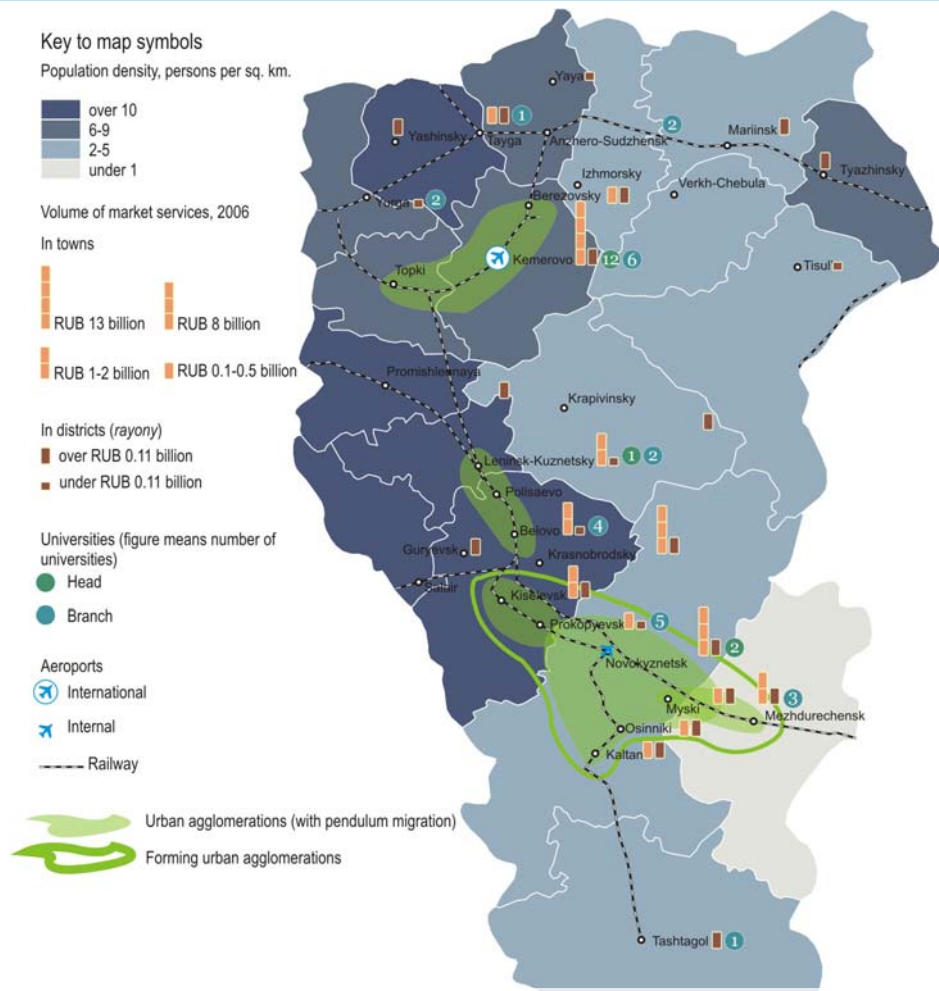


Kemerovo Oblast

Strategy for Socioeconomic Development to 2025

Centre for Strategic Research "North-West" Foundation
St Petersburg – Kemerovo
2007-2008





Located in the heart of Siberia

[5,000 km from Far East sea ports by rail and about 5,500 to 6,500 km from Baltic sea ports and Murmansk]

Population: 2,826.3 thousand people

[14.4% of the population of the Siberian Federal District and 2% of that of Russia]

Total area: 95,700 sq. km

[4% of Western Siberia and 0.56% of the Russian total area]

GRP: RUB 337,409.1 million in 2006

[1.3% of the Russian GDP; GRP per capita: RUB 119.1 thousand]

Specialisation: Industrial production (steel-making, power-generation and primary chemical products) and raw material (coal, iron ore) extraction

ACCORDING TO INVESTMENT POTENTIAL ANALYSIS, THE KEMEROVO OBLAST IS A REGION OF MEDIUM POTENTIAL AND MODERATE RISK

The Kemerovo Oblast was ranked first among Siberian regions and eleventh among Russian regions in 2006 by the volume of fixed capital investment

Foreign investment inflow in the Oblast's economy was worth USD 396.8 million in 2006

