-Siberian Railway.

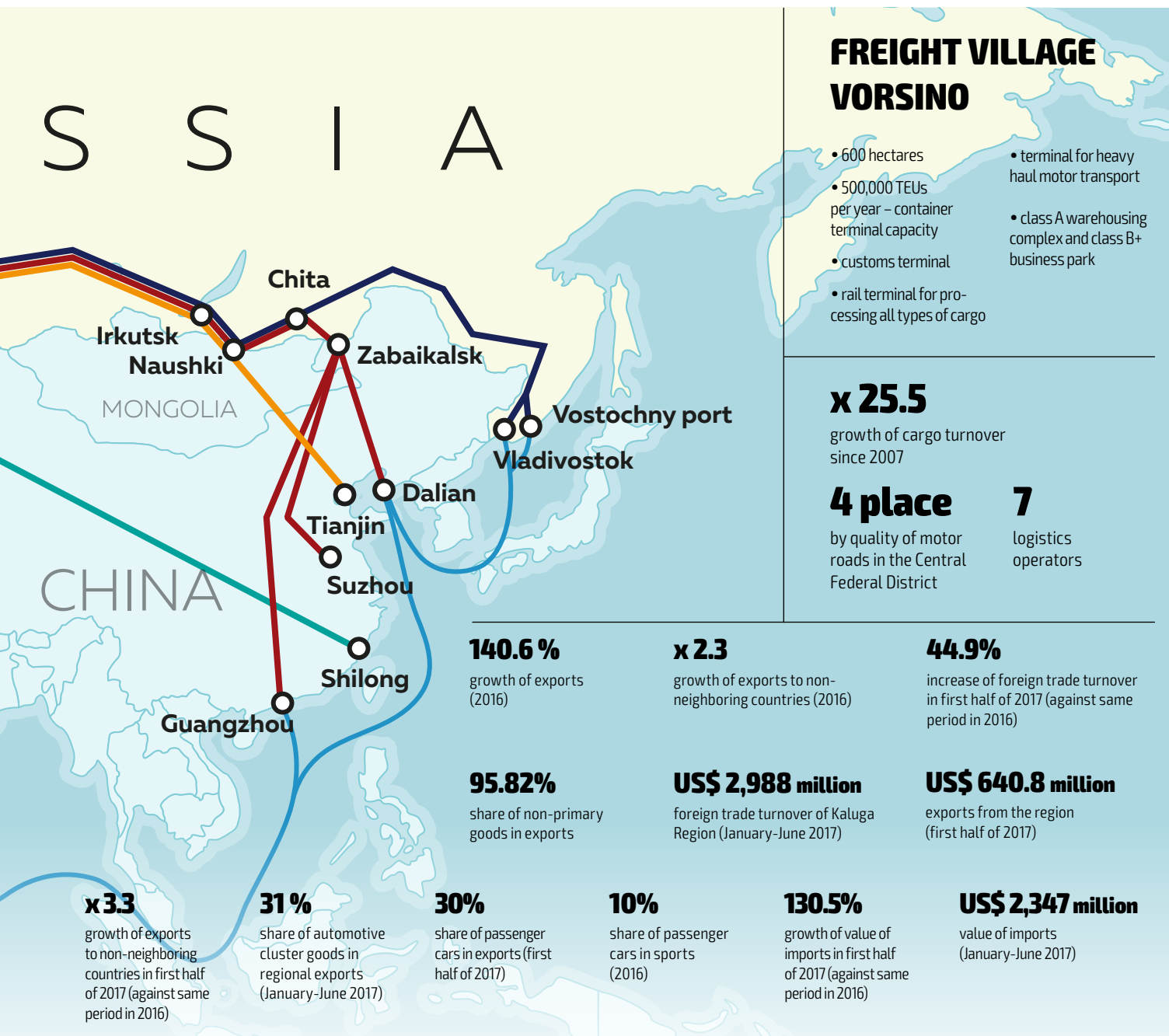
The logistics corridor

allows to considerably reduce cargo transportation costs and cut cargo delivery times by half.

2016 – project launch

In 2017, the project was joined by Mumbai (India).

Work is under way to extend the route to Rotterdam and Luxemburg.



VORSINO-SHILONG: NEW EXPORT DESTINATION

Rail route:
Vorsino station (Freight Village Vorsino, Kaluga Region, RF) – Shilong station (Guangzhou Province, PRC)

Unique structured service:
low prices, consolidation of cargo flows in a single place, dispatch by express container train.

Implemented on instructions of the RF government to facilitate expansion of consumer food exports to PRC – Sinotrans (PRC), Russian Railways JSC, Russian Export Center, Kaluga Region government.

2017 – project launch.

COLLABORATION WITH TECHNOLOGICAL PARKS IS PART OF OUR COMPANY'S STRATEGY



Anton PAVLENKO,
Director of MegaFon regional branch in Kaluga

?

MEGAFON

is developing cooperation with technoparks throughout the country. The operator is a partner of the Skolkovo Innovation Center, Innopolis University, Universitetsky Technopark, industrial parks Vorsino and Grabtsevo, and special economic zone Kaluga. Anton Pavlenko, Director of MegaFon's regional branch in Kaluga, joined us for a conversation about the development of the regional telecommunications infrastructure and services contributing to business territory development.

What brought MegaFon's attention to technoparks and industrial parks?

First of all, technoparks are an important element of the modern economy and the foundation of Kaluga Region's strategy for social and economic development. Technoparks consolidate projects in scientific, research and educational spheres. Industrial parks consolidate manufacturing. Both require high-quality infrastructures, including high-speed internet and reliable communications. Collaboration with technoparks is part of our company's strategy, which is confirmed by a number of our projects.

What experience does the operator have in collaborating with technoparks in Russia?

MegaFon is a partner of the state institution Agency for Technological Development. The agency helps Russian

enterprises to implement world class technological solutions and improve the competitiveness of their products. MegaFon has a portfolio of application-ready technical solutions and products that are required to achieve these objectives.

We have long been cooperating with several technoparks in Kaluga Region. We offer fixed-line and mobile communication services in special economic zone Kaluga. The fast-growing modern Agro-Invest greenhouse complex, one of our region's biggest investors, is also among our partners. In Grabtsevo industrial park, we provide services to its principal resident – the Volkswagen Group Rus automobile plant. Residents of Vorsino technopark have access to the entire range of telecom services – mobile and fixed-line communications as well as business process optimization solutions.

We also have experience of cooperation with different business territories. Thus, MegaFon set up connections for Skolkovo – the innovative business center. Our newest-standard LTE-Advanced network, which is the fastest commercial network

currently available in the world, helps the innovation center maintain its image of the world's most advanced complex with access to all types of communications services.

The Innopolis University in Tatarstan also chose MegaFon as its supplier of corporate mobile and fixed-line communication services. For client convenience, we also provide 8-800 services and virtual server lease. Our virtual servers are an adequate alternative to physical servers that allows clients to optimize costs associated with development and maintenance of their own IT-infrastructure.

For Universitetsky Technopark in Sverdlovsk Region, MegaFon launched an LTE Advanced network and introduced the HD-Voice technology that allows high-definition transmission of audio (during a mobile conversation). Incidentally, this technology is also available to our clients throughout Kaluga Region.

What services are you prepared to offer to technopark residents?

As I said earlier, technopark residents, regardless of their size or sphere of operation, have access to the full range of telecom services and application-ready solutions. The range is almost unlimited, and we are always prepared to develop individual products and services required by the client for business development or business process optimization. Thus, video conferencing services allow clients to organize real time HD-quality video meetings and presentations. With the use of our virtual automatic telephone system, a client can conveniently organize a "smart" telephone system without capital investments. A single federal 8-800 number allows customers to call you for free from any location in Russia. And Magaphon.Target is perfect for newsletter and other mailings. Another service that is highly demanded by our business clients is M2M-monitoring that allows supervision of operating capacity of technical equipment, monitoring and prevention of emergency situations.

As you can see, there is a lot on offer, but, most importantly, we are always prepared to adapt our offers to the specific client and its business needs.

MEGAFON OFFERS SERVICES IN ALL EXISTING COMMUNICATION STANDARDS – 2G, 3G AND 4G+. WE HAVE INTRODUCED THE HD-VOICE TECHNOLOGY THROUGHOUT OUR NETWORK – IT ENSURES THE HIGHEST QUALITY OF AUDIO TRANSFER DURING MOBILE CONVERSATIONS. MEGAFON WAS ONE OF THE FIRST TO LAUNCH LTE (4G+) IN THE REGION AND IMPLEMENT A MAJOR PROJECT FOR LAUNCH OF 3G IN THE NORTH OF THE REGION.

What does MegaFon offer in the field of innovation technologies?

We urge technopark residents to make note of the rapidly developing IoT (internet of things). MegaFon has been proactive in preparing its infrastructure for introduction and development of NB-IoT for more than a year now. This is the optimal technology for effective connection of IoT devices, such as mobile point of sales (POS) devices, pipelines, water, gas and electricity meters, as well as for creation of asset management systems and "smart" city infrastructures. Moreover, the technology is based on the use of a licensable frequency range, guaranteeing the reliability, safety and consistency of data transmission.

Introduction of the NB-IoT technology is yet another step in preparing MegaFon's infrastructure for the launch of fifth generation networks that will allow not only to increase the speed of data transfer but also the network capacity by effectively connecting different types of devices.

