

**NATIONAL
RATING
AGENCY**

**Magadan Oblast's
Investment Potential**
(Regional Analysis Report, February 2015)

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MAGADAN OBLAST'S INVESTMENT POTENTIAL

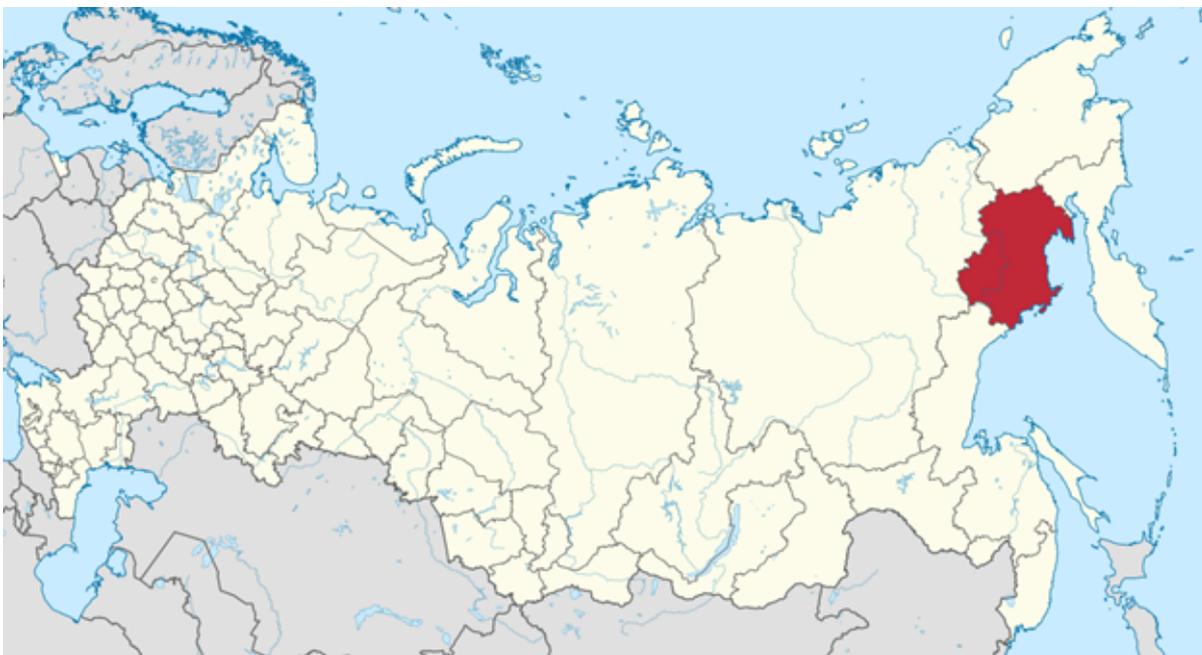
FEBRUARY 2015



General Information

Magadan Oblast is a federal subject (constituent entity) of Russia, located in the north-east of the Far Eastern Federal District. Magadan Oblast was established on December 3, 1953. Until 1992, the region included Chukotka Autonomous Okrug. The Oblast's administrative, social and economic center is the city of Magadan, which has over 67% of the region's population and is home to many large organizations. Magadan is 7,110 km away from Moscow.

Magadan Oblast on the Russian Federation map:



Источник: <http://ru.wikipedia.org>

Magadan Oblast covers an area of around 462,500 sq. km¹, which makes it the 11th largest region of Russia. At the same time, the Oblast is one of the most sparsely populated places in the country (population density was 0.33 people per 1 km² as of January 1, 2014). It stretches 930 km from north to south and 960 km from west to east. Geographically, it is part of Russia's Extreme North-East, a land-locked area characterized by a severe climate. The Oblast is washed by the Sea of Okhotsk. Land boundaries are in thinly populated mountainous areas. The Oblast borders with Khabarovsk Krai in the west, Sakha Republic (Yakutia) in the north-west, Chukotka Autonomous Okrug in the north-east, and with Kamchatka Krai in the south-east. In Magadan Oblast, one can single out the following natural zones: high-mountain rocky, barren terrains and tundra, sparse larch forests and taiga. The coastal areas are strongly influenced by the Sea of Okhotsk. Average temperatures in the Oblast range from -27 °C in January to +12 °C in July.

¹ According to the State Real Estate Cadastre Authority for Magadan Oblast.

Annual mean precipitation is 20 mm in January and 60 mm in July. The coastal regions have a moderate maritime climate with winter temperatures rarely falling below -40°C and summer temperatures staying within $+20^{\circ}\text{C}$, while the central regions have a subarctic continental climate with temperatures sometimes as low as -60°C in winter and above $+30^{\circ}\text{C}$ in summer.

The Oblast had a population of 150,300 people as of January 1, 2014, according to the regional statistical authority Magadanstat. The proportion of urban population exceeds 95.3%. The city of Magadan has over 101 thousand inhabitants (including the populated areas, subordinated to the city). This means that around 67.2% of the Oblast population is concentrated in the administrative center. The administrative and municipal division of Magadan Oblast is the following: six districts, two urban okrugs, one town subordinate to a district, 24 urban-type settlements and 59 rural settlements.

Districts and district centers

Name of district/ urban okrug (UO)	Population of the district ² ('000 people)	District center	Distance from the district center to Magadan ³ , km
Ola District	10.1	Ola (UTS)	35
Omsukchan UO	5.4	Omsukchan (UTS)	576
North-Evensk District	2.3	Evensk (UTS)	535
Srednekansk UO	2.7	Seimchan (UTS)	493
Susuman District	8.1	Susuman (town)	635
Tenkinsky District	4.7	Ust-Omchug (UTS)	264
Khasynsky District	7.3	Palatka (UTS)	82
Yagodnoe District	8.7	Yagodnoe(UTS)	528

UTS – urban-type settlement.

Source: Magadanstat, Government of Magadan Oblast.

² As of Jan. 1, 2014.

³ In the case of Evensk UTS, the shortest distance between the two points (air route);, in other cases, the distance covered by land transport is shown.

Economy

In December 2014, NRA published its second annual Investment Attractiveness Rating of Russian Regions⁴, developed based on NRA's non-interactive assessment methodology. The 80 Russian regions were divided into three main categories and nine sub-categories by their investment attractiveness.

Falling into the "high investment attractiveness" category (Groups IC1, IC2 и IC3) were 19 federal subjects, three of which, i.e. Sakhalin Oblast (IC2), Khabarovsk Krai (IC3) and Magadan Oblast (IC3) are parts of the Far Eastern Federal District (FEFD).

Magadan Oblast, rated IC3, is one of the three FEFD regions with "high investment attractiveness". Its rating has been reaffirmed for the second year in a row. Factors supporting the Oblast's rating include natural resource endowment, favourable investment climate and intensified efforts to attract foreign investors (primarily from Asia). At the same time, NRA notes heightening investment risks against a backdrop of volatile precious metal prices.

The economy of Magadan Oblast is based on the production and processing of natural resources. The most important industry is mining of precious metals. The deposits of gold and silver in the region are exploited both by major Russian mining companies (Polyus Zoloto, Polymetal et al.) and by local enterprises (Susumanzoloto, Berelekh et al.). Mining makes a substantial contribution to the gross regional product (GRP) and accounts for around one-half of the total fixed capital investment.

In addition to precious metals, Magadan Oblast produces coal, which is presently used for heat and power generation within the region. Additional amounts of energy are available from hydropower potential of the River Kolyma: one hydroelectric project (Kolyma Hydropower Station) is in operation, another (Ust-Srednekansk Hydroelectric Plant) is under construction. There also seem to be opportunities for oil and natural gas production. Magadan shelf in the Sea of Okhotsk is believed to hold oil and gas reserved (1.3 billion metric tonnes and 1.2 billion cu. m respectively). Russia's largest oil company Rosneft is planning to complete drilling of the first exploration well in the area in 2016.

Mineral resources

Magadan Oblast is among the 10 richest regions regarding mineral resources in Russia. North-Eastern Complex Research Institute of the Far-Eastern Division of Russian Academy of Sciences estimates the oblast's mineral reserves, in value terms, at RUB124.6 trillion, including RUB51.9 trillion of hydrocarbons, RUB14.8 trillion of gold and silver, RUB33.7 trillion of coal and RUB13.3 trillion of iron ore. Since the beginning of Magadan Oblast's reserve development, there have been extracted around 3,000 t (metric tonnes)

⁴ The Investment Attractiveness Rating of Russian Regions // National Rating Agency:
<http://www.ra-national.ru/ratings/regions/regions-raiting-investment/>

of gold, more than 8,000 t of silver, 72,200 t of tin, more than 82 Mt (million metric tonnes) of coal, 744 t of cobalt and 2,270 t of lead. Mining accounts for around 80% of the Oblast's total industrial output and is expected to retain its key economic role in the foreseeable future. In 2014, regional mining companies produced 24 t of gold and over 900 t of silver — more than any other region in Russia. Magadan “traditional” mining products, such as gold (from both hardrock and placer deposits) and silver are especially in demand nowadays. Coal, some construction materials, underground and surface water, mineral water and high-mineralization muds are produced and consumed locally. The Oblast has prospected reserves of coal and lignite, tin, tungsten, lead, zinc, construction materials and sweet and mineral water. Magadan Oblast's economic prospects would become more favourable with the expansion of the list of mined minerals and fundamental diversification of the resource base, including the development of offshore oil and gas deposits.