1 > Major Achievements by 2007

2. External Trends

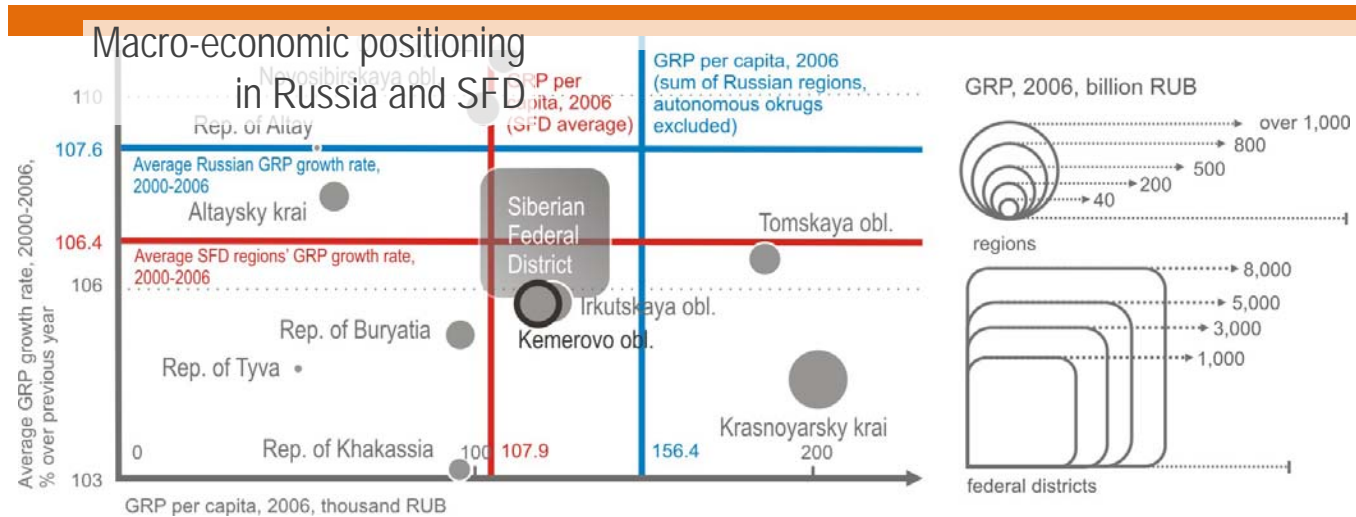
3. Main Challenges

4. Strategic Scenarios

5. Priority Areas

6. Key Projects and Expected Results

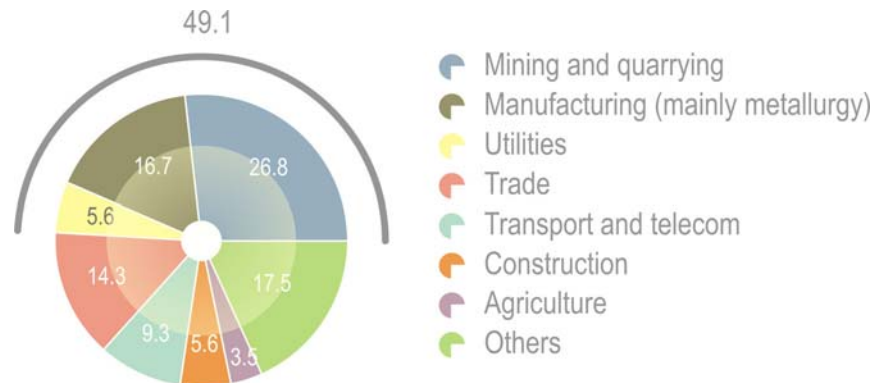
1.1 > THE KEMEROVO OBLAST IS ONE OF THE MOST DEVELOPED SIBERIAN REGIONS



1.2 > INDUSTRY IS THE LEADING SECTOR OF REGIONAL ECONOMY

Industrial production provided a 49.1% share of GRP in 2006, which is far beyond that of the Siberian Federal District and the Russian Federation

Gross regional product structure, % (2005)



1.3 > MAJOR INDUSTRIES MOSTLY CREATED BY THE MIDDLE OF THE 20th CENTURY

The region provides 56% of the coal mined in Russia (76% of coking coal included), produces 14% of steel, 14% of rolled ferrous metal, 53% of ferrosilicon, 80% of trunk rail tracks and 100% of tram-rails in the Russian Federation.