In Innopolis, we plan to create a pilot zone for the country's first integrated solution in the field of construction and residential housing that will be NB-IoT based and will demonstrate the efficiency of the technology in practice.

What are the company's plans in terms of technopark infrastructure development?

MegaFon currently has a reliable network infrastructure throughout

the region. We offer services in all existing communication standards – 2G, 3G and 4G+. We are consistently modernizing our own network and launching new communication objects, thus expanding the zone of coverage, capacity and speed. We have introduced the HD-Voice technology throughout our network – it ensures the highest quality of audio transfer during mobile conversations. We were one of the first to launch LTE (4G+) in the region and implement a major project for launch of 3G in the north of the region.

Within technoparks, we are also striving to ensure consistent coverage and a well-developed infrastructure of fiber-optic communication lines. This provides clients with access to mobile and fixed-line communication services (internet, VPN-channels) and supports introduction of various services and products.

Many residents of Kaluga Region's technoparks have already had the opportunity to evaluate the reliability of our network and quality of our services and have selected MegaFon as their corporate partner. Naturally, this choice is very important to us and we are prepared to provide our current and future clients with the highest quality of services bundled with application-ready technical solutions that are adapted to their specific business needs.



ORIGINAL EQUIPMENT MANUFACTURERS

Operating since 2007

Passenger car manufacturing plant



OVER 10 YEARS, VOLKSWAGEN GROUP RUS LLC MANUFACTURED OVER 1 MILLION 00 THOUSAND CARS IN RUSSIA

225,000
cars per year

plant capacity

€ 1,75
billion

total investments in the VW business in Russia

5,500
units

number of locally-produced components for engines and cars

60
suppliers

of automotive components in Russia

MODEL RANGE -
3 BRANDS



SKODA



The history of Volkswagen Group's localized manufacturing in Russia began 10 years ago with the launch of semi knocked down (SKD) production in Kaluga. In 2009, the Kaluga-based plant began completely knocked down (CKD) manufacturing. In 2011, the group commissioned a production site at the GAZ Group plant in Nizhny Novgorod.

The production facility in Kaluga is consistently developing. In September 2015, the company commissioned a plant for manufacturing of 1.6 MPI EA211-series engines with a maximum production capacity of 150 thousand engines per year. In November 2016, a new 12,000 m2 body-shop was launched, and the paint shop and assembly shop where updated to manufacture the new Volkswagen Tiguan.

Over 10 years of localized production in Russia, Volkswagen Group Rus manufactured over 1 million 100 thousand cars at its Kaluga plant and over 200 thousand cars at the plant in Nizhny Novgorod. The plant in Kaluga currently manufactures VW Tiguan, VW Polo and Skoda Rapid; in Nizhny Novgorod – Skoda Octavia, VW Jetta and Skoda Yeti.

THE VW BOARD OF DIRECTORS CONSIDERS THE RUSSIAN MARKET STRATEGICALLY IMPORTANT

The Volkswagen Group Rus plant in Kaluga hosted a meeting of the Volkswagen Group Board of Directors chaired by Chairman of the Board Dr. Herbert Diss. In line with its global strategy focused on management efficiency and innovative mobility, in Russia, the company is developing manufacturing and technologies. Over its

years of operation in Russia, Volkswagen Group has achieved notable success in work with local suppliers and currently closely cooperates with 60 companies. Volkswagen Group not only sources but also trains local suppliers to ensure that their products meet international quality and business process standards.



Herbert DISS, Chairman of the Board of Volkswagen:

"The Russian market has great potential and is strategically important to us. Sales results give us confidence in the brand's success in the region. Thus, the launch of localized production of our bestseller, Volkswagen Tiguan, fully met our expectations. In April 2017, the demand for Tiguan increased by 235.4% against April 2016, allowing it to become the growth leader in the Russian market".



KALUGA PLANT MANUFACTURES THE 150,000TH VW TIGUAN

In June, the VW Group Rus production line released its 150,000th Tiguan crossover since production of the model began in Kaluga in 2008. In November of last year, the plant launched CKD manufacturing of the new VW Tiguan - the first VW Kaluga-manufactured crossover built on a modular platform with transverse engine mounting (MQB - Modularer Querbaukasten). To manufacture the second-generation Tiguan, VW Group Rus expanded its production facilities in Kaluga by building and equipping a new 12,000 m² body shop. The total amount invested by Volkswagen Group in manufacturing of the new Tiguan is € 180 million. The expansion of its facility in Kaluga and organization of manufacturing of the new Tiguan brought VW Group Rus a victory in the Investment Project of the Year category of the Russian Automotive Forum 2017 awards.



24% – GROWTH OF VW CAR SALES IN RUSSIA IN JULY

In July, Russian Volkswagen dealers sold 7,239 cars – a 24% increase against last year. In seven months of 2017, sales of the brand in Russia increased by 19% reaching 46,866 cars. The bestselling model is still the Polo sedan – in July, it was chosen by 4,014 buyers (-3%). Sales of Volkswagen Tiguan increased 4-fold to 2,134 cars representing both generations of the crossover. The off-road Volkswagen Touareg demonstrated a record growth of 35% - 403 of such cars were sold in July due to introduction of special modifications. As noted by Volkswagen head in Russia Pierre Boutin, the brand's sales are growing ahead of the market, driven by Tiguan and Touareg.



MANUFACTURING OF AN UPDATED SKODA RAPID BEGINS IN KALUGA

VW Group Rus began manufacturing of the updated liftback Skoda Rapid, which now has a new design and optics, an extended options list, advanced multimedia systems and a generous range of colors. Skoda Rapid is manufactured at the Kaluga plant in CKD production mode since February 2014. CKD production implies that car parts and components delivered to the production site are welded, double-coated, painted, submitted to anti-corrosion treatment with the use of hot wax and original Volkswagen-developed solution. The model is then fully assembled, which includes installation of the engine, transmission, windows, seating and other operations. From 2015, the company's engine plant in Kaluga manufactures 1.6 MPI petrol engines that are offered for all locally assembled Skoda models, including the updated Skoda Rapid. Working in two shifts, the plant will manufacture around 110 cars of the model per day. Sales of the updated Skoda Rapid began in July. The model is Skoda's bestseller in the Russian market with sales growth of nearly 12% in the first half of 2017.



VOLKSWAGEN GROUP RUS BEGINS EXPORTING ENGINES TO EUROPE

German concern Volkswagen exported its first shipment of Kaluga-manufactured engine components to a production facility in Mlada-Boleslav (Czech Republic). Since 2015, the Kaluga VW engine plant has assembled over 150,000 engines. They are installed on five models: Volkswagen Polo, Volkswagen Jetta, Skoda Rapid, Skoda Octavia and Skoda Yeti. Three of those – Volkswagen Polo, Volkswagen Tiguan and Skoda Yeti – are also exported. Skoda Yeti is supplied to Europe, Polo and Tiguan – to CIS countries. Since the summer of 2016, Volkswagen Polo is also supplied to Mexico.

VW intends to expand exports of cars from Russia.

This year, VW Group Rus plans to increase the share of exports in the output of its Russian plants from last year's 10% to over 20%, as stated by Volkswagen Group Rus General Director Marcus Ozegovic, who noted that a high share of exports could ensure the efficiency of the company's business model in Russia.

Currently, the bulk of VW car exports from Russia is represented by the Polo sedan. In 2016, Volkswagen Group Rus manufactured nearly 147 thousand cars in Russia – a 9% increase over the previous year (135 thousand cars).



Marcus OZEGOVIC
General Director
Volkswagen Group Rus

"Local production is a key element of our long-term strategy in Russia. Consistent investments in development of manufacturing, products and employees have allowed us to become one of the leaders of the Russian automotive industry. We stimulated development of local component suppliers, expanded our presence in the Russian market and started exporting our cars. We intend to further this success in the new decade".



Operating since 2010

Transition to completely knocked down manufacturing in July 2012

Passenger car production plant. Joint venture between PSA Group (70%) and Mitsubishi Motors Corporation (30%)

PEUGEOT CITROEN MITSUBISHI AUTOMOBILES RUS LLC IS READY TO LAUNCH NEW MODELS AND EXPAND SALES MARKETS

125,000
cars per year
plant capacity

€ 550
million
invested

MODEL RANGE –
3 BRANDS:



IN JUNE, PCMA RUS BEGAN PRODUCTION OF THE NEW GENERATION PEUGEOT 408

Peugeot 408 was the first model that the PCMA Rus plant began producing in CKD mode in 2012. The car was developed for use in Russia and CIS. From 2013 and until this day, it remains the bestselling Peugeot brand in Russia. The new generation Peugeot 408 has a more attractive and aggressive exterior design and technologically-driven interior. Its appearance was adjusted to comply with the aesthetics of Peugeot's latest models. Thus, Peugeot 408 got new headlights, new chrome-plated radiator grid and fog lamp casing with integrated LED daytime navigation lights. The range of the model's power units now includes a 1.6 l 115 HP5 petrol engine that is coupled with an automatic EAT6 transmission. The list of basic equipment and options was extended to include new features.

EXPORT

The persisting low demand for automotive industry products in Russia forces manufacturers to search for other sales markets. In autumn, PCMA Rus will begin regular supplies of Citroen C4 Sedans to Iran – the plant's first export destination beyond the CIS. The plant is searching for export opportunities not only for finished products, but also manufacturing components and spare parts, thus creating new business opportunities for suppliers. Just recently, PCMA Rus and the concern's Ryazan-based plant Automotive Lighting organized lamp-cluster suppliers to the Peugeot international network. The lamps are used for post-sale servicing of Peugeot 308 worldwide.