Water and marine resources

Fishery represents an important part of the Magadan economy. The Sea of Okhotsk is distinguished by its high biological productivity. It hosts around 20% of Russia's total fishing resources and various marine animal species of high commercial value. In addition to marine resources, the Oblast has abundant freshwater flora and fauna. The ichthyofauna in the Sea of Okhotsk contains around 300 species. Crab, shrimp and squid are abundant. Seals are found all over the basin, especially in ice-covered areas.

Fishing industry is one of Magadan's key industries. Its products are traded both within Russia and in the international market, particularly in China, Korea and Japan. Fifteen commercially important species, including walleye Pollock, herring, crab, shrimp, gadoids, flatfish, halibut, capelin and salmon, represent up to 95% of the regional fisheries' total catch. Commercial salmon farming is a priority line of the regional fishing industry development. Farms on the River Tauy and River Yana are to be reconstructed in the near term with a view to increasing farmed salmon population. Three more farms are expected to be built under a Public Private Partnership arrangement.

The Oblast has 24,600 lakes with a total area of 2,000 sq. km, including five large lakes with an area of more than 10 sq. km. There are more than 200,000 rivers with a total length of around 380,000 km. The drainage density is 0.87 km/ sq. km. The largest river is the Kolyma, which is navigable in its lower part, beginning from Ust-Srednekan. Rivers and brooks up to 10 km in length represent 97% of the total drainage system. Most of the rivers (71%) belong to the River Kolyma basin, and the rest 29% — to the Sea of Okhotsk basin.

The Oblast's water endowment is 301,000 cu. meters of water moving through 1 sq. km in 1 year. Magadan Oblast is one of Russia's richest regions in terms of the volume of river water per capita (757,000 cu. meters, which is 25x the national average) and there is no such problem as local water shortages. Statistically, the maximum requirement

in fresh water from surface water bodies is around 0.1% of the Oblast's total water resources. 98.9% of people have access to high-quality potable water. Magadan Oblast's water basins are used to generate power, mine for minerals, breed fish and supply water for household needs.

Land use and forest resources

As of beginning of 2014, Magadan Oblast's total land area was 46,246,400 ha (hectares), including 121,500 ha (0.3% of the total area) of agricultural lands, 28,461,700 ha (61.5%) of forests, 5,292,900 ha (11.4%) of surface water, and 12,370,300 ha (26.7%) of "other" lands. Deer grazing lands covered 18,572,700 ha (40.2%). Permafrost has a great impact on flora type and species composition. Soils are poorly suited for agricultural use. Traditional agricultural production is only developed in mountain valleys with their special microclimate. A large part of lands became suitable for agriculture after reclamation works.

According to the Forest Inventory Authority, Magadan's forest-covered area totaled 44.6 million ha (96.6% of the total area) as of January 1, 2014. This figure is a constant and changes only when parts of forest-covered lands are converted into industrial or other special-purpose lands. The forest cover is 37.6% with conifers dominating the overstory (15%; 6,749,000 ha, including 6,748,500 ha under larch trees) and outcompeting deciduous species (0.5%; 211,400 ha).

Total wood reserves are around 427.7 million cu.m, including 257.8 million cu.m of coniferous and 22.3 million cu.m of deciduous timber stand. The poor species diversity of the tree and shrub population and the low "wood per hectare" indicator are due to the Oblast's climate, terrain and soils. These features plus the fact that the rated wood cutting area is just 93,500 cu.m, prohibit the development of a timber processing complex in the region.

Annual timber harvesting across all felling types is around 45,000 cu.m, with firewood accounting for 60%. Harvesting is done by different enterprises, self-employed persons and local people. Timber, including that processed at sawmills, is consumed locally and is not traded outside the Oblast.

Labour resources

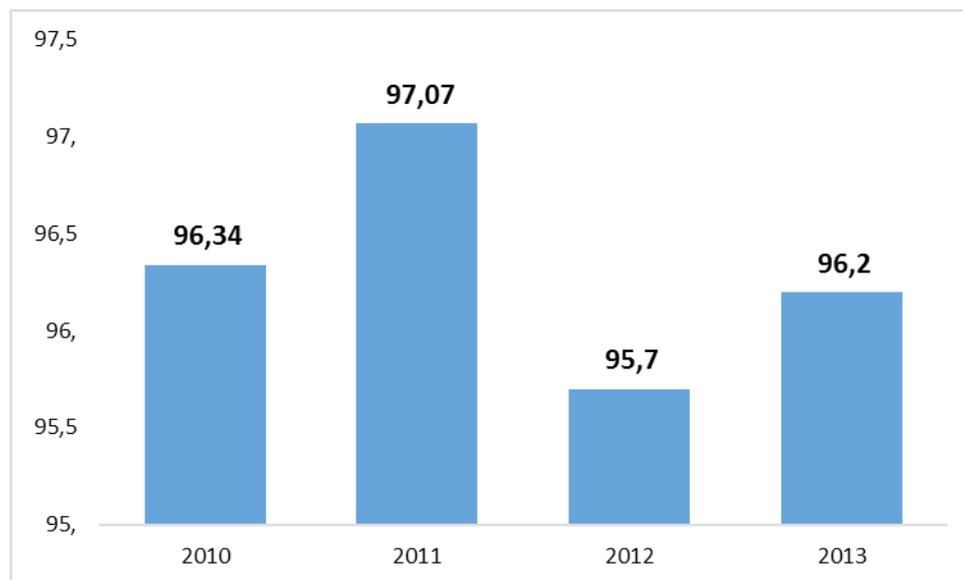
At the beginning of 2014, Magadan Oblast had a population of around 150,300 people (ranking 83rd among 85 federal subjects of Russia). The Oblast's population has considerably decreased over the past 25 years. In 1989, Magadan Oblast (excluding Chukotka Autonomous Okrug, which was part of it at that time) had around 392,000 people. According to the 2002 and 2010 censuses, the population fell to 182,700 and less than 157,000 people respectively.

This trend was mainly caused by the population outflow to other Russian regions and

foreign countries. The most intense emigration was recorded in the 1990-ties, when the Oblast's population decreased more than 2x on the back of deteriorating economic situation. Currently, this problem is still unsolved, despite the slowing down of the emigration-provoked population loss rate. According of Magadanstat, a small natural population increase in 2012 (+97 people) was more than offset by emigration (-2,143 people). As a result, the net population decrease was 2,046 people.

Despite the total population decrease, the share of inhabitants employed in various sectors of the regional economy remained fairly stable. In 2010-2013, the annual average number of the employed varied from 95,700 to 97,100 people. At the same time, the unemployment problem is not too severe. According to Russian Federal Statistics Service (Rosstat), the unemployment rate in Magadan Oblast was 2.9% in 2013, making the Oblast one of the healthiest Russian regions in this respect. The Oblast's another competitive advantage is a relatively high workforce quality: in 2013, every third person employed in Magadan economy (33.2% of the total number of the employed had a higher education diploma.

Annual average number of the employed ('000 people)



Source: Unified Intersectoral Monitoring System.

The administration places much importance to the Oblast's socioeconomic development. A new demographic policy has been adopted to overcome the unfavourable demographic trends in 2013-2020. The policy implementation plan calls for measures to reduce mortality (including working-age mortality), improve working conditions, labour safety, reduce maternal and infant mortality rates, increase the birth rate and improve access to innovative medical care.

The Oblast pays additional social benefits, such as “Maternal Capital”– a reward for mothers who gave birth to more than one child, as well as monthly childcare benefits to parents raising their third and every subsequent child (younger than 3 years of age).

There are also regional programmes aimed to improve living conditions for young families and for families raising four and more children younger than 18 years of age.

To reduce the turnover of qualified personnel, additional benefits have been established encouraging young specialists to keep working in the Oblast's districts. There is also a practice by which the Oblast pays for the education of young people finishing local secondary schools and provides for their further employment within the Oblast.

The resettlement of people from settlements with chronic unemployment and no economic prospects to new locations (e.g. the city of Magadan and other conveniently planned places) and the encouragement of intraregional migration are being considered as additional instruments of the regional social and demographic policy. Major mining companies are using mechanisms encouraging their shift workers to work within the region.