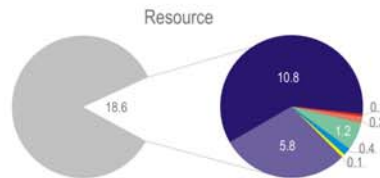
Current economic specialisation of the region is expected to be maintained in the longer term: in 2006, mining operations accounted for 48% of fixed capital investment, while the share of processing factories amounted to 22%. The total volume of fixed capital investment grew 5.2-fold in 2000-2006

Kemerovo is a national champion in coal proved reserves and mining

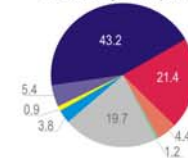
Major coal basins in Russia

Distribution of resources, reserves and coal production by coal basin (%)

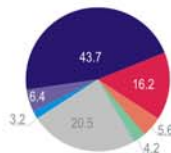
- East Donbass coal basin
- Moscow coal basin
- Pechora coal basin
- Kuznetsk coal basin
- Kansk-Achinsky coal basin
- Irkutsk coal basin
- South-Yakutsk coal basin
- Others



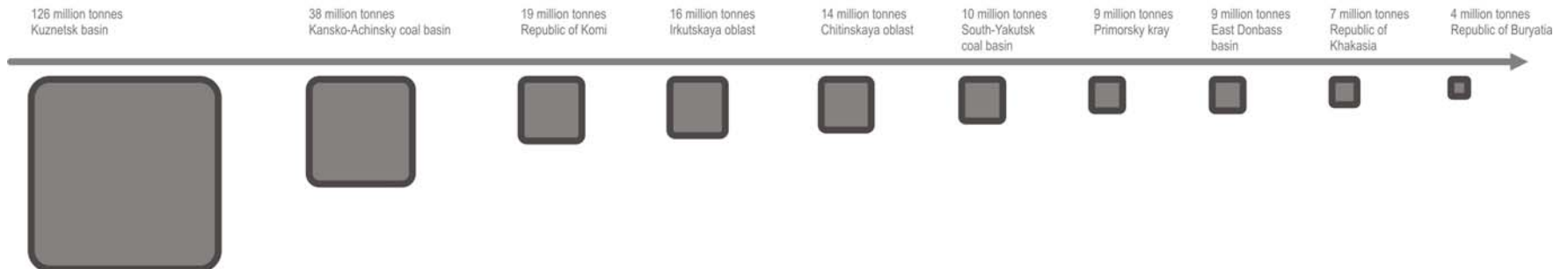
Discovered reserves of existing enterprises



Coal production



Coal production, 2001 (10 leading regions)



1.4 > REGIONAL ECONOMY IS HEAVILY EXPORT-ORIENTED

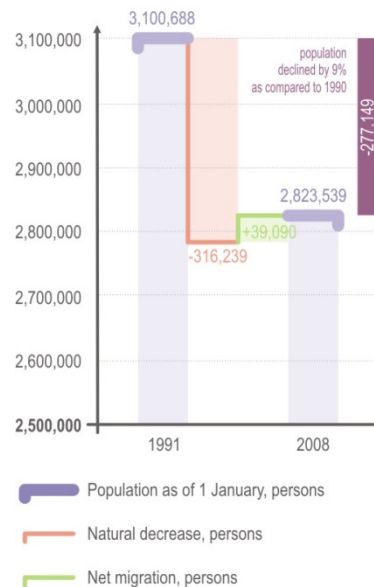
Exports account for over 43% of coal production and 34.1% of steel production.

Major industrial sectors benefit from high demand for major raw materials both on global and Russian markets

1.5 > THE OBLAST IS FACING AN OVERALL TREND TOWARDS POPULATION SHRINKAGE AND AGEING

Decrease in population in the 1990s-2000s

Population decline in the Kemerovo oblast, 1990-2007, persons



Source: Centre for Strategic Research "North-West" based on Russian Federal State Statistics Service data

1. Major Achievements by 2007
- 2 > External Trends**
3. Main Challenges
4. Strategic Scenarios
5. Priority Areas
6. Key Projects and Expected Results

THE KEMEROVO REGION IS HEAVILY EXPORT-ORIENTED [commodity markets]. IT IS THEREFORE EXPOSED TO A NUMBER OF EXTERNAL FACTORS: RUSSIA'S MACROECONOMIC SITUATION, MAIN FEATURES OF GOVERNMENTAL MONETARY POLICY, STATE OF GLOBAL COMMODITY MARKETS, ETC.