LOCALIZATION AND COOPERATION WITH SUPPLIERS

Expansion of production localization is one of priority directions in the plant's operation. To source new suppliers, the plant's teams regularly organize the so-called "Supplier Conventions". At them, the plant's management introduces the PCMA Rus strategy and localization priorities, while representatives of the procurement department explain the procurement procedures and opportunities available to new suppliers to potential partners. The plant's objective is to deepen the localized supply chain, from components to subcomponents and even raw materials. One of the successful examples of this approach is the strategic agreement with research and production enterprise POLYPLASTIC intended to substitute imported polymer composites with locally manufactured products.



In January, PCMA Rus LLC and research and production enterprise POLYPLASTIC, represented by Trading House Polyplastic LLC, signed a strategic cooperation agreement to substitute imported polymer composites used to manufacture parts for Peugeot and Citroen cars with locally manufactured products and to cooperate in development of new types of plastic for industrial use. Considering the 15 types of materials that are already covered by this cooperation as well as the prospects unlocked by the agreement, PCMA Rus will have the opportunity to localize up to 80% of raw material required to manufacture key plastic components, such as the under-hood space, elements of the interior (door panel components, dashboard) and exterior (bumpers, protective wheel arches).



CORPORATE CITIZENSHIP

New Citroen C4 Sedan was transferred to Volunteers for Children Kaluga Charity Foundation. This is the first vehicle of the foundation. It helps volunteers in implementing various charity programs.

MITSUBISHI MOTORS

OMMS Rus LLC is the exclusive distributor of Mitsubishi cars in Russia, Kazakhstan and Belarus. The brand's dealership network currently includes 121 dealership centers in 77 Russian regions. In September 2010, Mitsubishi Motors Corporation launched its own Russian production facility near Kaluga. The plant currently conducts completely knocked down (CKD) assembly of Mitsubishi Outlander models, which is a leader by sales. The consistently high consumer interest



in Mitsubishi Outlander is driven by a combination of the mid-sized crossover's high quality, wide range of modifications and very favorable purchasing terms.



PROSPECTS

In recent years, the plant has completed a major reorganization of its operations to modernize production and prepare for an updating of its model range. The model range currently manufactured by the plant was updated in two recent years. From next year, the plant will be producing new models.

Improved efficiency of production processes, enhancement of the local procurement base, delivery of new sought-after products to the market and expansion of sales markets by introduction of new export destinations are keys to long-term stability of the plant's business model.

ORIGINAL EQUIPMENT MANUFACTURERS

Operating
since
2009

Truck manufacturing
plant



VOLVO VOSTOK JSC IS THE MOST ADVANCED PLANT IN THE WORLDWIDE VOLVO TRUCKS SYSTEM

**MODEL RANGE –
2 BRANDS:**



**ASSEMBLY OF VOLVO
MODELS:**

VOLVO FH
VOLVO FM
VOLVO FMX



In 2009, the Russian Ministry of Industry and Trade officially assigned the status of national products to Volvo trucks manufactured in Kaluga.

VOLVO TRUCK CENTER KALUGA TRUCK SERVICE CENTER

operating since 2009

VOLVO CONSTRUCTION EQUIPMENT EXCAVATOR PLANT

operating since 2013

Model range
of Volvo excavators:
EC210 / EC240 / EC290 / EC360 / EC 460



Today, the Volvo plant in Kaluga is the most advanced enterprise in the Volvo Trucks worldwide plant system (according to Volvo experts).

VOLVO CUSTOMS DEPARTMENT

operating since 2012

- 2000 m² customs control zone (equivalent to processing of up to 135 trucks per day)
- average cargo turnover – 55 trucks per day

VOLVO AND RENAULT CABIN MANUFACTURING PLANT

operating since 2014

Cabins are installed on Volvo and Renault trucks manufactured by the plant.



Sergey YAVORSKY
General Director Volvo Group Russia

Last year, Volvo spoke about its plans to increase the production capacity of the Kaluga plant by 30%, thus confirming its intention to continue developing projects in Kaluga Region. Analyzing the results for 2016, what would you like to emphasize and how do you assess the current situation?

In 2015, the Volvo Group plant in Kaluga manufactured around 1300 trucks. The production capacity increased from 3 to 10 trucks per day and the plant switched to full-cycle 5-day per week operation.

Last year's result was exceeded by the end of the first half of 2017, and we expect to manufacture more than three times as much as we did in 2016 by the end of the year. We expect around 80% of finished products supplied to our clients in 2017 to be labeled as "Made in Kaluga". These forecasts are based on the current volume of orders and the rates of market restoration.

In new macroeconomic realities, many automotive manufacturers are searching for new development directions. What is the concern's current strategy for project development in the Russian market? Are you considering exports as one of the possible development scenarios for Volvo's Russian plants?

The Volvo Group plant in Kaluga launched in 2009 was initially seen as

Volvo concern's strategic investment in development of a manufacturing presence in Russia. We are consistently working on increasing the level of localization of finished products; in June, with support from Kaluga Region's Governor Anatoly Artamonov, we organized a "Supplier Days" at our plant. The event was attended by 70 local and international automotive component manufacturers, with some of which Volvo Group has plans for new joint projects.

As far as export potential is concerned, we are thoroughly examining this direction, both for supply of Kaluga-manufactured trucks to clients in the Customs Union — Kazakhstan and Belarus, and, potentially, to clients in non-neighboring foreign countries. I prefer not to go into details on this, but would like to note that the markets implied are major and highly competitive.

What is the current agenda? What objectives is the management setting for further development of Volvo's Russian projects?

The main objective is to hold up to the fast rate of market restoration and promptly offer our clients Kaluga-manufactured equipment as well as comprehensive transport solutions, including Volvo's post-sale services. In the first half of the year, Volvo Trucks emerged as a confident leader of the national market in supplies of finished products to clients (in the "Big Seven" segment of international

truck manufacturers), and we intend to uphold this benchmark.

We are also developing an alternative direction — "Lease". In the first half of the year, Volvo leased out more than 100 vehicles that are now operating in our clients' truck fleets. The advantages of "Lease" are in fixed monthly payments, no capital investments, maintenance of the credit burden by the lessor as well as optimization of variable costs and flexible transaction terms. The client receives trucks with a Golden Service Contact, third-party liability coverage, Dynafleet transport data system and many other services. The most important thing is that the client does not need to register the vehicle in the balance sheet and gets the best lease rate that fully covers equivalent annual costs that would have been incurred for truck acquisition and maintenance.

And, of course, we are focused on developing our brand network of service stations in Russia. It is currently one of the widest geographically in comparison with all our competitors; there are more than 70 authorized technical maintenance stations operated by our service partners nationwide — from Kaliningrad to Vladivostok. This year, we will add new stations in a number of key regions to give our clients more choice and support the high level of maintenance provided to Volvo trucks.

TRUCK MANUFACTURING TO INCREASE IN KALUGA REGION



Governor Anatoly Artamonov held a work meeting with the management of Volvo Group Russia to discuss plans for further development of the company's projects in Kaluga Region. Speaking about Volvo automotive plant's current operations, its Director Abuayub Abdenasser noted that the facility was operating on a full-week schedule. Plans for this year include increases in production of Volvo trucks. From July, the production line has been releasing 24 trucks per day. Their cabs are supplied by a nearby specialized facility of the same Swedish concern. Due to restoration of production volumes, more than 280 specialists returned to their workplaces, with the total number of people working at the plant now exceeding 500. The company further plans to expand localization of its production in Kaluga. The plant is already successfully cooperating with Kaluga Engine JSC that supplies parts for assembly of truck transmissions. Incidentally, Kaluga Engine was the first Russian plant to receive the status of "official Volvo supplier".

VOLVO GROUP TRUCKS IN KALUGA ORGANIZES "SUPPLIER DAYS" FOR RUSSIAN AUTOMOTIVE COMPANIES



The event was attended by representatives from more than 60 Russian automotive companies. Among them – the concern's partners in body manufacturing, potential and current suppliers of automotive components. During the two event days, industry representatives discussed issues of cooperation and development of relations between Volvo Group Trucks Russia and automotive component manufacturers. "Supplier Days" participants emphasized the importance of building long-term partnership connections between international and national suppliers, creation and expansion of high-tech production facilities – specifically, within the scope of the state economic policy approved by the Russian President.





White Fox - the first mini-factory format laundry and dry cleaners in Kaluga – is successfully operating for the 4th year: clients can observe the work of the staff and part of the technological processes.

EQUIPMENT

White Fox is an advanced enterprise that offers Kaluga's residents high-tech services that meet European quality standards. The factory uses only the best equipment that ensures high quality cleaning and final treatment of clothing. This includes high-end machines supplied by Italian and Spanish manufacturers with reputations proven worldwide.

TECHNOLOGIES

White Fox mini-factory was created with consideration of all industry development trends and a firm intention to use only the best German cleaning agents. Chemicals are selected on the basis of their ability to clean fabric efficiently and delicately.

White Fox applies all available advanced cleaning technologies: dry chemical cleaning, environmentally safe aquatic cleaning and washing that produce the highest quality of cleaning and treatment of all types of garments.