Regional infrastructure

Currently, specialists make a distinction between «hard» infrastructure (referring to transport, energy, residential and other physical networks and services) and «soft» infrastructure (referring to the provision of services in areas such as finance, investment, information etc.). «Hard» infrastructure is Magadan Oblast's sore point. The city of Magadan has an international airport and commercial sea port, and there are several smaller local airports in remote municipalities. Magadan Airport is under reconstruction, which includes architectural enhancements and renovation of operational restrooms and business spaces. Expected to be completed by 2018, the renovation will enhance the security and improve quality of passenger services. There are also plans to renovate local airports, namely, in Seimchan (2015), North-Evensk (2016) and Omsukchan (2017). Cargo handling capacity of Magadan Commercial Sea Port is expected to increase at least 2x-2.5x after the wharfs reconstruction and overhaul.

Magadan Oblast has no railways, while the density of hard-surface roads is one of the lowest in Russia (5.2 km of roads per 10,000 sq.km in 2013, according to Rosstat). Only 19.4% of existing roadways have an advanced covering (concrete, asphaltic concrete, broken stone or gravel).

The underdeveloped road and transportation infrastructure can be viewed as a weakness, diminishing the Oblast's attractiveness to investors. For instance, the managers of Eastern Mining Company say that their project to mine and export Osmukchan anthracite is being held back by the absence of necessary transport infrastructure⁵. The federal government is expected to co-finance this project by allocating funds for the construction and upgrading of a road from Osmukchan to the Pyestraya Dresva Bay. Several other regional road construction projects are in the pipeline. They include the upgrading of

⁵ Eastern Mining Company's presentation at the First Russian-Chinese EXPO (2014): <http://magfer.ru/prezentaciya-xarbin-2014>.

the Palatka — Kulu-Neksikan road and construction of the Kolyma — Osmukchan — Omolon — Anadyr motorway.

Magadan Oblast's energy system is isolated and has no technological links with Russia's integrated power system. Kolyma Hydroelectric Plant (five units with a total power of 900 MW provides around 95% of total power generation. One of the Oblast's energy sector priorities is the completion of Ust-Srednekansk Hydroelectric Plant (HEP), that would help achieve a safer energy supply and cover the winter-time electricity shortages. It would also allow to cut down energy tariffs by 15-20% and reduce the amount of fuel procured for the regional thermal power-stations. After the commissioning of Ust-Srednekansk HEP and new high-voltage transmission lines (now under construction or expected to be constructed), Russia's Extreme North-East will get its own power grid, covering Magadan Oblast, Chukotka Autonomous Okrug and Sakha (Yakutia) Republic and supplying the region with relatively cheap electricity. This would foster the construction of new mining capacities and development of new deposits and thereby drive the economic growth of the region. For instance, with Ust-Srednekansk HEP and power transmission infrastructure in place, it would be possible to continue the phase-by-phase development of gold and silver deposits within the Yana-Kolyma gold-bearing province.

Magadan Oblast has a fairly well developed finance infrastructure. According to the Central Bank of the Russian Federation (CBR), the Oblast ranked 2nd among Russian regions by the number of banks per capita. Most of the banks are located in the city of Magadan. The region's capital hosts the offices and branches of 16 banks, including those of Russia's largest state-owned banks (Sberbank, VTB, VTB 24 and Rosselkhozbank).

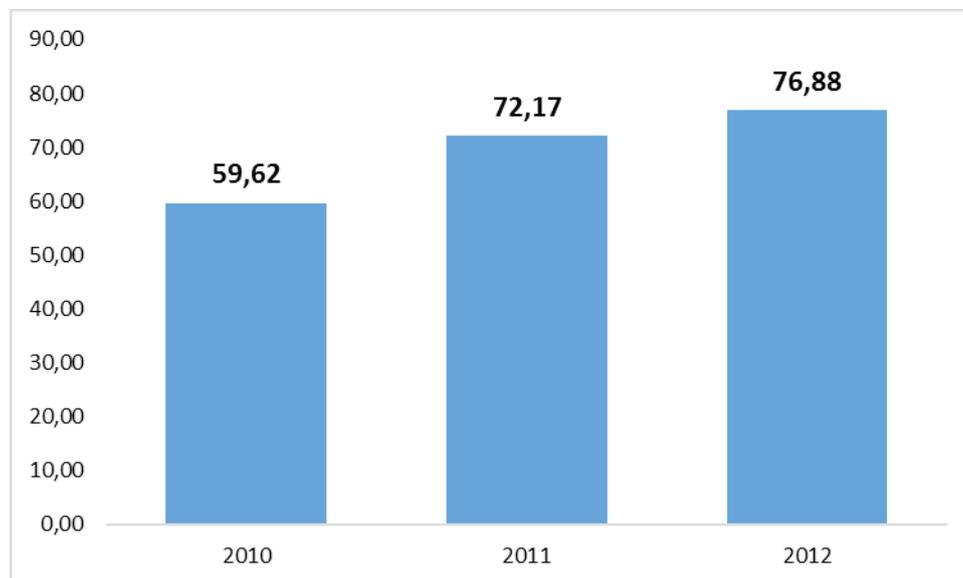
The investment infrastructure is represented by state executive authorities responsible for the investment policy implementation and the Investment Climate Improvement Council. Other parts of the investment infrastructure elements are the Magadan Business Incubator and Magadan Regional Fund for Entrepreneurship Promotion. The mission of these institutes is to foster the development of small and mid-sized enterprises (SMEs) in the region.

Production potential

Historically, Magadan Oblast has a one-industry-skewed economy, dominated by mining (primarily precious metal production). The health of the mining industry is determined both by the related sectors' condition and the general socioeconomic situation in the region. At the same time, the mining industry prospects depend on the level of development of sectors of economy, such as energy, transport, telecommunications and construction. For example, the expansion of gold production at the potentially lucrative Natalkinskoe deposit is impossible without additional energy supply, which, hopefully will be provided after the commissioning of Ust-Srednekansk HEP.

The Oblast's GRP keeps growing year-on-year due the mining industry increasing output.

Magadan Oblast's GRP in base prices (billion of rubles)



Source: Unified Intersectoral Monitoring System, Magadanstat

Magadan Oblast has one of the highest GRP per capita among the Russian regions. According to Rosstat, its GRD per capita was around RUB501,070 in 2012 (10th best result among Russia's 83 regions). By preliminary estimates, years 2013-2014 continued to see the GRP growth in both absolute and per capita terms.

Historically, the Oblast's economy is centered on mining and power generation. These industries contribute up to 95% to the region's total industrial output every year, produce approximately one-third of the gross added value, provide employment to around 18% of the population and take up to 67% of total investment. This is why any changes in these industries have a pronounce effect on the region's economy.

Sectoral breakdown of Magadan Oblast's gross added value in 2012 (percent of the total)

Mining	18.7
Public administration and ensuring of military security	16.3
Wholesale and retail sale; repair of cars, motorbikes, household appliances and articles of personal use	14.2
Generation and distribution of energy, gas and water	8.7
Medical care and social services	7.2
Construction	6.7
Transport and telecommunications	6.1
Real estate operations, lease and related services	5.8
Education	5.0
Fishing and fish farming	3.1
Manufacturing industries	2.8

Other municipal, social and personal services	2.0
Agriculture, hunting and forestry	1.9
Hotels and restaurants	1.1
Financial activities	0.4

Source: *Magadanstat*

The largest companies of Magadan Oblast represent two sectors: mining (gold, silver and coal) and energy (heat and electricity) generation and distribution

Magadan Oblast's largest companies

 <p>РусГидро</p> <p>KolymaEnergo OJSC</p>	<p>Business Profile: KolymaEnergo OJSC is the largest power generating company in Russia's Extreme North. It accounts for 95% of total power generation in the region. Currently, KolymaEnergo is the flagman company of Magadan's Central Energy Generation Hub. The company's subsidiaries have been awarded contracts for the Ust-Srednekansk HEP construction.</p> <p>Electricity from the launch facility at Ust-Srednekansk HEP is expected to power mining operations at Natalkinskoy gold deposit (one of the largest in Russia by gold reserves) — an important investment project envisaged by the regional socioeconomic development programme.</p>
<p>Susumanzoloto OJSC</p>	<p>Business Profile: Susumanzoloto OJSC is a divisionalised gold mining company, which is a leading producer of placer gold in the Kolyma area. It does not belong to any interregional groups. Its divisions operate an entire gold production cycle from field exploration to extraction and recovery of gold at the company's own facilities.</p>
 <p>Magadan Silver CJSC (Dukat Hub)</p>	<p>Business Profile: Dukat Hub is the 3rd largest silver producer in the world. A flagman of Polymetal Group, it operates Russia's largest silver mine. The Dukat hub was established in 2008 through a merger of Dukat Ore-Processing Enterprise with neighbouring Lunnoe Gold Refinery. The hub comprises Osmukchan Gold-Extraction Plant (GEP), which processes ore from Lunnoe and Arylakh gold deposits, as well as concentrate from the Osmukchan GEP. Polymetal Group is carrying out several supplementary exploration projects in the same area with a view to expanding the hub's reserve base.</p>
<p>Omolon Gold Mining Company LLC (Omolon Hub)</p>	<p>Business Profile: Established in 2009, Omolon Hub currently includes four operating pits and several prospects that host potentially sizable deposits of high-grade gold suitable for open-cut mining. The deposits are located around the Kubaka refinery (850,000 tpa) in the north-eastern part of Magadan Oblast. The refinery is fully equipped for operation in a remote location. Its output is quite high (up to 220,000 ounces of gold equivalent per annum). Currently, the company has five exploration projects designed to expand the processing hub's reserve base.</p>
 <p>Matrosov Mine OJSC</p>	<p>Business Profile: Located 400 km away from the port of Magadan, Natalkinskoe deposit is a large gold deposit suitable for open-cut mining. It is the largest gold deposit in Russia and 3rd largest in the world. The deposit is situated in Tenkinsky District, Magadan Oblast, in the basin of the Omchak River, between the Geologichesky and Glukhar brooks (459 km from the city of Magadan). The mining facility is currently under construction. The reserves (proven and probable) total 59.7 million ounces. Polyus Gold Mining Company CJSC, the 100% owner of Matrosov Mine OJSC, is wholly owned by Polyus Gold OJSC.</p>