Factor 1. LONG-LASTING ECONOMIC GROWTH AND FINANCIAL STABILITY IN THE RUSSIAN FEDERATION

- Russia's domestic market growth (striking demand for oil and gas, electricity, metals, coal, chemicals, etc.)
- Upswing of investment, implementation of major industrial projects and inflow of foreign direct investment
- Growing infrastructural deficits hindering further development (lack of transportation and power supply capacities)

Factor 2. GOVERNMENTAL REGULATION OF NATURAL MONOPOLIES

- Liberalisation of power supply and gas markets, reduced governmental participation in price administration on these markets
- Railway tariff policy: the current average share of transport expenses in coal price exceeds 27%. Delivering coal becomes low-profitable at distances over 1,200 km
- The pursuit of infrastructural investment programmes supported by the Government

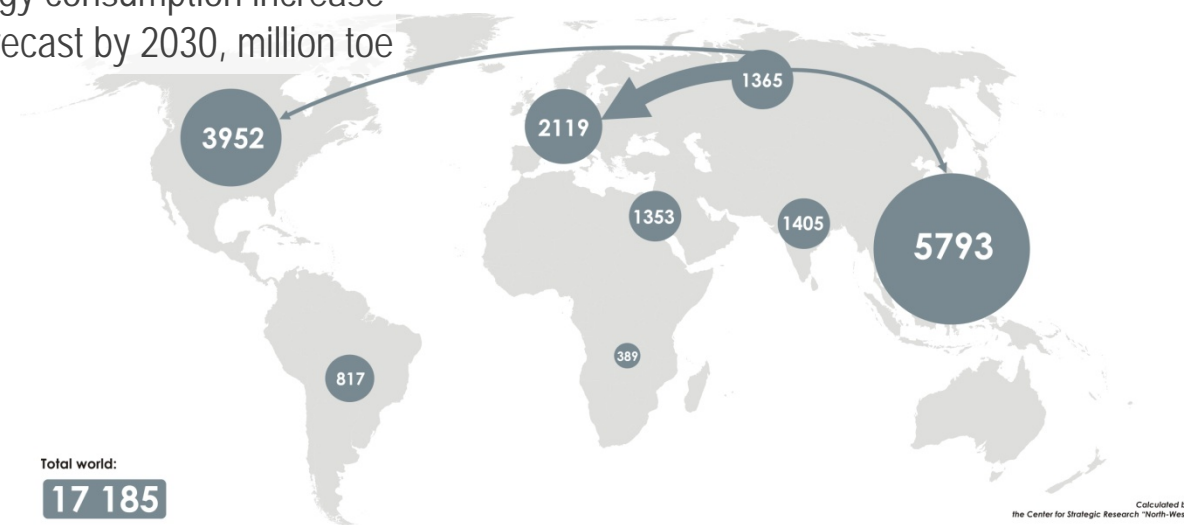
Factor 3. CORPORATE RESTRUCTURING IN MAJOR INDUSTRIAL SECTORS OF REGIONAL ECONOMY

- Continuing asset consolidation and growing scale of corporations (mostly in oil and gas industry, metallurgy, coal and chemical industry)
- Gradual transformation of major Russia chemical and metallurgical companies into MNCs
- Business process restructuring: non-core asset spin-off, outsourcing of secondary and support activities

Factor 4. GLOBAL COMMODITY SUPER-CYCLE

- Global coal consumption is projected to increase from 4.4 billion tce in 2005 to 7.3 billion tce by 2030 [US DoE estimates]
- Steel consumption may jump from 1,344.3 million tonnes in 2007 to 1,662.7 million tonnes by 2012 (by 43.3%)
- World energy demand may increase by some 50% by 2030 [ExxonMobil estimates]

Energy consumption increase forecast by 2030, million toe



Calculated by the Center for Strategic Research "North-West"

1. Major Achievements by 2007

2. External Trends

3 > Main Challenges

4. Strategic Scenarios

5. Priority Areas

6. Key Projects and Expected Results

3.1 > DEPENDENCE OF REGIONAL ECONOMY AND PUBLIC SECTOR ON THE GLOBAL COAL AND METALS MARKET SITUATION

Coal and other raw materials make up 38% of the Kemerovo's contribution to the Russian Federation budgetary system