EMPLOYEES

White Fox employees complete training at the Moscow representative office of Italian company NUOVA MARTINI. The factory's specialists continuously enhance and improve their professional abilities by attending exhibitions and seminars and participating in webinars. The global dry-cleaning industry does not stand still - it develops new agents and equipment. The White Fox team is always on trend.



WHITE FOX CLEANLINESS TIPS:

- don't store dirty garments. When the season ends, prepare them for long storage by cleaning and repairing. Follow the rule: a seasonal garment should be cleaned twice per season – in the middle of the season and at the end;
- do not allow stains to set. Unless you attempted to remove them by yourself, before treatment, stains can remain on fabric up to 7 days for grease/fat stains, 24 hours for colored grease (lipstick, ballpoint pen ink, etc.), 3-4 days for food protein (milk, mayonnaise, etc.); 1-2 days for blood; 1-2 days for tannins (tea, coffee, wine, juice, grass). After this, stains become set and are difficult to remove.
- if possible, do not remove labels indicating garment composition and cleaning instructions. This information can help specialists find the correct method of treatment for your garment.

SERVICES

Dry cleaning of clothes, business suits, wedding dresses.
 Dry cleaning of natural and imitation fur, collars, fringes, linings.
 Aquatic cleaning: puffer jackets, treated jackets, ski outfits, blankets and pillows, stuffed toys.
 Individual laundering of table and bed linen.
 Dry cleaning of carpets, curtains and bedspreads.
 Garment repairs.

White Fox offers workwear dry cleaning and linen laundry services to legal entities. Our clients include hotels, SPA salons, hairdressers and other Kaluga-based companies. White Fox is opening another laundry in September and will be able to provide services to even more clients.

SPECIAL SERVICES

Express-cleaning – 4 hours. Urgent cleaning – 1 day.
 Bonus program

MINI-FACTORY:
 Semeyny Shopping Center (Suvorovsky), 1st floor, 113 Suvorova Str., Kaluga
 T.:+7(4842) 909-802: +7(953) 338-40-00

COLLECTION POINT:
 Moskosvky Shoppine and Entertainment Center, 1st floor, 3 Glagoleva Str., Kaluga
 T.:+7(953) 328-14-44

THE ART OF MUTUAL UNDERSTANDING

Oksana STORCHAK
General Director, ALEAN

An anniversary is an important landmark in any history. It is the best time to contemplate achieved results and identify further development prospects. By enhancing its positions in the Russian and international markets, by expanding the range of services, improving technologies and optimizing its business processes, Professional Translation Center ALEAN sticks to its main business principle – high quality. As a result, ALEAN remains one of the biggest and strongest players in the foreign languages market.

Looking back to the creation of ALEAN – was it a well-conceived business idea or a spontaneous start up?

The late 90s were a time when people who started their own businesses were not entirely sure what would happen with those businesses. They had to define a principle that would form the foundation for their activities. I had a clear understanding that my business had to be, firstly, professional, and, secondly, of demand. Financial resources, a competitive environment that could be analyzed – none of that existed. In effect, we were the ones who formed the translation industry in the region. Moreover, when we took our project to Moscow for business advice, many of our ideas and projects received a high appraisal from colleagues.

You can always create something interesting, unless you limit yourself to the format of wanting to be “like everyone else”, having to “work for a wage”, “have a workday”. We had a desire to help people. And this was a sphere of knowledge that we could navigate in.

This year Professional Translation Center ALEAN is turning 20. It is an “age” when a company can feel comfortable. We have approached the 20-year landmark with a tremendous educational foundation, new projects, highly qualified employees and a worthy competitive environment that makes us even stronger.

Clearly, your clients would have changed with you. Who are they? How did they change over 20 years?

Our clients define the directions we pursue. We develop along with them. We are approached by students, entrepreneurs (small, medium and large businesses), governmental institutions, farmers, major private concerns and many other clients. Our first major partners were industrial giants like Gazprom, the Russian Arms Company and Remputmash.

Apart from ALEAN translations bureau, several years ago you created Big Apple language school. How is it doing?

Creation of the school required some “maturity”. We spent a year writing programs, developing the educational base and buying premises. Today, Big Apple is special-subject interactive classes, weekend film clubs, training abroad, a huge range of languages to study, an educational license and, quite importantly, a team of super-professionals.

We try to be flexible in our work with clients. This means that we consider their motivation for studying languages, their current level of knowledge, fears and desires, their schedules and then select a suitable teacher and work out a curriculum.

In 2012, we developed an adaptation program for foreigners. It helps them to comfortably “integrate” into the life of our city. In 2013, we decided to expand our educational project and introduced official Russian-language testing for migrants and foreigners.

What is the profile of a foreign language student today?

There are more people willing to learn languages – both adults and children.

To supervise the quality of teaching at the school we introduced an internal program for monitoring of attendance, assignment completion and activity during classes. Parents can remotely review their child’s achievements and follow what happens at lessons.

It is quite encouraging that there are now a lot of “conscious” clients – people who have a clear understanding of why they came to study.

Do you think it is much easier to master languages at a young age?

No. You can start learning a language at any age. Everyone has equal capabilities. It all depends on the motivation.

“WE ALWAYS MANAGED TO BE THE TREND-SETTERS IN OUR INDUSTRY, TO BE THE FIRST TO DO THINGS. WE WERE THE FIRST TO SIGN AN AGREEMENT WITH THE PEOPLES' FRIENDSHIP UNIVERSITY OF RUSSIA FOR RUSSIAN LANGUAGE TESTING. WE WERE THE FIRST TO OPEN A REGIONAL BRANCH FOR THE UNION OF TRANSLATORS OF RUSSIA. THIS IS IMPORTANT TO US AS PROFESSIONALS”

Did your company have any unusual requests/clients? Where there customers who'd go into a “professional debate” with you or express dissatisfaction with translation results?

There’s a lot of routine in any business, you know, but we try to keep it down to a minimum. Thus, we are now working on presentations in Vietnamese, translating a website to Pash-to (one of the Eastern languages). We teach English to Japanese and German students.

We translate major contracts and documentation for industrial facilities. Our employees accompany international top managers who implement projects in Russia.

As far as “professional debates” are concerned... Generally, situations when customers disagree with translations are very-very rare. But if this does happen, we see it as another occasion to review our work. But, again, these are truly rare occasions.

What languages are of most demand for translations apart from English?

Apart from English, which is the un-

disputed leader, the popular ones are German, Chinese, Italian and Spanish.

What type of translating is more developed – oral or written?

These are totally different formats with different labor costs. It’s not really appropriate to compare them.

Professional interpreters, simultaneous interpreters are valued specialists in the linguistic industry. Their work requires emotional and physical endurance, extreme concentration and attention. This work can only be done by stress-resistant people.

Written translations can be done by any person with professional language skills.

What continues to inspire you in your work?

First of all, self-development. I am continuing to discover the world through languages.

Our key mission is to help others discover the world as well. Whether this discovery occurs through business, travel or hobbies is the client’s choice.

ALEAN

Quality complies with ISO quality management system.

In 2012, ALEAN was included in the Register of Russian Reliable Partners

In 2015, ALEAN was among the 30 major Russian companies according to the TOP-100 TranslationRating

- Translation of technical, contractual, customs and other specialized documentation;

- Detailed and accurate translation of legal documents;

- Translation of personal documents with notarization and/or apostilling;

- Lexically and stylistically appropriate translation of fiction, personal and business correspondence, etc.

- Consecutive interpreting (business negotiations, presentations, press conferences, exhibitions, excursions)

CONTINENTAL KALUGA LLC: EXPORT IS ONE OF OUR KEY DIRECTIONS



Georgy ROTOV
General Director, Continental Kaluga LLC

Many automotive manufacturers consider exports to be the key driver for the industry's growth. How important are exports for your company?

In 2017, exports remain a key direction and currently account for around 25-30% of the plant's total production output.

Maximum utilization of the existing production capacity allows us to manufacture tires at minimal cost. Diversification of sales markets gives us more flexibility, which is very important in conditions of instability.

Foreign market demand for our products allowed us to advance in issues of internal process efficiency and increase our production volumes despite the situation in the Russian market. Tires manufactured by the Continental plant in Kaluga are currently supplied to 23 countries, including Europe, Scandinavia, Asia and North America.

You said in the past that the Kaluga plant was targeted, primarily, on the internal market. Will the plant's capacity be enough to satisfy demands of both Russian and foreign manufacturers?

Indeed, production was initially targeted at our country's internal market. However, this focus turned out to be incompatible with the new reality, and we had to review our development strategy.

Of course, supplies to clients with production facilities in Russia remain our priority: products manufactured by the Kaluga tire plant are supplied to Ford, AvtoVAZ, Nissan, Renault, Volkswagen and GAZ production lines.

In the first half of 2017, we saw the beginning of a revival on the local market and are hoping that this trend will continue and demand will continue to grow. The plant's design capacity is 4 million tires per year with the possibility of its expansion to 16 million depending on market conditions.

The tire plant in Kaluga was Continental concern's first manufacturing facility in Russia. Production was officially launched in October 2013. Continental invested € 240 million in construction of the Kaluga plant, which currently operates at full production capacity. Since its launch, the plant manufactured over 8 million tires. It produces three brands of tires: Continental, Gislaved and Matador, ranging from 13 to 20". The company's product portfolio currently includes over 300 types of tires that are supplied to the Russian and foreign markets. The geography of exports covers 23 countries.