BerelekhMining Company

Business Profile: The company was founded in 1997 in the course of reorganization of Berelekh Ore-Processing Enterprise, one of the oldest in Magadan Oblast's mining industry. Berelekh subsidiaries mine gold in Susuman, Yagodnoe and Khasynsky districts by selective open-cut mining and have systemic importance for remote areas of the Kolyma basin.



Pavlik OJSC

Business Profile: In 2007, Arlan started the development of the Pavlik gold deposit in Magadan Oblast. A processing plant (3 million tpa) was launched nearby in 2015. The company is planning to complete the preliminary survey of the Rodionovskoe deposit, Magadan Oblast, and produce at least 60-70 t of gold in 2015. Construction of a plant to process gold from the Rodionovskoe is scheduled for 2016. Additionally, the company carries out the exploration of the Utinskoe deposit.



ВОСТОЧНАЯ
ГОРНОРУДНАЯ
КОМПАНИЯ

**North-Eastern Coal
Company LLC**

Business Profile: NECC is a major regional company, which is currently engaged in the exploration and assessment of Omsukchan coal field. NECC has been carrying out geological prospecting and coal quality analysis works on six licensed areas within Omsukchan. According to the survey, at least 100 Mt of coal are suitable for open-cut mining. In the future, the reserve base can be expanded by including new parts of the field, including those to be mined by deep mining methods. Investments into the field exploration are already exceeded RUB1 million. It has been established that Omsukchan coal field hosts high-grade anthracites.

Sources: web-sites and annual reports of companies; *The Dalnevostochny Kapital* (monthly magazine).

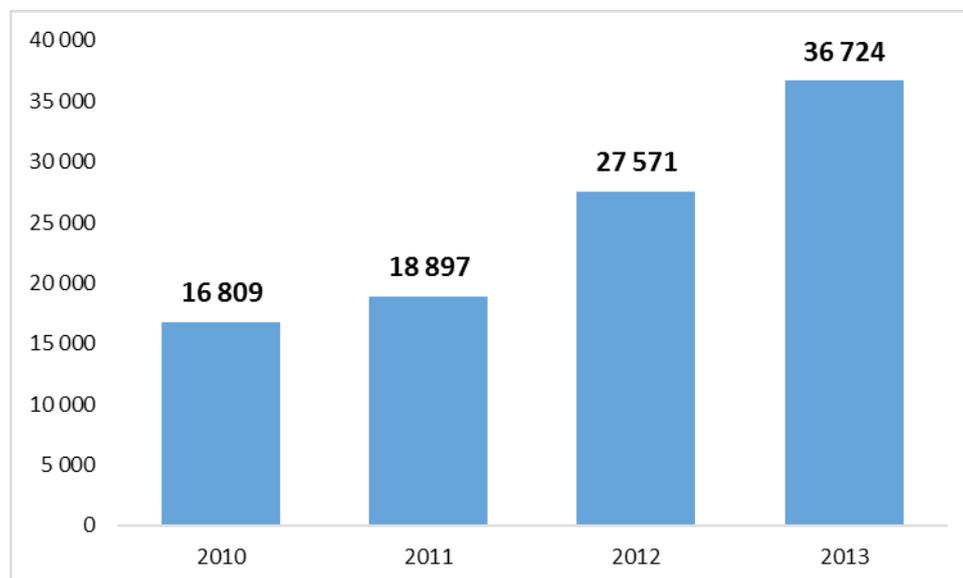
Investment Activity in the Region

Key statistical measures that enable us to describe the investment activity in a region are the fixed capital investment (FCI) and foreign direct investment (FDI). Magadan Oblast, with several large mining and energy projects underway, is one of the leaders by FCI. Most of the investment projects are carried out by Russian companies, so the level of foreign investment inflow is relatively low.

Fixed capital investment

In the past few years, the physical amount of FCI in Magadan Oblast was on a growth path: the increase for 2011-2013 was 68%. This positive trend continued in 2014, despite the unfavourable macroeconomic situation in Russia. The investment in Magadan Oblast in January-November 2014 totaled RUB28.4 billion, or 107% compared to the same period of 2013.

Fixed capital investment in Magadan Oblast in prices actual for the respective period (RUB million)



Source: *Magadanstat*

Magadan Oblast is one of the leading Russian regions in terms of investment activity per capita. In 2013, the Oblast's FCI per capita was RUB212,580 – greater than the national average (RUB92,370) and Far Eastern Federal District average (RUB130,540). Within FEFD, Magadan Oblast ranked second after Sakhalin Oblast.

Ranking of FEFD regions by fixed capital investment per capita (2013)

Rank	Region	FCI per capita, RUB
1	Sakhalin Oblast	341,510
2	Magadan Oblast	212,583
3	Chukotka Autonomous Okrug	205,637
4	Republic of Sakha (Yakutia)	202,947
5	Amur Oblast	142,283
6	Khabarovsk Krai	102,142
7	Kamchatka Krai	101,832
8	Jewish Autonomous Region	66,635
9	Maritime Krai	58,209

Source: *Rosstat, Unified Intersectoral Monitoring System.*

Mining, the key contributor to Magadan's GRP, received a lion's part of total investment (50.9%). Large amounts are invested in the energy sector (24.4%). Other sectors receive from 0.1% to 11% of total investment. Investment projects are funded primarily with debt finance. In 2013, debt finance accounted for 74.3% of total FCI (RUB36.7 billion) and consisted mainly of third-party loans (43.0% of the total). Own funds represented

18.3% of the investment mix.

The investment distribution across the Oblast's municipalities is also associated with large mining and energy sector projects. For instance, Tenkinsky District, that hosts several large regional mining projects, including Natalkinskoe and Pavlik gold deposits, receives the greatest part of total FCI (22.7%).

Srednekansk District, where Ust-Srednekansk HEP is being constructed, accounts for around 15.5% of total investment. The city of Magadan, which is the fastest growing municipality in the Oblast, attracts approximately 20.4% of total investment. Other municipalities receive from 1.85% to 11.4% of total FCI.

Distribution of fixed capital investment among the municipalities of Magadan Oblast⁶

Rank	Municipality	Fixed capital investment in 2013 ('000 rubles)	Share of total investment in the Oblast, %
1	Tenkinsky Municipal District	5 125 092	22,69%
2	City of Magadan	4,605,999	20.40
3	Srednekansk Municipal District	3,505,480	15.52
4	Ola Municipal District	3,346,939	14.82
5	Omsukchan Municipal District	2,582,260	11.43
6	Yagodnoe Municipal District	1,074,195	4.76
7	Khasynsky Municipal District	1,036,882	4.59
8	North-Evensk Municipal District	889,101	3.94
9	Susuman Municipal District	416,743	1.85

Source: Rosstat's Municipal Records Database.

A substantial part of funds is channeled to development projects, such as the development of natural resources and construction of hydroelectric plants and roads. Their successful implementation may have a multiplicable effect on the Oblast's economy.

Foreign investment

In 2013, the region received US\$11.3 million of foreign investment (in the form of direct investment).

All FDI obtained in 2013 were channeled to mining projects, which is typical for the region: in 2012 and 2011, the mining industry accounted for 99.5 and 100% respectively of total foreign investment.

FDI come from countries, such as Cyprus, the British Virgin Islands, Ireland and China. As the members of the Oblast government say, quite fairly, part of these funds is actually

⁶ Fixed capital investment by entities domiciled in a respective municipality (excluding small businesses) in January-December 2013 ('000 rubles).

reinvestment of Russian capital into Russia⁷. Cyprus and the British Virgin Islands are major hubs that host entities acting as “holding” companies for a number of Russian companies.