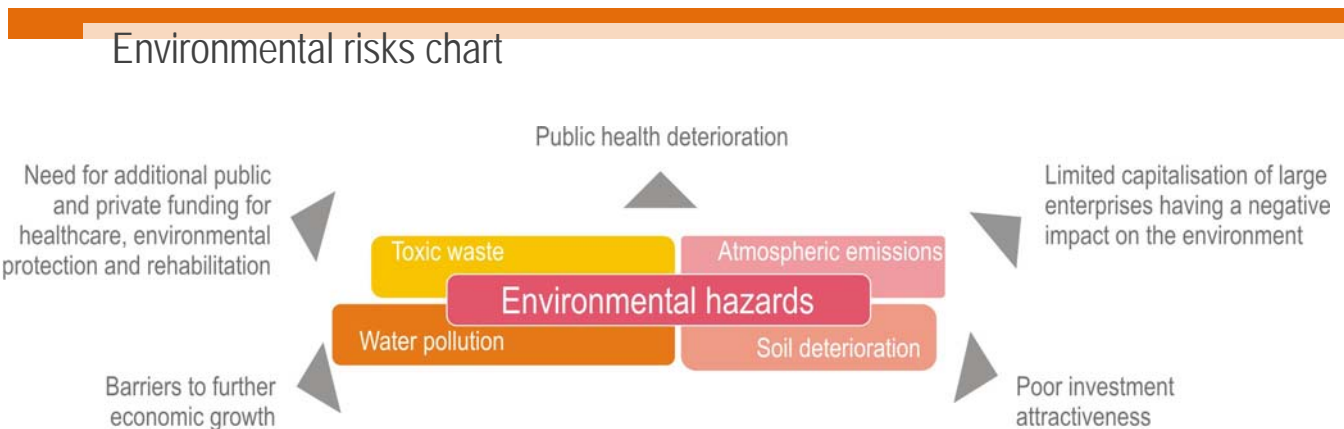
Mining and energy sector account for 55% of regional exports

3.2 > EXHAUSTION OF TRADITIONAL NATURAL RESOURCE BASE

This challenge has both direct (e.g. decreased cost of mining licences) and indirect consequences (e.g. reduction of investment attractiveness of the oblast and that of new site development for mining companies)

3.3 > INCREASING ENVIRONMENTAL RISKS

Growth in output accompanied with slow technological upgrade in major industries results in higher anthropogenic impact and following risks:



3.4 > WIDENING TECHNOLOGICAL GAP

Low level of innovative and technological development of the region aggravates the risk to manufacture low-added-value products. Outdated labour-intensive and risky technologies put the long-term competitiveness of regional economy at risk

GROWING INFRASTRUCTURAL DEFICITS

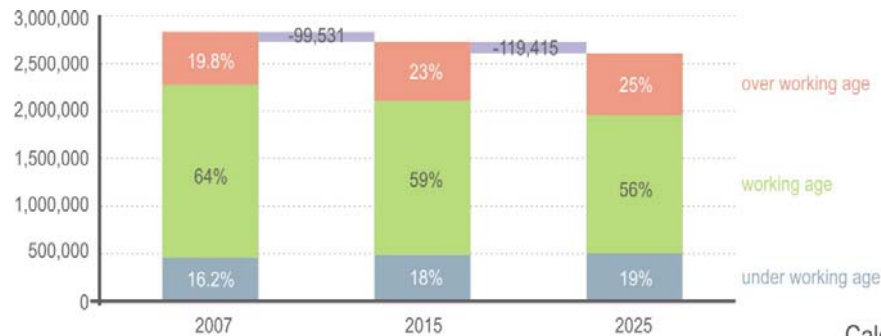
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Electricity consumption increased by 4% in 2006 imposing restrictions on new connections for industrial facilities and households. Wear and tear rates for most power plants are 54%

3.6 > LABOUR MARKET IMBALANCES

Decrease in labour force, reluctance of workers to consider employment in raw material extraction and manufacturing, rise in labour costs, massive job cuts due to the basic sector's decline, inefficiency of tertiary education

Basic demographic forecast to 2025



Calculated by the Centre for Strategic Research "North-West" based on Kemerovo Oblast Statistics Committee data

3.7 > UNSTABLE SETTLEMENT SYSTEM, REDUCED DEMOGRAPHIC POTENTIAL AND INEFFICIENT SPATIAL DEVELOPMENT

A) Major publicly and privately funded “new economy” facilities [e.g. technology parks, special economic zones] are located outside the Kemerovo Oblast

B) The region is under influence of two competing and fast-growing air traffic hubs: Tolmachevo (Novosibirsk) and Emelyanovo (Krasnoyarsk)