Localization is currently a very relevant subject. Where do you source your materials? Do you cooperate with enterprises of the Kaluga automotive cluster? And do you plan to expand partnerships with local companies?

The level of localization in procurement of materials for tire production is around 50%. The plant purchases Russian technical carbon, artificial rubber, zinc, metal cord, bead wire, oil, etc.

We purchase metal products from

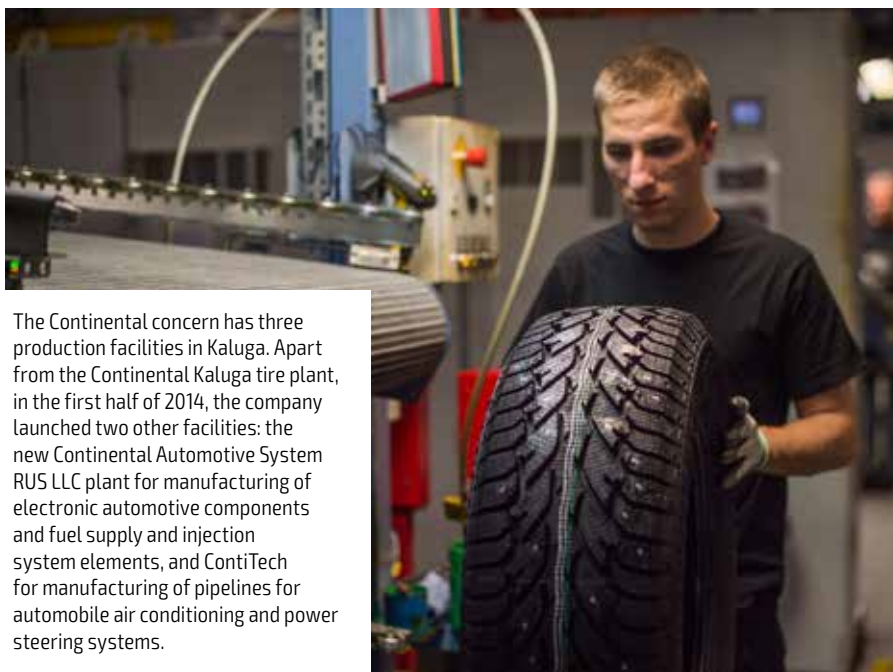
Kaluga plants and closely cooperate with local providers of services, e.g. repairs of press forms are provided to us by Kaluga Press Form Service LLC.

How do you evaluate the current Russian conditions for exporters?

The level of competition is very high on export markets. Therefore, advantages are in details. This implies not just the product and price, but also compliance with standards of markets where we supply our products. Regular audits and certifications have become routine for us. Thus, we successfully

passed the CCC certification under the Chinese system of mandatory product certification. We also received the highest grade (“A”) from Volkswagen, based on an audit for compliance with the German quality process standard VDA6.3. The “A” rating assigned after the audit allows the Continental tire plant in Kaluga to be nominated for Volkswagen projects worldwide.

Naturally, the speed of delivery, efficient financing, state support, logistics, infrastructure also play a decisive role. We managed to combine all these factors into a winning combination.



The Continental concern has three production facilities in Kaluga. Apart from the Continental Kaluga tire plant, in the first half of 2014, the company launched two other facilities: the new Continental Automotive System RUS LLC plant for manufacturing of electronic automotive components and fuel supply and injection system elements, and ContiTech for manufacturing of pipelines for automobile air conditioning and power steering systems.

Continental develops advanced technologies and services to ensure long-term networked mobility of people and cargo. Established in 1871, the technological company offers reliable, efficient, through-through and accessible solutions for automobiles, machines and road transportation vehicles. In 2015, Continental achieved a turnover of € 40.5 billion and currently employs over 230,000 people in 56 countries.

GESTAMP-SEVERSTAL-KALUGA LLC

ONE OF GESTAMP'S BIGGEST COLD FORMING PLANTS IN EUROPE



GESTAMP-SEVERSTAL-KALUGA (GSK) LLC

A joint venture between Gestamp (Spain) and Severstal (Russia). The official opening of the plant in Kaluga was held on July 13, 2010. The company is located in direct proximity to one of its principal clients – Volkswagen Group Rus. Gestamp has global experience in design, development and production of metal components and is a global supplier of the automotive industry. Severstal is one of Russia's leading manufacturers of steel.



An important distinctive feature of the Gestamp plant in Kaluga is its own tool maintenance shop that allows it to quickly modify press forms of any complexity thus fully satisfying the needs of its clients.



Gestamp-Severstal-Kaluga manufactures exterior and interior body elements: sides, roofs, doors, hoods, trunk lids, dashboard beams and other components for bestselling passenger cars manufactured in Russia.

Gestamp-Severstal-Kaluga products are manufactured by cold forming, welding and assembly. The production process incorporates automatic and semiautomatic electric arc welding in protective gasses, contact welding, as well as a technology of roller expansion and pasting for assembly.



The Kaluga plant is one of Gestamp's biggest cold forming plants in Europe.

Overall, Gestamp currently has **100 plants** (over **36,000 employees**) and **12 R&D centers** (**1,300 experts**) in **21 countries**.

In Russia – **4 plants** (over **560 employees**): one each in Vsevolzhsk and Kaluga – joint ventures with Severstal JSC, and two in Togliatti.

€ 250 million

invested by Gestamp in Russia

BRANCH IN KALUGA

MAGNA AUTOMOTIVE RUS JSC

OUR AIM IS FURTHER BUSINESS DEVELOPMENT AND MAINTENANCE OF OUR COMPETITIVE ADVANTAGES



MAGNA

A global supplier of automotive components with 317 industrial facilities and 102 centers for product development, engineering and sales in 29 countries. Magna operates six facilities in Russia: two in Nizhny Novgorod, two in St. Petersburg, one in Kaluga and one in Naberezhnye Chelny. The range of its products includes plastic car exterior and interior elements, car seats, body and chassis elements. Magna products are sought after by both international companies with production facilities in Russia and traditional Russian automotive manufacturers.



The Russian branch of Magna Exteriors is part of an international corporation, which actively applies its best practices to develop the local team. One of its achievements – localization of material supplies – allowed the central team to prepare and launch new programs at production sites in Nizhny Novgorod and Kaluga without recruitment of foreign colleagues' expertise.

On May 24, 2017, Kaluga hosted the finals of the II regional Employer of the Year 2016 awards. Competitors represented various segments of Kaluga Region's economy. Magna Automotive Rus JSC in Kaluga received the Employer of the Year 2016 award in the industrial manufacturing category and won an overall II place in Kaluga Region.



Social responsibility is one of the company's primary operating principles. Every 1 - 1.5 years all plants participate in the employee survey that allows the company to evaluate the attitude of its employees. In September 2012, a creative team from the plant in Kaluga developed an original concept entitled "A healthy team is a family". Initially, the concept was based solely on the "healthy

lifestyle" principle. In January 2014, two more were added: "family values" and "professional development". The three directions offer more opportunities for promotion of a healthy lifestyle and professional growth among employees and their family members at the two production sites in Kaluga and Nizhny Novgorod.



THE MAGNA AUTOMOTIVE RUS BRANCH IN KALUGA PROJECT IS BEING IMPLEMENTED SINCE 2008

Receipt of the Ford Q1 status award by Magna Automotive Rus JSC in 2016 proves that the Russian branch achieved high results in four important directions: production systems, high productivity, high-tech processes and client satisfaction.

The new plant was launched in 2010. It manufactures bumpers, front modules, assembled radiator grids, radiator frames, minor plastic parts for Volkswagen Group Rus LLC, PCMA Rus LLC, Avtoframos JSC and other automotive manufacturers. Its applied technologies include casting, painting, assembly and JIS-line supply. In 2015, the plant opened a new section of its casting shop, opening up opportunities for further development of its business and maintenance of competitive advantages.

YAPP RUS AUTOMOTIVE SYSTEMS LLC: EVERYTHING IS JUST STARTING FOR US IN RUSSIA



ZHY AIGO/朱爱国,
General Director, YAPP Rus Automotive Systems LLC

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The company was established in 2009 and is a subsidiary of Chinese manufacturing giant YAPP Automotive Systems Co., Ltd. that represents 30% of the global market of plastic automobile fuel systems. The company's Kaluga plant operates since 2011. In 2012, the company built an assembly line at the GAZ automotive plant in Nizhny Novgorod. YAPP Rus clients include Volkswagen Group Rus LLC, PCMA RUS LLC, Mercedes-Benz RUS JSC, Ford Sollers Holding LLC, Ford Sollers Elabuga LLC, GAZ Group MC LLC. YAPP Rus products are certified in accordance with European standards. Apart from regular supplies to the Russian market, the company exports small shipments of fuel tanks to Europe and is currently negotiating with partners in the CIS.

What were the results of the YAPP plant in Kaluga for 2016, and how do you evaluate the current situation?

For YAPP Rus, 2016 was a turning point, when we felt that Russian manufacturers are prepared to leave the negative consequences of the difficult economic situation prevailing in recent years behind, to return to pre-crisis levels and even exceed them. This second wind discovered by the market directly effects our order volumes – last year, we manufactured over 140,000 tanks, which is a 13% increase against 2015. And although this percentage gain seems insignificant, it proves to us that last year was one of positive dynamics, of profit. Due to stability regained in 2016, we are now witnessing a considerable increase in sales – something that does not remain unnoticed by our shareholders and investors.