Foreign investment inflow in Magadan Oblast, by investing country (US\$ million)

Country	2010	2011	2012	2013
U.S.A.	0.3	0	0	0
Cyprus	0	258.4	60.6	5.9
China	0	0.2	0.4	0
Ireland	0	10.9	17.8	0.3
British Virgin Islands	0	0	0	5.1
Total foreign investment	0.3	269.5	78.8	11.3

Source: Rosstat

In its 2013 analytical report ‘Foreign Direct Investment In Russia: The Regional Aspect’, National Rating Agency ranked Magadan Oblast as 65th among 83 Russian regions by FDI per capita (excluding inward foreign investment from offshore jurisdictions)⁸.

Foreign direct investment in Magadan Oblast, according to the Central Bank of Russia (US\$ million)

	2011	2012	2013	1H 2014
Foreign direct investment	297	27	761	35

Source: <http://www.cbr.ru/statistics/>

Today, there are reasons to believe that the inflow of foreign investment in Magadan Oblast will be increasing. A high level of interest in the region’s mining sector is shown by Chinese investors. For instance, the mining companies Yugo-Zapadnaya LLC and Yuzhnaya LLC are developing Senon and Serebryanoe gold and silver deposits, Utro antimony and silver deposit, and are engaged in hard rock gold mining at Barkhalinskoe ore field. Tien He LLC is mining complex ore at Kunarevsky advanced development site. RusKit Group has been granted a license for the Kegali gold and silver bearing deposit. Therefore, one can expect an increase in inward FDI from China.

The Oblast is strengthening its investment and trade links not only with China; its investor relations work focuses on attracting potential investors from South Korea and Japan. Some of the many forums attended by the region’s representatives in 2013²⁰¹⁴ are listed below.

Magadan Oblast took part in the 6th Russian-Korean Business Dialogue, held in Seoul in November 2014. The parties discussed cooperation in the areas of innovation and

⁷ Vladimir Pecheny, the Governor of Magadan Oblast: Magadan Oblast To Reach An Investment Breakthrough// The Dalnevostochny Kapital, July 2014.

⁸ Foreign Direct Investment In Russia: The Regional Aspect// National Rating Agency: <http://ra-national.ru/analytics/?year=2014&area=5>

information technology transfer, SMEs, energy sector and the development of region-level ties. The Magadan delegation made a presentation on the Oblast's investment potential.

In March 2014, Magadan Oblast's representatives attended the 6th Russian-Japanese Investment Forum, which focused on new opportunities for Russian-Japanese cooperation in the investment area and took part in round table discussions about cooperation in the energy area. They also met with the management of Kawasaki Heavy Industries, Ltd, which plans to build a liquid hydrogen plant in Magadan Oblast, and discussed the project's organizational and technical aspects. The project is now in the detailed planning stage.

In the period from June 29 to July 2, 2014, Magadan Oblast delegation, headed by the governor, took part in the First Russian-Chinese EXPO in Harbin (the EXPO) and introduced an exposition with presentation of the Oblast's investment opportunities. In addition, presentations on the Oblast's investment potential and mining projects were made as part of "Russian Regions' Days" session.

The First International Investment Fair, arranged by the Magadan Oblast Government, Magadan mayor's office and Magadan Regional Fund for Entrepreneurship Promotion, took place in Magadan on July 18, 2014. The event was attended representatives of different Russian regions and foreign countries (China and Latvia). The Magadan Investment Fair provided a platform for interested parties to interact and exchange ideas regarding the investment process. As an outcome of the event, the project to create a Coal Cluster in Omsukchan District was proposed to be included in the list of separate areas of advanced development within Russia's Far East. In addition, an agreement on cooperation in the development of the Yana-Kolyma gold-bearing province was signed with Sakha Republic. The Second International Investment Fair is to be held in Magadan on July 16, 2015. Russia's Ministry for the Development of the Russian Far East (Minvostokrazvitiya) has already included it in the 2015 plan of measures for the promotion of investment in the Far East.

Members of the Sub-Committee of the Association of North East Asia Regional Governments (NEAR) met in Magadan on July 19, 2014 to discuss the issues of mining regulation. The meeting was attended by the Secretariat delegation headed by NEAR Secretary General. The Russian side was represented by members of the business community.

On Dec. 9, 2014, Magadan Oblast delegation headed by the governor took part in the Russian-Korean forum Welcome to the Far East, held in Seoul. The government made a presentation about the Oblast's investment opportunities.

Magadan Oblast plays a full part in the activities of international organizations, such as:

- Association of North East Asia Regional Governments (NEAR);
- Sub-Committee for the Far East and Siberia of the Russian-Korean Joint Committee for Economic, Scientific and Technological Cooperation;
- Sub-Committee for Regional Cooperation of the Intergovernmental Commission for Trade-Economic and Scientific- Technological Cooperation Between the Russian Federation and the Korean People's Democratic Republic;
- Russian-American Pacific Partnership (RAPP).

Key Investment Projects

Magadan Oblast's investment base includes *several dozens* of various economic and social development projects. Most of them are carried out by private investors. Only few are implemented by regional and local governments and state-owned companies and corporations. Detailed information about the Oblast's investment projects can be found in "Investment Projects of the Magadan Region" (Magadan, Okhotnik Publishers). An electronic version of the book is available at Magadan Oblast government's web-site: http://magfer.ru/files/Invest_MagReg_2014.pdf

Mining

- Project: Construction of a mining and ore-processing facility at Nataalkinskoe gold deposit

Initiated by: Matrosov Mine OJSC

Purpose: mining operations (gold)

Cost: RUB54,000 million

Schedule time: 2010-2015

Estimated capacity: up to 40Mt (million metric tonnes) of ore per annum.

- Project: Construction of a 3Mtpa mining and processing facility at Pavlik gold ore deposit

Initiated by: Pavlik Gold Mining Company OJSC

Purpose: mining operations (gold)

Cost: RUB12,134.6 million

Schedule time: 2009-2015

Reserve base: expected reserves — 200t of gold; potential reserves — up to 300-500t of gold.

- Project: Geological examination and development of Senon and Serebryanoe silver/gold ore deposits, Utro antimony/ silver deposit, and hard rock gold deposit in the

south-eastern part of Barkhalinskoe ore field.

Initiated by: Yuzhnaya Mining Company LLC

Purpose: mining operations (antimony, silver and gold)

Cost: RUB431.5 million has been invested in 2012-2014.

Schedule time: 2012-2036.

Category P1 reserves of silver and gold at Senon and Serebryanoe projects: gold — 2.4 t, silver — 620 t.

Category P1 reserves of antimony and silver at Utro: silver — 620 t, antimony — 50,000t.

Hardrock gold category P2 reserves in the south-eastern part of Barkhalinskoe ore field: 15t.

- Project: Construction of a Coal Cluster in Omsukchan District, Magadan Oblast

Initiated by: North-Eastern Coal Company CJSC

Purpose: integration improvement for a more effective use of Magadan Oblast's mineral reserve base.

Cost: RUB27,000.0 million.

Schedule time: 2014-2036.

Established reserves: no less than 100Mt of coal (expected production: at least 3Mta at the initial stage).

- Project: Geological examination, exploration and production of oil and gas on Magadan shelf in the Sea of Okhotsk

Initiated by: RN-Shelf-Far-East CJSC

Purpose: Geological examination, prospecting for and production of oil and gas

Cost: RUB46,150.0 million.

Schedule time: 2014-2025.

Total hydrocarbon reserve potential: 4.9 billion tonnes.

Energy Sector

- Project: Construction of Ust-Srednekansk HEP

Initiated by: Government of Magadan Oblast and Ust-SrednekanGESstroy OJSC

Purpose: Ensure power supply security and self-sufficiency; provide new enterprises mining for gold and other precious metals with electricity at a reasonable price.

Cost: RUB42.4 million.

Schedule time: 1991-2018

Rated capacity: 570MW

Transport Infrastructure

- Project: Palatka — Kulu-Neksikan road

Initiated by: Government of Magadan Oblast

Purpose: Make the deposits within the Yana-Kolyma gold-bearing province accessible by land transport. Cost: RUB737.13 million.

Schedule time: 2008-2018

Road length: 474km

- Project: construction of the Kolyma — Osmukchan — Omolon — Anadyr road within Magadan Oblast

Initiated by: Government of Magadan Oblast

Purpose: Make remote areas of Chukotka Autonomous Okrug and Magadan Oblast, as well as potential lucrative new mining projects accessible by land transport.

Cost: RUB2,083.2 million.

Schedule time: 2014-2018

Road length: 572km

Agriculture and Fishing Industry

- Project: construction of four salmon farms in Magadan Oblast

Initiated by: Government of Magadan Oblast

Purpose: Increase salmon population, job creation

Cost: RUB1,196.5 million.

Schedule time: 2015-2020

Each farm's capacity: hatcheries to release at least 20 million young salmon a year

- Project: construction of Magadansky Agro-Industrial Park

Initiated by: Government of Magadan Oblast and Magadan Regional Fund for Entrepreneurship Promotion.

Purpose: Ensure food supply security, promote swine breeding and vegetable growing.

Cost: to be determined after inviting a tender for conducting an engineering survey.