C) Insufficient level of urban development in Kemerovo and Novokuznetsk (as compared to Ekaterinburg, Novosibirsk and Krasnoyarsk)

3.8 > ADMINISTRATIVE, POLITICAL AND LEGISLATIVE RISKS

The Kemerovo Oblast is heavily dependent on governmental regulation and investment policies of major public corporations

1. Major Achievements by 2007
2. External Trends
3. Main Challenges
- 4 > Strategic Scenarios**
5. Priority Areas
6. Key Projects and Expected Results

Scenarios

INERTIAL DEVELOPMENT SCENARIO

Extensive growth due to enhanced raw-material specialisation of the region

Major trend

Sharp increase in primary products output (mining) and raw material processing

Diversification

Marginal (if any) diversification of major industrial sectors

Economic sustainability

Low sustainability of regional economy both in terms of environmental risks and market cyclic volatility. High risk of single-industry towns shrinkage

TARGET (ACTIVE DEVELOPMENT) SCENARIO

Ensuring regional competitiveness based on technological growth and human capital: technology-intensive development of major sectors

Growth in mining and metallurgy based on and supported by a more sophisticated processing, new technology platform and new industries

Value chain extension inside major industrial sectors

Establishment of new technology-intensive sectors and activities providing higher living standards, better sustainability of the economy to market cyclic volatility. Curbing negative environmental impacts of mining operations

Lower vulnerability to market cycles

High level of environmental sustainability. Natural resources as a major factor of economic growth would be harmonised with and aligned to human capital and technology

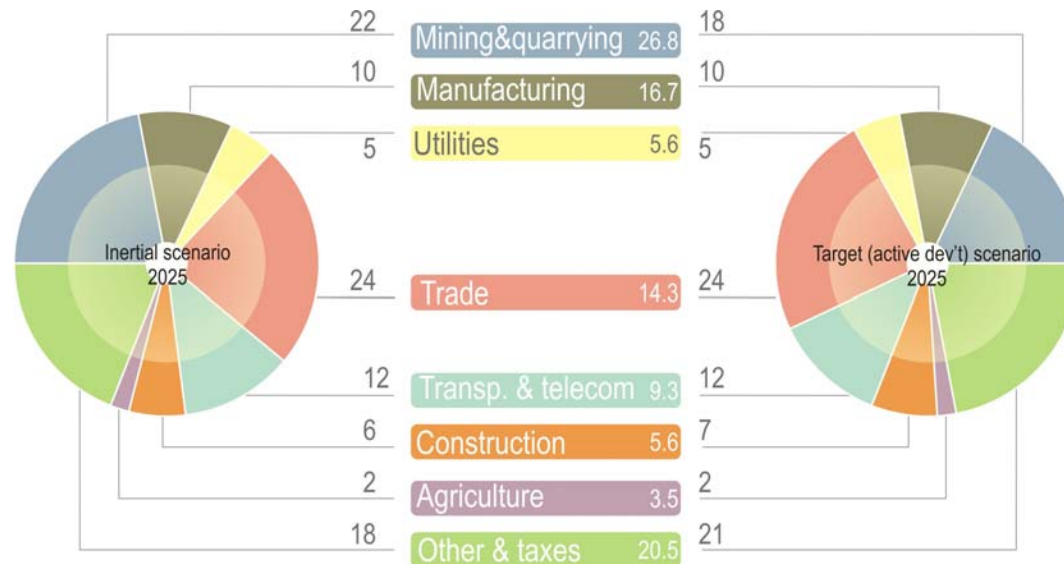
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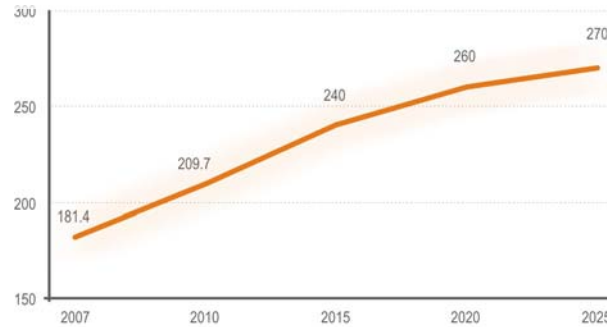
GRP structure forecast



1. Major Achievements by 2007
2. External Trends
3. Main Challenges
4. Strategic Scenarios
- 5 > Priority Areas**
6. Key Projects and Expected Results