What and for whom is YAPP Rus currently manufacturing? Where does it source its materials? Are you

cooperating with companies in Kaluga? Do you plan to extend your partnerships with national manufacturers?

YAPP Rus supplies plastic fuel tanks to many Russian manufacturers: Volkswagen Group Rus LLC, PCMA RUS LLC, Ford Sollers Holding LLC, Ford Sollers Elabuga LLC, GAZ Group MC LLC and others. The main material used in our production is HDPE – high density polyethylene, which, unfortunately, we currently import from Europe, but we do hope to fully switch to Russian materials in the next few years.

Cooperation with Kaluga-based manufacturers and improvement of our localization percentage is one of our key long-term objectives. YAPP Rus has long been cooperating with local suppliers of packaging and logistics services. In 2017, we signed contracts with several new Russian suppliers that successfully combine European quality with low prices. In the next few years, we plan to integrate more local companies into our supply chains.

In 2017, YAPP Rus successfully passed certification under ISO 14001: Environmental Management Systems – a globally recognized international standard developed by ISO. Apart from achieved advanced levels of raw resource, consumables and power conservation, the certificate confirms that YAPP consistently implements a strategy for improvement of its environmental performance and increases the efficiency of its environmental protection activities.



What are the main objectives for YAPP Rus today? What are its development prospects?

Our objectives are reflected in the YAPP corporate slogan – “To be a global automotive fuel system leader”. We intend to increase the share of tanks manufactured in Kaluga on the Russian market. We are currently negotiating with our regular clients, discussing potential cooperation with plants in the CIS and Russian manufacturers of commercial and agricultural equipment.

But our ambitions extend beyond market expansion also to development in accordance with our internal strategic planning. We strive to create new high-quality jobs, to continuously modernize and robotize our production facilities. Our development prospects – expansion of production and construction of a plant for manufacturing of filler necks – directly depend on the wellbeing of the Russian economy.

The overall picture is quite positive. Everything is just starting for us in Russia.



FUYAO GLASS RUS LLC – THE BIGGEST FOREIGN PROJECT OF FUYAO INDUSTRIAL GROUP



Chinese FUYAO GLASS INDUSTRIAL GROUP specializes in manufacturing of automotive glass from flat float glass. It has four glass plants in the PRC. The plant in Kaluga is the group's biggest foreign project. Launched in 2013, it manufactures a wide range of automotive glass: water-repellant, bulletproof, etc. Fuyao Glass Rus supplies automotive glass to Russian companies, including VW, GM, Hyundai and others. Currently, Fuyao Glass Rus is fulfilling a major order for Volkswagen Group Rus (for its Tiguan model). Materials for glass manufacturing are still imported from Chinese suppliers, but the company's plans include construction of a float glass manufacturing plant in Kaluga and transition to full-cycle production. The seriousness of FUYAO's intentions for Russia is confirmed by the fact that the company invested funds in construction of 8 employee dormitories with a combined area of 28,467 m² not far from Grabtsevo industrial park.

REYDEL AUTOMOTIVE RUS LLC – WINNER OF THE PSA SUPPLIER AWARD

Reydel Automotive Rus LLC is the first Russian plant of French company Reydel. Operating in Kaluga since 2010, up until 2014 the company was known to the Russian market as Visteon. In 2014, the parent company and all its divisions returned the historic name of Reydel. Reydel's history began in France at the beginning of last century. Today, the company combines production facilities and engineering centers in 15 countries and supplies products to most global automotive manufacturers. Kaluga-based Reydel Automotive Rus manufactures dashboard, door panels and other car parts. Its products are supplied to Kaluga automotive plants of Volkswagen Group Rus, PCMA Rus and to Avtoframos in Moscow. Reydel has become the winner of the PSA supplier award highlighting the high technical characteristics of Reydel-manufactured automotive components. The plant operates high-tech equipment for casting, laser treatment and different types of welding and plastic part assembly.



BENTELER AUTOMOTIVE LLC – THE FIRST BENTELER AG PLANT IN RUSSIA AND THE 69TH IN THE WORLD

Benteler AG is a German industrial company that manufactures automotive equipment, steel and pipes. Benteler Automotive is an automotive component manufacturing division with a history of over 100 years. The Benteler Automotive plant in Kaluga operating since 2010 is the company's first production facility in Russia and 69th in the world. For its plant, Benteler AG selected a build to suit plot (A-Park) at Grabtsevo industrial park. The plant is located in immediate proximity to Volkswagen Group Rus LLC, for which Benteler Automotive manufactures suspensions. The total amount invested in the project is around 1 billion rubles. In 2015, the plant launched 2 new projects: manufacturing of rear underframes for Ford Focus cars assembled in St. Petersburg and full-cycle manufacturing of engine guards for several models manufactured by the Renault-Nissan-Avtovaz alliance. In 2016, Benteler Automotive LLC successfully mastered a new type of activities – body preparation (painting, pasting and individual packaging for shipment to dealers). The plant currently specializes in manufacturing of metal parts for major automotive industry companies with the use of advanced cold forming, automatic assembly, MAG-welding, coating and 3d-measurement technologies.



FUCHS OIL LLC: COLLABORATION WITH CONSUMERS IS ONE OF THE KEY PRINCIPLES OF OUR OPERATION



Fuchs Oil is a Russian plant that manufactures FUCHS lubricants. The facility launched in 2013 has the capacity to manufacture 40,000 tons of products per year, including motor, transmission and compressor oils, lubricating coolants – in total over 30 types of products. Fuchs Oil's clients are Volkswagen Group Rus, Continental, Gestamp-Severstal-Kaluga, Benteler Automotive as well

as branches of these companies located in other regions. FUCHS concern's plans include creation of a research and development center on the basis of the plant's currently operating laboratory. Over 27 years of its operation in Russia, FUCHS considerably expanded the scope and directions of its activities. In 2015, FUCHS acquired Statoil Fuel & Retail Lubricants aB (sfr lubricants), which

allowed the concern to strengthen positions in the Russian and international lubricant markets. Close collaboration with consumers is one of the key principles in FUCHS OIL operation. The company provides technical support: from selection of lubricants for specific units to monitoring of oil in independent Russian laboratories. The company's technical department develops programs and methodologies for performance testing with their further coordination with partner plants. Potential partners can visit the FUCHS plant in Kaluga to personally review its production cycle in operation. The plant meets the highest standards for quality of manufactured products and EHS and manufactures a wide range of lubricants for automotive (motor, gearbox and transmission oils, damping fluids) and industrial use (hydraulic oils, lubricating coolants for metal cutting and polishing, compressor oils, etc.). FUCHS products are currently sold in Russia, Kazakhstan and Belarus. The company plans to expand the geography of supplies in the nearest future.

GERVASI VOSTOK LLC



GERVASI is one of the most important European manufacturers of dump truck equipment successfully working in the industry for over 40 years. GERVASI has three plants in Italy (Gervasi Industrial), Poland (GervasiPolska) and Russia (Gervasi Vostok). The combined production capacity of these plants is up to 4000 equipment units per year. The plant in Kaluga operates since 2013 and manufactures dump truck tipping boxes. Based at leased production facilities owned by Kaluga Engine JSC, it assembles dump truck superstructures and semitrailers and paints finished products – bodies for Volvo and Renault trucks manufactured by the Volvo automotive plant in Kaluga. Gervasi Vostok products are also supplied to the Renault Trucks Vostok plant in Moscow. The company is currently negotiating opportunities for expansion of its consumer range.

FAURECIA AUTOMOTIVE DEVELOPMENT LLC

Faurecia came to the Russian market in 2006 and currently operates in several regions. The company has 6 production sites in Kaluga, Togliatti, St. Petersburg and Leningrad Region. Faurecia operates in close collaboration with its customers and global partners like Volkswagen, Ford, Renault, Nissan, Peugeot, Citroen, Mitsubishi, GM, Hyundai, Mercedes and Russian automotive giant AvtoVAZ. In Kaluga, Faurecia has two branches: Faurecia Interior that manufactures interior elements for PCMA Rus LLC and Faurecia Emissions Control Technologies that manufactures exhaust systems. Both plants are located in Rosva industrial park, in direct proximity to their principal customer – Peugeot Citroen Mitsubishi Automobiles Rus LLC.



faurecia

AD PLASTIK KALUGA JSC

AD Plastik is the biggest Croatian manufacturer of plastic parts for the automotive industry. The company has eight plants in five countries: Croatia, Slovenia, Romania, Serbia and Russia. AD Plastik Kaluga JSC manufactures plastic parts for car interior and exterior. Within the Kaluga automotive cluster, AD Plastik cooperates with tier 1 supplier Faurecia Automotive Development LLC and OEMs Volkswagen Group Rus LLC and PCMA Rus LLC. The company's partner portfolio also includes Avtoframos LLC, AvtoVAZ JSC and others.



HP PELZER RUS LLC

HP Pelzer Group concern is a supplier of sound insulation components to leading automotive manufacturers. The company has nearly 30 branches and employs 5000 specialists worldwide. HP Pelzer Rus LLC is based at production facilities leased from Kaluga company Elikor (B-park, territory of Kaluga-South industrial park). The Kaluga plant has been operating since 2011 and supplies sound insulation components to Kaluga's automotive cluster and automotive plants in other Russian regions.