Schedule time: 2014-2019

Total area: 42 ha

Pig farm capacity: 12,000 commercial pigs.

Investment Climate

Magadan Oblast works a lot to create a favourable investment climate. It has adopted the top 15 investment practices comprising the Regional Investment Standard. On the one hand, these practices unify the “rules of the game” throughout the country, on the other, they help adopt mechanisms that have been implemented effectively elsewhere, and facilitate a more close interaction between the authorities and the business community. The result of such interaction is the formation of an effective business support infrastructure, which includes the Chamber of Commerce and Industry and the Fund for Entrepreneurship Promotion. Magadan Oblast has its own “Mini-Business Incubator”, a joint project of the regional division of OPORA ROSSII (“Russia’s Support”) national SME association, the Oblast Government and Magadan mayor’s office. Investors can directly link to the Oblast administration to fix their problems. Unified standing orders for administering investment projects are in place, which require the use of a single window facilitation mechanism; the Law On the Investment Policy of Magadan Oblast provides certain guarantees to investors; a tender procedure for selecting investment projects eligible for state guarantees has been established. Magadan Oblast’s Law #1795-03 (dated Oct. 20, 2014) On Measures to Fulfill Certain Provisions of Chapter 3.3 of the Russian Federation Tax Code specifies additional requirements for a regional investment project and documents proving its compliance with these additional requirements. It also establishes a procedure for including an entity into the register of participants in regional investment activities (or denying such registration) and a procedure for making changes in the investment declaration that are not related to the terms of project implementation. By its Resolution #968-pp (dated Nov. 20, 2014) On the Authority Deciding Whether to Include an Entity into the Register of Participants in Regional Investment Projects the Oblast’s Government appointed the regional Ministry of Economic Development, Investment Policy and Innovations as the decision-making authority.

Compliance with the Regional Investment Standard is a basic minimum with regard to creation of a favourable investment climate in the region. The Russian regions are adopting Regional Investment Standard simultaneously. In theory, the introduction of the best investment climate improvement practices should smooth the differences between regions with similar economic models and encourage competition for foreign investment. In this context, it is particularly important to use additional mechanisms for investor attraction and support, that go beyond the Standard. Magadan Oblast’s important competitive advantage is its hosting of a special economic zone (SEZ), whose term was recently extended until the end of 2025. According to new SEZ regulations, tax privileges within a SEZ may apply to companies mining for precious metals. This enhances the attractiveness of Magadan’s key economic sector.

Investment policy documents

The Investment Declaration of Magadan Oblast, approved by the governor on Feb. 3, 2014 (Resolution #15-p) specifies the favourable investment climate maintenance principles. They are: the equality of the participants in the investment process, their involvement in the decisions concerning their investment, transparency (that is, reasonable accessibility of information necessary for the participants in the investment process), the authorities' commitment to using the most effective forms of interaction with investors.

The Investment Strategy for Magadan Oblast up to 2025, approved by the regional government's resolution #186-pp, dated Mar. 6, 2014, sets out the following key principles underpinning a favourable investment climate:

- Competitive system of investment activity support by the government
- Reduction of investment risks
- Development of the investment potential
- Creation of Magadan Oblast's positive investment image
- Investment activity development

Magadan Oblast's 2014-2020 Programme of Economic Development and Innovation (approved by the Oblast Government's Resolution #1146-pa, dated Nov. 20, 2013, should facilitate the achievement of the Investment Strategy's targets. The Programme outlines a number of measures to support investment and improve the Oblast's investment climate. These measures are currently taken under the Magadan Oblast's SME Sector Promotion sub-programme and the Favourable Investment Environment Roadmap 2014/2020.

To establish an effective dialogue with the business community and improve the transparency and effectiveness of its policies and regulations in respect of entrepreneurship, the Oblast has developed a framework for regulatory impact evaluation. Business people can take part in the discussion of a legal document or regulation via the Magadan Oblast Government's official website (the "Regulatory Impact Assessment" section)⁹.

Entities in charge of investor relations

Under Magadan Oblast's institutional framework, the Investment Policy Department of the Ministry of Economic Development, Magadan Regional Fund for Entrepreneurship Promotion, regional Special Economic Zone Administration, the governor-controlled Investment Climate Improvement Council, and sectoral investment environment

⁹ Regulatory Impact Assessment // Magadan Oblast Government: <http://www.magadan.ru/ru/oiv/2-44-10/ORV/NormDoc.html>

improvement work groups are in charge of investor support. The Oblast Government's Resolution #18-pp of Jan. 9, 2014 puts the regional Ministry of Economic Development, Investment Policy and Innovations (MEDUPI) in charge of promoting investment inflow and handling investor relations. The MEDUPI's terms of reference include:

- Initiation, development and adjustment of proposals on the part of the Government's proposals concerning investment destinations and amounts
- Maintenance of the investment project catalogue
- Consideration of complaints, proposals or requests coming from investors (corporates and individuals)
- Investment project support using the single window mechanism
- Presentations at conferences, exhibitions and other public events informing the business community about Magadan Oblast's investment opportunities
- Communication of Magadan Oblast's interests in Public Private Partnership arrangements
- Interaction with investment and venture funds, banks, foreign state-controlled investment agencies, specialized financial institutions, as well as Russian and international development institutions with a view to enlisting their cooperation and financial support in promoting inward investment to the Oblast
- Promotion of work groups to support and carry out investment projects before they have reached full capacity or been completed/ commissioned
- Working out of measures to develop external economic ties with a view to attracting foreign investment
- Taking steps to ensure the development of external economic ties
- Reception of foreign delegations in the Oblast
- Preparation of promotional materials and arrangement of official visits of the Oblast's representatives to fairs, exhibitions, festivals and other events aimed at enhancing the Oblast's attractiveness to investors.

The Special Economic Zone

Since 1999, Magadan has been the center of a Special Economic Zone. Federal Law #104-FZ of May 31, 1999 *On the Special Economic Zone in Magadan Oblast defines SEZ as a "territory within the City of Magadan administrative borders, where, in accordance with this Federal Law, business activities are subject to special legal regulations and free customs zone procedures are used"*.

The creation of a special economic zone in Magadan Oblast was motivated by the desire to accelerate the region's socio-economic development by alleviating the businesses' tax and customs burden. From the time of SEZ establishment till the end of 2006, companies

residing in the SEZ were exempt from taxes payable to the federal budget. Later the rules were changed: from Jan. 1, 2007 till Dec. 31, 2014, tax concessions for residents of the SEZ only extended to parts of their profit invested in social and production-oriented projects within Magadan Oblast. Given the region's remoteness from manufacturing centers, a favourable customs treatment was established in the SEZ to promote consumer goods supply at reasonable prices. This enabled importers to bring in goods without paying customs duties and taxes, which are otherwise payable on foreign merchandise.

In 2014, Magadan's SEZ had 156 participants, although in the early 2000-ies, this number was much greater (more than 400 enterprises). The outflow of the SEZ residents peaked in 2007 following the abolition of federal tax benefits. In 2014, 63 SEZ participants used the privileges provided under the special legal treatment. In 2014, 60 SEZ participants (39% of the total number) were carrying out foreign trade activities under the free customs zone regime.

Federal Law #423-FZ On Changes to the Federal Law 'On the Special Economic Zone in Magadan Oblast', signed by Russia's President on Dec. 23, 2014, *extended the term of the Special Economic Zone in Magadan Oblast until Dec. 31, 2025*. The aims of the SEZ include: increased investment, increased and improved production facilities and energy and transport infrastructure, better-developed financial and goods markets.

Federal Law #423-FZ has set up new criteria for granting the Magadan Oblast SEZ resident status and established the procedures for signing and terminating the agreement for activities in the Special Economic Zone.

According to the new version of the Federal Law, to be granted the SEZ resident status, an applicant must meet the following requirements:

1. Be registered in accordance with the Russian law in the municipality, where the SEZ is located;
2. Be registered with tax authorities
3. Carry out its core business within Magadan Oblast;
4. Have an at least 75% interest (based on the right of ownership or any other real right) in fixed assets located within Magadan Oblast;
5. Submit a business plan that describes its investment project to be implemented under the agreement for activities in the SEZ (the Business Plan), prepared in accordance with the Federal Law;
6. Do not engage in banking or insurance business, do not act as a securities firm (or broker).

In addition, the Law imposes certain sectoral restrictions: an entity may not qualify for

the SEZ resident status, if its business activity is attributable to one of the following sectors:

1. Oil and natural gas production; oil and gas drilling, equipment and services
2. Production and processing of excisable goods (excluding cars and motorbikes)
3. Wholesale and retail trade
4. Consumer and personal services
5. Production and maintenance of armaments, defense and special-purpose technology.

The rules of taxation of the SEZ residents are given in Federal Law #423-FZ in the form of reference to another document; draft law *On Changes to Parts I and II of the Russian Federation Tax Code in Connection with Changes to the Federal Law 'On the Special Economic Zone in Magadan Oblast'* is currently examined by the State Duma of the Russian Federation Federal Council and is expected to be adopted on the nearest future.