METAL PLASTIC KALUGA PLANT LLC

The company's history began in 2009 with the creation of joint venture between industrial group AVTOKOM and Spanish corporation CIE Automotive at the Kaluga Plant of Automotive Electrical Equipment JSC (KPAEE). The company specializes in manufacturing of parts by applying technologies of mechanical processing, plastic casting and welding. The founding parties' collaboration and experience were used to modernize production equipment and improve technological processes in accordance with contemporary trends. Implemented measures allowed the new plant to organize manufacturing of products that meet global

quality standards and to become a supplier to companies like Faurecia and Peugeot. In 2015, AVTOKOM JSC became the sole owner of the plant renamed into MetalPlasticKaluga Plant LLC. Considering the previously acquired positive experience, from October 1, 2015, the plant's capabilities were expanded by introduction of galvanization and forming lines (previously owned by KPAEE JSC). Technologies used at MetalPlasticKaluga Plant LLC include mechanical processing, pressurized plastic casting, extrusion blow molding, pressing and welding.



KALUGA-AVTOMATIKA LLC

KALUGA-AVTOMATIKA LLC specializes in manufacturing of electronic switchboard equipment and supplies of electrotechnical products.

Our exclusive products - DANA pumping equipment control boxes and HERON turbine control boxes - are successfully used at electric power stations and in water supply systems. Our own electronic laboratory allows us to monitor and guarantee the quality of manufactured products.

Kaluga Avtomatika LLC offers electronic equipment for industrial automatization and power networks; wiring equipment, lighting, cable and wire fittings; tools from leading manufacturers.

THE EXPERIENCE AND PROFESSIONALISM OF OUR STAFF ALLOW US TO GUARANTEE:

- high quality of products,
- optimal speed of delivery,
- high level of services,
- compliance with electric equipment installation norms, requirements and regulations, construction rules and regulations and other documents,
- your safety, confidence and comfort.

General Director of KALUGA-AVTOMATIKA LLC — Mikhail Lykov

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MERCATOR KALUGA LLC



Mercator Kaluga LLC is a joint project between European concern BUCHER-Guyer AG and its Italian branch Giletta S.p.a., specializing in manufacturing of specialized municipal utility equipment for road and street maintenance. The plant in Kaluga opened in May 2014. It manufactures chassis and mounts various types of attachable equipment. In June 2016, the plant commissioned a production line for manufacturing of VKM-2020 compact vacuum sweepers. On July 3, 2017, a new service center was opened at the Kaluga plant to provide services for the company's entire model range. The service center offers scheduled technical maintenance as well as urgent repairs of vehicles and equipment. Several stations allow it to simultaneously work on compact VKM-1000, full-sized CityFant 6000 and attachable equipment. The center's highly qualified specialists will not only work on-site but also visit clients upon request – not just in Kaluga Region, but in other regions as well. Another function of the newly opened center is to train Mercator equipment maintenance specialists. After course completion, trainees will be qualified to provide high-quality services in their own regions

LEAR LLC BRANCH IN KALUGA

Lear is an international company with a 100-year history of manufacturing of complete seat sets and electrical systems. In 2016, the company's sales reached US\$ 18.6 billion. Lear holds the 151th place in the Fortune 500 list. Lear products are designed and manufactured by 156,000 employees working at 257 enterprises in 38 countries. Lear has 4 plants in Russia: in St. Petersburg, Volokolamsk, Nizhny Novgorod and Kaluga. The Kaluga branch manufactures automobile seats that are supplied primarily to the local automotive cluster. Its key customer is Volkswagen Group Rus LLC.



SMK LLC

SMK LLC - a project of Italian company Cellino S.r.l. – is a plant for manufacturing of fuel tanks for trucks. Launched in 2014, the SMK LLC production facility is located on the territory of Kaluga Engine JSC. The plant operates a high-tech automated production line built on the basis of Cellino S.r.l. know-how.



SEVERSTAL-GONVARRI-KALUGA LLC



Severstal-Gonvarri-Kaluga is a joint Russian-Spanish venture between Severstal and Gonvarri. The metal service center operates within the Kaluga automotive cluster since 2010. The plant has the annual capacity to produce 170,000 tons of rolled steel, which is supplied to Volkswagen Group Rus, PCMA Rus, Russia-based international automotive concerns Renault-Nissan, Hyundai-Kia, Ford, GM, etc. Acting as a link between rolled steel manufacturers and end consumers, Severstal-Gonvarri-Kaluga provides the entire spectrum of services associated with lengthwise and transverse rolled metal cutting and blank cutting for further metal processing.

SCHERDEL KALUGA LLC



Scherdel Kaluga is the youngest company in the German SCHERDEL Group. SCHERDEL currently owns 30 companies worldwide. The Kaluga plant has been manufacturing metal frames for automobile seats since 2010. Its main customer is Volkswagen Group Rus LLC. Scherdel's production and warehouse facilities are located on the territory of Elikor JSC in Kaluga, which paints some of Scherdel's products within the scope of the companies' production cooperation.



AIS AUTOMOTIVE INTERIOR SYSTEMS LLC

AIS Automotive Interior Systems GmbH is the Russian project of German AIS Group and an example of collaboration between investment and traditional enterprises. The project was launched in early August of 2013, when AIS Automotive Interior Systems GmbH signed an agreement to establish an automotive component manufacturing plant (pressurized plastic casting) on the territory of Aggregate Plant JSC in Lyudinovo. The Aggregate Plant leases out part of its production facilities, offices and amenities to AIS for its production of plastic parts for the automotive industry. AIS' key clients are Volkswagen, Mercedes-Benz, BMW, Ford, Toyota, Samsung. The amount invested in the project is US\$ 5 million.



MAHLE RUS LLC

Mahle Rus LLC is a production and warehouse complex owned by MAHLE Aftermarket that is part of the MAHLE concern – a global supplier of components and spare parts for motor vehicles. The complex was opened at Vorsino industrial park (75 km from Moscow on the Moscow-Kiev highway) in April 2014 and includes warehouses, offices, MAHLE's East European distribution branch, a technical support center and training facilities.

Today, Mahle Rus LLC supplies, distributes and promotes MAHLE Aftermarket products in Customs Union markets (Russia, Belarus and Kazakhstan) and provides post-sale and warranty services. From 2016, Russian consumers gained access to a new line of MAHLE products – MAHLE Letrika - that are supplied to clients in Russia by the company's Kaluga branch.



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TOYOTA TSUSHO RUS LLC



Toyota Tsusho RUS LLC is a subsidiary of Toyota Tsusho Corporation trading house (Japan) - part of the Toyota group of companies. The company's principal activities are supplies of equipment and equipment parts, components, etc. to Russian plants manufacturing popular car brands. The company has branches in four Russian cities: Moscow, St. Petersburg, Togliatti and Kaluga. Toyota Tsusho RUS LLC in Kaluga is a warehouse complex used for supply of automotive components (bumpers) from the Magna Technoplast JSC plant. The A-class office and warehouse complex is currently located on the territory of Elikor SC at Kaluga-South industrial park.

LITC-CCU

NON-PROFIT PARTNERSHIP KALUGA LASER INNOVATION TECHNOLOGICAL CENTER – CENTER FOR COLLECTIVE USE



LITC-CCU was established in 2008 as a non-profit partnership. The center operates in Obninsk, at the production complex of RASTER-technology LLC – a company that is the laser center's founder and strategic partner. The center's principal objective is to facilitate cooperation contributing to promotion of laser technologies and advanced laser equipment among enterprises of Kaluga's automotive cluster. The center operates high-end robotized laser equipment for 2D and 3D cutting and welding of metal and non-metal materials (including plastic), has mobile units for laser cladding and marking as well as analytical material research equipment.

HT&L FITTING RUS LLC

HT&L Fitting Rus LLC has been assembling automobile wheels since 2010. The Russian venture owned by Italian company HT&L Fitting supplies its products to Volkswagen Group Rus LLC, Peugeot Citroen Mitsubishi Automobiles Rus LLC and Volvo Vostok JSC.



BOSAL LLC



BOSAL is a group of companies with 4,900 employees, 29 production and 18 distribution centers worldwide. The company's headquarters are located in Lumen (Belgium). BOSAL operates on the Russian market since 1995. The sales office of the Russian branch is located in Moscow, and its exhaust system and tow bar warehouse – in Moscow Region. Bosal has a joint venture with GAZ operating in Nizhny Novgorod and a tow bar production plant in Novoorsk. Bosal's plant in Kaluga is based on premises leased from Kaluga Automotive Repair Plant JSC and manufactures original exhaust systems for Renault Logan, Duster Fluence and Megan (Avtoframos JSC). Two years ago, Bosal LLC began production of exhaust systems for Skoda Rapid (Volkswagen Group Rus LLC).



CONTITECH

ContiTech, a branch of Continental Kaluga LLC, was launched in 2014 next to the concern's tire plant. Since 2014, it manufactures air conditioning and power steering systems for the Russian automotive industry. The plant's production capacity is over 1.5 million units per year. Continental invested € 17 million in construction of the plant.



CONTINENTAL AUTOMOTIVE SYSTEMS RUS LLC

In 2009, Continental bought 100% shares in Kaluga's automotive electronics plant RPE AUTEL LLC specializing in manufacturing of components for electronic fuel supply and ignition systems of combustion engines. In 2011, the regional government and Continental Automotive Systems RUS LLC signed an agreement on reconstruction of the production facility. Continental's investment of € 24 million considerably improved the plant's production capacity. Since 2014, Continental Automotive Systems RUS manufactures up to 1 million engine control units, up to 500,000 fuel modules and 500,000 fuel ramp systems each year.