The fundamental change in the eligibility criteria for a favourable tax treatment within the Magadan Oblast's SEC is the abolition of the Government's Resolution #648 dated Aug. 20, 2000, which previously limited the access to such treatment to mining, fishing and aviation companies.

Additional tax benefits

Additional tax benefits for entities carrying out regional investment projects within FEFD, Trans-Baikal Krai, Republic of Buryatia and Irkutsk Oblast came into force in Jan. 1, 2014. This included the reduction of the part of the Profit Tax payable to the federal government. There were also changes affecting the rate of the Mineral Extraction Tax (namely the use of step-down ratios on minerals extracted from certain mining locations).

According to a decree of the Russian Federation Government, Magadan Oblast is included in the list of regions where "territorial development zones" (TDZs) may be created. The residents of such TDZs are also subject to favourable tax treatment.

In addition to preferences established by the federal law, investors operating in Magadan Oblast are eligible to tax benefits provided by the regional law. The Oblast has adopted the Law *On the Investment Policy*, intended to simplify the investment process through the use of the single window mechanism, which increases the efficiency through time savings for investors in their dealings with government authorities. Investors can directly link to the Oblast administration to fix their problems. Steps have been taken to streamline land allocation procedures and shorten time needed for obtaining construction work permits.

The Oblast uses tax incentives, such as the Corporate Property Tax concessions (provided for by Magadan Oblast Law #382-OZ issued Nov. 20, 2013), Transport Tax concessions

(Magadan Oblast Law #291-OZ dated Nov. 28, 2002), Corporate Profit Tax privileges (Magadan Oblast Law #1664-OZ dated Nov. 28, 2013 *On the Corporate Profit Tax New Rate for Entities Engaged in Regional Investment Projects within Magadan Oblast*), namely, Corporate Profit Tax holidays to investors for the first five years of operation and a rate of 10% for the next five years.

Magadan Oblast's Law #1795-03 dated Oct. 20, 2014 *On Measures to Fulfill Certain Provisions of Chapter 3.3 of the Russian Federation Tax Code* specifies additional requirements for a regional investment project and documents proving its compliance with these additional requirements. It also establishes a procedure for including an entity into the register of participants in regional investment activities (or denying such registration) and a procedure for making changes in the investment declaration that are not related to the terms of project implementation. By its Decree #968-pp (dated Nov. 20, 2014) *On the Authority in Charge of Entering an Entity in the Register of Participants in Regional Investment Projects* the Oblast's Government appointed the regional Ministry of Economic Development, Investment Policy and Innovations as the decision-making authority.

Around 2,000 entities are using the tax benefits provided in accordance with the Oblast's current laws. The total annual amount of tax concessions reaches around RUB450 million.

SME sector promotion infrastructure

In addition to its efforts to attract major investors, the Oblast is taking comprehensive measures to promote the SME sector.

The regional SME support strategy is premised on a system of interrelated institutions that would support businesses and elements of the "soft" business infrastructure. The leading part in this system would be played by Magadan Regional Fund for Entrepreneurship Promotion (MRFEP), a non-profit organization established under Magadan Oblast administration's decree for the purpose of promoting small and medium-sized enterprises' growth in Magadan Oblast in accordance with Federal Law *On the Development of Small and Medium-Sized Enterprises in the Russian Federation*. MRFEP's founder is Magadan Oblast Committee for State Property Management, acting on behalf of Magadan Oblast.

Both the number of SMEs obtaining government support via the MRFEP and total amount of support are growing every year: there were 176 recipients of support (RUB115.3 million) in 2013 compared with 92 (RUB69.1 million) in 2012.

In September 2014, National Rating Agency affirmed its national scale 'A-' credit rating

on MRFEP. The Agency's media release¹⁰ stated that the rating affirmation was based on MRFEP's important social role in its home region and a high propensity of support from the Government of Magadan Oblast. MRFEP's credit risks are low due to the good quality of the loan guarantee portfolio (the risk of default for loan guarantees was within 1% of the loan guarantee reserve). NRA also views as positive that MRFEP can issue guarantees without delay and that its guarantee approval decisions are controlled by the regional government.

According to the Top-rf.ru agency, Magadan Oblast is Russia's number five and FEFD's number two region, as measured by entrepreneurial activity (Memo: registered self-employed persons represent 7.3% of the Oblast's workforce).

The city of Magadan has a business incubator. Since its opening in 2011, it has graduated six entities and self-employed persons and is currently providing training to two entities and one individual. Magadan has a business incubator is lagging behind its regional peers in terms of activity, which is partly due to the Oblast's economic structure, dominated by large and mid-sized industrial companies. However, it is possible to attract clients from locally important sectors (cleaning, laundry, sewing and other personal services, etc.). Another possibility is the business incubator's cooperation with a higher educational — a practice successfully introduced in a number of Russian regions.

Investor Guidelines

In accordance with Magadan Oblast's Law #1681-OZ of Dec. 27, 2013 *On the Investment Policy of Magadan Oblast*, the Oblast's investment policy is based on the following principles:

- Transparency and accessibility of information necessary for making investment decisions to all participants in the investment process;
- Formalization and openness of the procedures for providing support to participants in the investment process;
- Non-interference in the activities of the participants in the investment process;
- Stability of the rights of the participants in the investment process;
- Magadan Oblast Government's terms of reference in the investment policy area include the following:
- developing, approving and implementing inter-municipal investment projects and regional projects involving state property, that are financed by the Oblast;

¹⁰ Credit Rating of Magadan Regional Fund for Entrepreneurship Promotion NPO Affirmed At 'A-' // National Rating Agency: <http://ra-national.ru/press-center/pressreleases/3309>

- conducting public examination of investment projects in compliance with the laws of the Russian Federation and Magadan Oblast;
- tender-based selection of regional investment projects eligible for state guarantees, provided by the Oblast, in accordance with the budget law;
- approving the procedure for investment project financing by the Oblast;
- developing comprehensive measures to attract investment into the Oblast in accordance with the Russian law;
- preparing a list of construction and technical re-equipment projects of public interest, to be financed by the Oblast using procedures set out by the Government of Magadan Oblast;
- tender (auction) based granting of concessions to Russian and foreign investors in accordance with the Russian law;
- issuance of bonds and guaranteed special-purpose loans;
- taking measures to involve temporarily suspended and abandoned construction projects owned by Magadan Oblast into the investment process; and
- taking measures to facilitate access to international markets for exporters participating in the investment process.

The Oblast Government's Resolution #18-pp of Jan. 9, 2014 *On Approval of the Regulations on the Ministry of Economic Development, Investment Policy and Innovations of Magadan Oblast* put MEDIPI in charge of the investment process in the region (see Appendix 2 for MEDIPI's contact information). Investors can contact MEDIPI for the following:

- Region's investment landscape inquiries and own investment proposals
- Possibility to obtain state guarantee for an investment project
- Possibility to obtain tax concessions for an investment project
- Procedure for obtaining information or organizational support using the single window facilitation mechanism.

The MEDIPI staff are ready to process investor inquiries and requests using the single window system (relevant procedures are developed and posted at <http://magfer.ru/>, click the 'Investor Support' button after selecting the 'For Investors' section on the website field.

The 'Frequently Asked Questions' section of the above website gives interested persons the ability to access information about the investment activities in Magadan Oblast.

The 'Contacts' section provides contact details of persons capable of assisting investors in making informed decisions.

Project initiators may have access to the following public services using the single window facilitation mechanism:

- a) investment project listing on the website portal;
- b) project examination at the expert council's meeting that may involve project initiator doing an in-person presentation;
- c) providing project initiator with information regarding available project support tools;
- d) project initiator's free training on how to use project support tools;
- e) investment project administration using a unified information system with a single project database, logging of all investor-authorities interactions; possibility to analyze financial performance and the effectiveness of investor-authorities interactions.

To get access to the above public services, project initiators should submit the following documents to MEDIPI: a free-form application, project profile form ("project passport"), brief business plan and financial performance indicators.

Project support, including financial support, is provided for by Magadan Oblast's Law #1681-OZ dated Dec. 27, 2013 *On the Investment Policy of Magadan Oblast* (see Appendix 1 for relevant provisions). The organization in charge of investment project support is Magadan Regional Fund for Entrepreneurship Promotion (see Appendix 2 for MRFEP contact information).

Entities interested in participating in the Special Economic Zone should follow the application procedure set out in Federal Law #104-FZ issued on May 31, 1999 *On the Special Economic Zone in Magadan Oblast* (adjusted and amended). Additional information on how to get SEZ registration and conduct business there can be obtained from the SEZ Administration (see Appendix 2 for MRFEP contact information).