VOLVO COMPONENTS LLC

Volvo Components, a branch of Volvo Vostok JSC, operates since 2014 and is located next to Volvo's truck and excavator manufacturing plants. The design capacity of the plant is 15,000 cabins per year, including 10,000 – for Volvo Trucks and 5,000 – for Renault Trucks. The amount invested in the project was € 90 million. The production facility consists of three key sections – the warehouse, the line for welding of cabins from pre-formed elements and the cabin painting line. Cabins released from the conveyor are delivered to the final assembly line at the Volvo Group truck plant in Kaluga. This arrangement ensures the highest level of production cooperation between Volvo group's plants.



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KALUGA ELECTROMECHANICAL PLANT

ACHIEVEMENTS OF A CENTURY IN INDUSTRY

НАШ ЗАВОД НАША ГОРДОСТЬ

In August, Kaluga Electromechanical Plant officially celebrated its 100th anniversary.

The plant was established in 1917 on the basis of several workshops providing repairs for telegraph and telephone equipment. Kaluga Electromechanical Plant (KEMP) is the pioneer of Kaluga Region's instrument engineering industry. The plant specializes in manufacturing of specialized and civil communication equipment and consumer goods. Its products are supplied to regions throughout Russia as well as to neighboring countries.

Kaluga Electromechanical Plant is part of the Avtomatika concern and state corporation Rostech. It continues dynamic development, mastering new types of special and civil products and making a significant contribution to development of the country's military industrial complex.

The plant's achievements have repeatedly been honored by high state awards. Kaluga Electromechanical Plant currently employs around 1,400 people.



Boris MOVJTIAN,
General Director
KEMP JSC:

"We have achieved remarkable production volumes. They are currently valued at around 3 billion rubles per year. In 10 recent years, the figure increased 7-fold, and in 15 recent years –15-fold. This provides us with stability in development and allows us to implement new investment projects. One of our ambitious but surmountable objectives is to achieve a production level of 5 billion rubles per year. The plant is a part of the region's modern industrial complex with strong competitive positions. There's not a single sector at the plant today that wouldn't have new advanced equipment".

1,400
people

currently work
at the plant



KEMP GROWTH STRATEGY

DEVELOPMENT OF NEW DIRECTIONS

Intellectual mechatronic systems:

- Customers – manufacturers of ventilations and lifts, pumps, compressors and other equipment. The plant continues to increase production volumes and expand the range of manufactured systems.

Fiscal accumulator and derivative products:

- Component for all modern cash registers. The fiscal accumulator is responsible for transmission of information from the cash register to tax authorities.

ERA-GLONASS system and derivative products:

- KEMP specialists use the ERA-GLONASS infrastructure to develop information security products.

TECHNICAL MODERNIZATION

Today, KEMP is a modern enterprise capable of solving any technological task. Just recently it was equipped with a gas power station. With a capacity of 2.4 MW, the station provides high economic efficiency, fast return of investments and elimination of power transmission losses. Commissioning of the station to full capacity will save the plant up to 30 million rubles per year.

Boris MOVTIAN, General Director, KEMP JSC:

"I am certain that we will begin manufacturing new products this year. It is strategically important to apply knowledge and experience acquired in execution of state defense commissions in our work with the civil sector".



THE CENTURY-OLD PLANT IS GETTING YOUNGER

In recent years, the average age of the plant's staff reduced to 45. More than a third of the employees are young specialists aged under 35. The company supports both experienced specialists with many decades of tenure and young promising employees.



The plant closely collaborates with the leading national technical universities and participates in innovation project competitions. Thus, KEMP's participation in the Development Projects program of the Industrial Development Fund secured financing for its project for development of new types of electric drives.

KEMP also received funding from the Bortnik Foundation for Assistance to Small Innovative Enterprises in Science and Technology to implement an innovation project within the scope of the Cooperation program for development of a model range of frequency converters integrated into a hardware and software complex for use in a future range of intellectual engines. The project is focused on development of a mechatronic system that will achieve technical characteristics typical for products of leading western countries and be superior to them by virtue of low production cost and cost of integration into user technological processes.

Within the scope of its efforts to master new industrial approaches, the plant recently established an R&D department tasked with development of an efficient system for interaction between KEMP's design and technological staff and advanced innovation and technology centers, small innovation enterprises and IT-clusters. This approach allowed it to quickly develop a solution for integration into the system of secure fiscal data exchange and to initiate work on a concept for data security in vehicles. These and other projects are intended to increase the company's revenues in the civil segment.

Boris MOVTIAN, General Director, KEMP JSC:

"We engage students from the Kaluga Branch of the Bauman MSTU. They start working at the plant in the third year of studies. We have good relations with the city's colleges as well – specifically, the Electronic Instruments College. KEMP provides its resources for program development in professions that deserve special attention, with some of the disciplines taught by our employees".





Versailles health and beauty center has opened a cosmetology department headed by cosmetologist, dermatologist and venereologist Marina Momotiuk. We offer a wide range of services:

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KALUGA REGION TOPS THE RATING OF SOCIO-POLITICAL STABILITY IN RUSSIAN REGIONS



Kaluga Region was included in the list of regions with maximum stability, gaining the first place in the Petersburg Politics foundation rating. In June 2017, the region improved its grade by 0.1 for a total of 8.3. The level of socio-political stability in regions of the Russian Federation is evaluated using a 10-grade scale.

Factors contributing to the positive expert decision include a number of events of significance for Kaluga Region:

- signing of an agreement on development of a polymer processing cluster in Kaluga Region by Governor Anatoly Artamonov, SIBUR Managing Director Alexey Kozlov, Karl Schmidt Spedition GmbH & Co CEO Horst Schmidt and Freight Village Kaluga CEO Nikolay Kruchinin at SPIEF-2017;
- signing of an agreement on intent to expand production facilities of the company's branch at Vorsino industrial park between Nestle Purina Pet Care and the region's government;
- signing of a cooperation agreement between the region's government and the Russian Export Center;
- opening of the Palladio BNM plant for manufacturing of packaging for pharmaceutical and cosmetic products in Obrninsk;
- opening of a summer school for gifted children at the Kaluga State University;
- 5th place in the National Investment Climate Rating (Agency for Strategic Initiatives);
- 6th place in the innovation development rating (NRU HSE);
- 8th place in the rating of environmental and energy efficiency of regional businesses (Interfax-ERA);
- 14th place in the rating of region readiness for the future (NRU HSE).

THE BIGGEST COMPENSATIONS WILL BE PAID TO KALUGA REGION FOR CREATION AND DEVELOPMENT OF INDUSTRIAL PARKS

Russian Prime Minister Dmitry Medvedev signed a directive on allocation of 6.8 billion rubles of federal budget funds for compensation of costs associated with the creation of industrial and techno parks in 2017-2019.

Funding will be granted over three years: this year, nine Russian constituent subjects will receive 3.1 billion rubles, in 2018 – seven subjects will receive 2.6 billion rubles, and in 2019 – five subjects will receive 1.1 billion rubles.

According to the document, the biggest compensations will be paid to Kaluga Region for creation and development of industrial parks Vorsino (1.4 billion rubles in 2017) and Rosva (636 million rubles in 2018).

Budget allocations are established for 2017 and the 2018 and 2019 planning period.

Funding plans for 2017-2019 are based on regional forecasts of quarterly tax and customs duty payments incoming to the federal budget from residents of industrial and techno parks.



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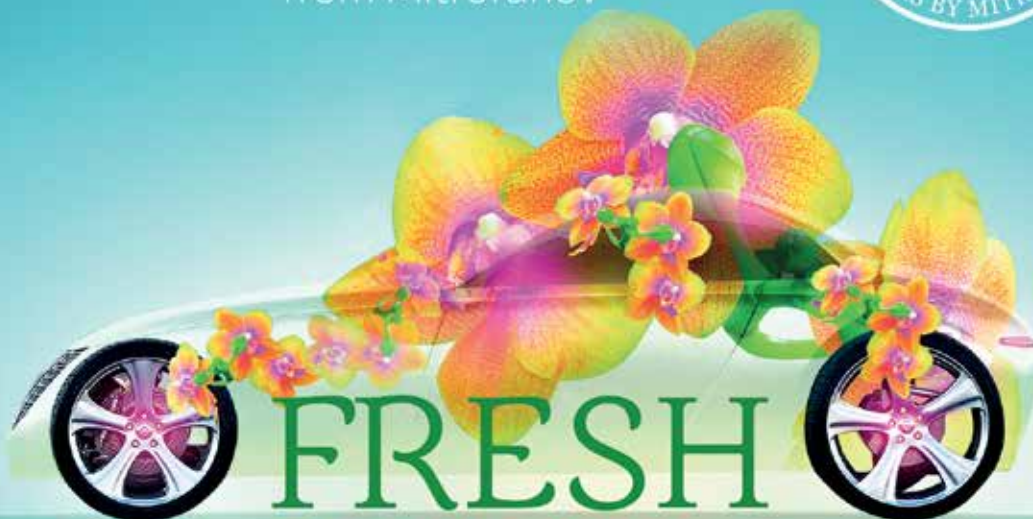
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