The Region's Economic Prospects

Magadan Oblast has unique *endowments of natural resources*. It hosts large deposits of different minerals, some of which have been successfully developed for decades. Mining for gold and silver, the region's traditional industry, has a nationwide importance. The development of some other mineral resources — such as the offshore oil and gas — is at the inception stage. If the preparatory work is a success, the oil and gas industry may become a new driver of the Oblast's economic growth. The region's water and marine resources are quite significant. With coal mining remaining of local importance and commercial oil and gas development still far from getting started, *mining for gold and silver* retains its systemic importance for the region. Other industries largely play a subordinate role,

supporting the key sector. As a result, the region's economic development is heavily dependent on prices for precious metals and the financial condition of companies mining for gold and silver.

Another consequence of the Oblast's current economic model is that *investment flows are concentrated in a single (key) industry*. A significant part of inward investments are channeled to the mining sector. The region is home to subsidiaries of Russia's largest gold-mining companies. Asian investors show a consistently growing interest in Kolyma deposits, as evidenced by the cooperation agreements between the *Government of Magadan Oblast* and China-based companies. The mining sector is likely to remain the main attractor of both Russian and foreign investment in the near term.

At the same time, the authorities can take concrete steps towards the *Oblast's increased economic diversification* and other industries' greater attractiveness to investors. A step-by-step creation of a chain of production facilities capable of generating more added value would have provided a good impetus for the Oblast's economic growth. Currently, the main end product for the region is refined gold/ silver bullion. Logically, the production chain could be enhanced by starting jewellery manufacturing in the city of Magadan. Another diversification opportunity is the development of the local-consumption-oriented sectors, such as agriculture and food processing. This is important for ensuring food supply security and should proceed despite the obvious challenges (such as small local demand, remoteness from key markets and severe climate). The regional authorities should provide all-round assistance to entrepreneurs and investors engaged in socially important sectors of economy.

Infrastructure and institutional framework development should be among the main objectives of Magadan Oblast's investment policy. Actually, the both are on the region's Investment Strategy (2014) list of priorities.

Infrastructure development includes, primarily, the comprehensive measures to develop the "hard" infrastructure, namely, transport and energy networks. The both are vital for the region, which is part of Russia's Extreme North and is remote from the main federal and international motorways and trunk lines. The implementation of major precious metal and coal production projects is impossible without the construction of a transportation network, ensuring logistic support of mining and processing operations and linking them to large inter-regional transport hubs (the airport and seaport). Since both investors and regional authorities are interested in the transportation network development, it is reasonable to consider the implementation of road construction projects under a Public Private Partnership arrangement. Another important prerequisite to enhancing the region's production potential is the expansion of power generation capacities. The key energy project, Ust-Srednekansk HEP, is to be commissioned in the next few years.

Institutional development refers to the establishment of institutions and legal rules to regulate investment and business activities in the region. Currently, Magadan Oblast has an efficient investment process regulation system and all prerequisites for an effective interaction between businesses and regional authorities. Unified standing orders for administering investment projects have been developed, which require the use of a single window facilitation mechanism. The investment activity in the region is regulated by the federal law, Magadan Oblast's Law #1681-OZ of Dec. 27, 2013 *On the Investment Policy of Magadan Oblast*, and the region's other legal norms and regulations. The investment activity should be fostered by the adoption of the 15 top investment practices comprising the Regional Investment Standard (designed to improve the regional investment environment).

An important way to attract investment is the *investment promotion*. In 2014 alone, the administration of Magadan Oblast took part in a number of significant events attended by investors, which took part both within and outside of Russia. This work must be continued using all of the promotional channels available (economic forums, investment fairs, online resources, individual dialogue with potential investors). In this context, the authorities may enlist the assistance of investors with experience in executing projects in the Oblast. As we know from other regions' practice, a public disclosure of unbiased information about actual business experience may interest potential investors and enhance the effectiveness of the promotional exercise.

To improve Magadan Oblast's prospects, it is also desirable to adopt an *area-specific approach to developing its economy*. Five economic "growth points" have been identified within the region. Four of them already have basic resources with a significant commercial potential. Basic resources for the Western Area are the gold and silver deposits of the Yana-Kolyma gold-bearing province. The Eastern Area's growth potential is based on the deposits of the Omolon ore block. Evenk ore deposit and the Rassoshinsky placer deposit. Basic resources of the Northern Area include the Shamanikho-Stolbovsky placer deposits and Oroek metallogenic zone. The Southern Area is part of the Sea of Okhotsk, also known as Magadan Shelf, is believed to host large oil and gas reserves. Finally, the Magadan Central Area, including the capital city, is envisaged to be a system capable of actuating the growth of other areas, generating and attracting economic, production and management innovations, as well as coordinating the flows of goods and traffic.

At the same time, Federal Law #473-FZ On Areas of Priority Social and Economic Development (APSED), dated Dec. 29, 2014, provides for the creation of the "Omsukchan Coal Cluster" APSED in Omsukchan District. This includes (1) construction of coal mining and processing capacities and facilities for coal exporting to Asia-Pacific countries, (2) construction and upgrading of a road from Osmukchan to the Pyestraya Dresva Bay and (3) construction of a coal terminal on the Sea of Okhotst coast. The project's

anchor investor is North-Eastern Coal Company CJSC (NECC), founded by Magadan Silver (Polymetal) CJSC. NECC is licensed to develop the Arylakhsky, Galimovsjiy and Bular coal deposits in Omsukchan District. A number of local mining companies may be registered as APSED residents.

Magadan Oblast has an indisputable advantage of being a host to a special economic zone (SEZ), whose term was recently extended until the end of 2025. A relevant federal law, signed by the Russian President in late 2014, not only extended the term of the Magadan SEZ, but also enhanced its attractiveness to investors by introducing new tax privileges. Tax concessions are applicable to mining, fishing and aviation companies.

Historically, many urban-type and rural settlements in Magadan Oblast tended to be built around mining facilities. This has led to a situation in which *socio-demographic processes depend on economic conditions*. The production slump and plant shutdown in the 1990-ties caused immigration, which still continues, albeit at a much lower pace. This problem cannot be resolved without building new production capacities and job creation. Investors coming to the region can also take part in the rehabilitation of settlements and improvement of the social infrastructure. In this way, new investment projects may serve as a basis not only for growing the economy of the region, but also for improving the quality of its inhabitants' life. This will ultimately create the prerequisites for the population growth stabilization and overcoming of the negative demographic trends.

Appendices

Appendix 1. Key documents regulating the investment activity in Magadan Oblast

- Federal Law #104-FZ of May 31, 1999 On the Special Economic Zone in Magadan Oblast (with adjustments and additions)
URL: <http://base.garant.ru/12115795>
- Magadan Oblast's Law #1681-OZ of Dec. 27, 2013 On the Investment Policy of Magadan Oblast
URL: <http://magfer.ru/investicionnaya-politika/zakon-ob-investicionnoj-politike-v-magadanskoj-oblasti>
- Tax Legislation of Magadan Oblast (Magadan Oblast's Laws 'On the Simplified Taxation Scheme', 'On the Property Tax', 'On the Transport Tax', 'On the Patent-Based Taxation Scheme', Magadan Oblast's Tax#1795-OZ of Oct. 20, 2014 'On Measures to Fulfill Certain Provisions of Chapter 3.3 of the Russian Federation Tax Code', Magadan Oblast Government's Resolution #968-pp of Nov. 29, 2014 On the Authority in Charge of Entering an Entity in the Register of Participants in Regional Investment Projects)
URL: <http://magfer.ru/investoram/mery-podderzhki-investorov/>
- The Investment Declaration of Magadan Oblast, approved by Magadan Oblast Governor's Resolution #15-p of Feb. 3, 2014.
URL: <http://magfer.ru/investicionnaya-politika/investicionnaya-deklaraciya-magadanskoj-oblasti>
- The Investment Strategy of Magadan Oblast, approved by Magadan Oblast Government's Resolution #186-pp of Mar. 6, 2014.
URL: <http://magfer.ru/investicionnaya-strategiya-magadanskoj-oblasti>

Appendix 2. Magadan Oblast Authorities In Charge of Investor Relations

- **Magadan Oblast's investment web portal**

Investor information, including data on investment opportunities, can be found on Magadan Oblast's investment web portal at: www.magfer.ru

- **Magadan Oblast's Ministry of Economic Development, Investment Policy and Innovations**

Address: 6 Ul. Gorkogo, rooms 125, 121, 130, Magadan 85000, Russia working
hours: Monday to Thursday 09:00 - 17:30; lunch break: 12:30-14:00).

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- **Administration of the Special Economic Zone of Magadan Oblast**

Address: 14 Ul. Proletarskaya, Magadan 85000, Russia

Grebenyuk Sergey Nikolaevich – head of the SEZ Administration

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- **Magadan Regional Fund for Entrepreneurship Promotion**

Address: 14 Ul. Proletarskaya, Magadan 85000, Russia

Lipinsky Alexey Viktorovich – executive director of the MRFEP

Phones: +7 (4132) 60-98-28; e-mail: mrfsrp@maglan.ru <http://fondmagadan.ru>

- **Direct communication lines with the region's administration**

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