5.1 > ENSURING STABLE GROWTH IN THE BASIC ECONOMIC SECTOR

Coal production forecast for the Kemerovo Oblast to 2025, million tonnes



Source: Kemerovo Oblast Administration, Centre for Strategic Research "North-West" companies' data

Through:

5.1.a > RECOVERY OF THE RESOURCE BASE

(1) enhanced geological exploration through better legislation and ensuring access to innovative extraction technologies; (2) development of new deposits and extraction increase; (3) increasing recovery rates of raw materials; (4) coal-bed degasification

5.1.b > OVERCOMING INFRASTRUCTURAL DEFICITS

(1) development of electricity generation, transmission and distribution; (2) defining priority energy markets; (3) energy supply for a growing Kemerovo economy; (4) overcoming transport bottlenecks [establishing a regional logistics system integrated into the Russian transport network, increasing traffic and processing capacities of individual railroad parts, development of spur-tracks to coal mines, upgrading sea-port infrastructure for coal export]; (5) ensuring stable gas supply to the region

5.1.c > GROWTH IN PRODUCT CONSUMPTION

(1) coal's share increase in Russia's energy mix through CHP plants switch from gas to coal; (2) construction of new coal-fired CHP plants and units; (3) entering emerging Asian and mature EU and North American markets; (4) consumption growth through upgrade of production capacities in machine-building and metal processing

5.1.d > LABOUR FORCE DEVELOPMENT AND LABOUR MARKET STABILISATION

(1) establishment of a world-class university claiming its place as a leading Russian higher education institution; (2) support for SME development programmes at universities; (3) establishment of continuing education institutions in the Kemerovo Oblast; (4) adoption of a regional programme to favour corporate personnel management systems; (5) establishment of a common labour market for Kemerovo and Novokuznetsk urban agglomerations; (6) education and employment consultation services for local population

5.2 > ECONOMIC DIVERSIFICATION: INCREASING THE LEVEL OF RAW MATERIAL PROCESSING

INCREASING THE LEVEL OF RAW MATERIAL PROCESSING

(1) development of power facilities in close proximity to coal deposits [construction of a power facility at the Mencherep coal deposit and a power engineering facility in the town of Belovo]; (2) coal gasification [state support is needed to make the project feasible]; (3) increase in enriched coal supplies [enriched coal makes up only 25% of the coal mined in the Kuznetsk basin]; (4) development of coal chemistry in the Kemerovo Oblast; (5) coal-bed methane extraction [methane reserves estimated at 13,000 billion cum]; (6) development of metallurgy facilities in the Kemerovo Oblast;

(7) *establishment of a nationwide mining engineering centre*

Expected investment:
RUB 1 billion

Areas of specialisation:

- new industrial technologies in Kemerovo's basic sector
- geology
- prospecting drilling
- coalbed degasification
- mining safety
- R&D

Supposed tenants:
technology suppliers

Key functions:

- location for non-core assets of mining and metallurgy companies
- engineering centres established by technology solutions providers
- cooperation with Russian universities of metallurgical and mining engineering

5.3 > CREATION OF NEW INDUSTRIES

5.3.a > CREATION OF NEW INDUSTRIES

(1) establishment of a national level innovation centre focused on development of new technology solutions in coal use (“Kuzbass Science Park”); (2) New industrial parks in close proximity to power facilities [total site area: 600 ha, investment: RUB 1 billion]; (3) Making the most of recreational opportunities [development of two ski resorts:

I. Sheregesh, capacity: 5,000 visitors per day (linked to Novokuznetsk through a planned small aircraft transportation service)

II. Tanay, capacity: 4,000 visitors per day]

National coal-mining innovation centre “Kuzbass Science Park”

Kuzbass State Technical University
 Research organisations:
 - VostNII
 - RosNIIGD
 - KuzNIIshakhtstroy
 - Russian Academy of Sciences
 Siberian Branch Coal and
 Coal Chemistry Institute
 - Human resources training centre

- Coal hydrogenation
 - New energy technologies
 (refined solid fuel, synthetic gas-to-liquid fuel)
 - New products (soot, coal graphite products, rare earth elements, construction materials, humic fertilizers, sorbents, other chemical products and chemical raw materials)
 - Coalbed methane extraction

Based on:

National Coal Innovation Centre

Focus on:

Feasible through:

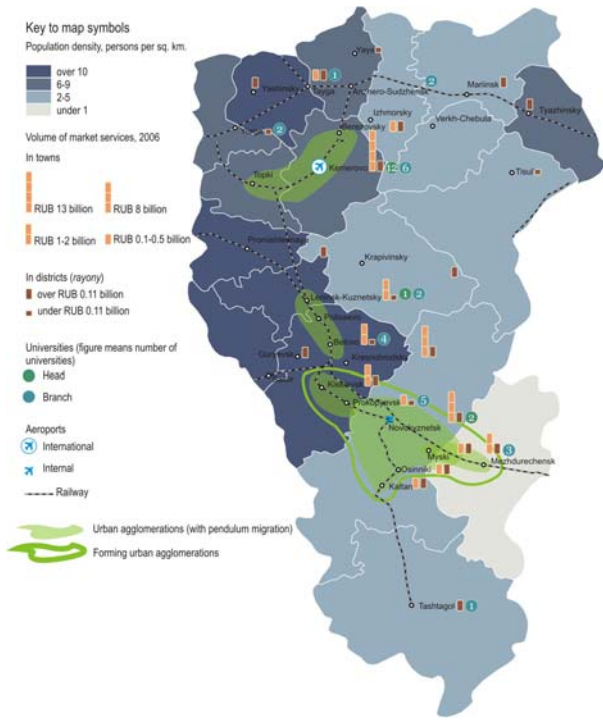
- Modernisation of tertiary education
 - Technology park with cutting-edge laboratory facilities

5.3.b > TAKING ADVANTAGE OF THE LARGEST URBAN AREA BEHIND THE URALS

(1) establishment of innovation centres in urban areas [promoting two urban agglomerations with Kemerovo and Novokuznetsk as hub cities, urban development, local affairs management system]; (2) ensuring regional environmental sustainability through better regulation, environmental enforcement and compliance, use of environmental management systems and eco-friendly technologies in enterprises, ecological rehabilitation of certain areas; (3) improving living standards and healthcare; (4) improving social services delivery in rural areas;

(5) *promoting two urban agglomerations with Kemerovo and Novokuznetsk as hub cities*

- Objectives:**
- to create a single commercial property market and urban infrastructure
 - to get a larger labour and consumer market
 - to attract large retail chains
 - to trigger logistics services development
- Preconditions:**
- high population density
 - five cities with population over 100,000
 - Novokuznetsk as the region's second city
 - industry-oriented urban agglomerations with Kemerovo and Novokuznetsk as hub cities

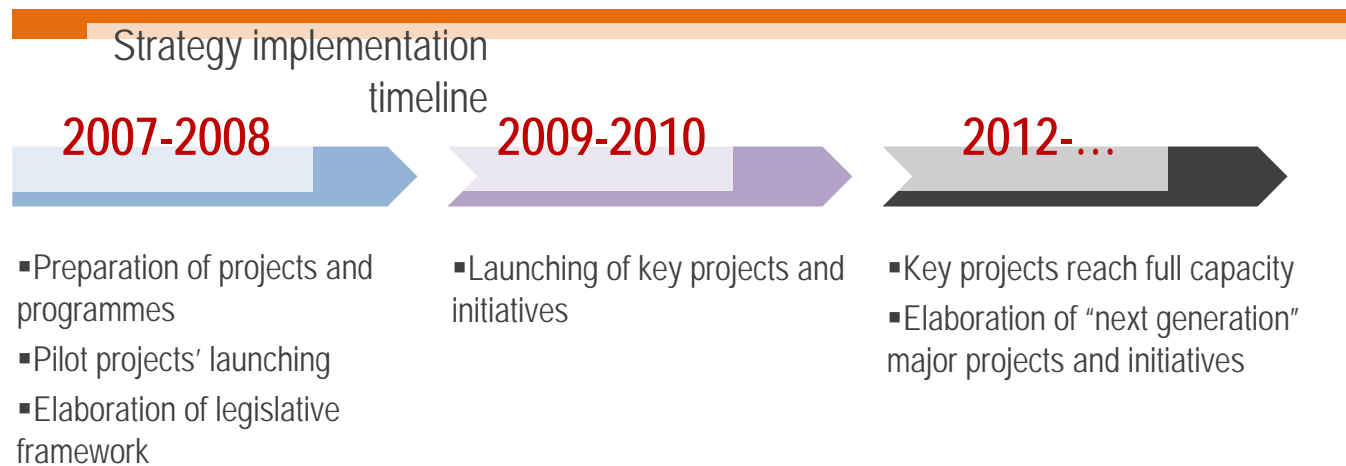


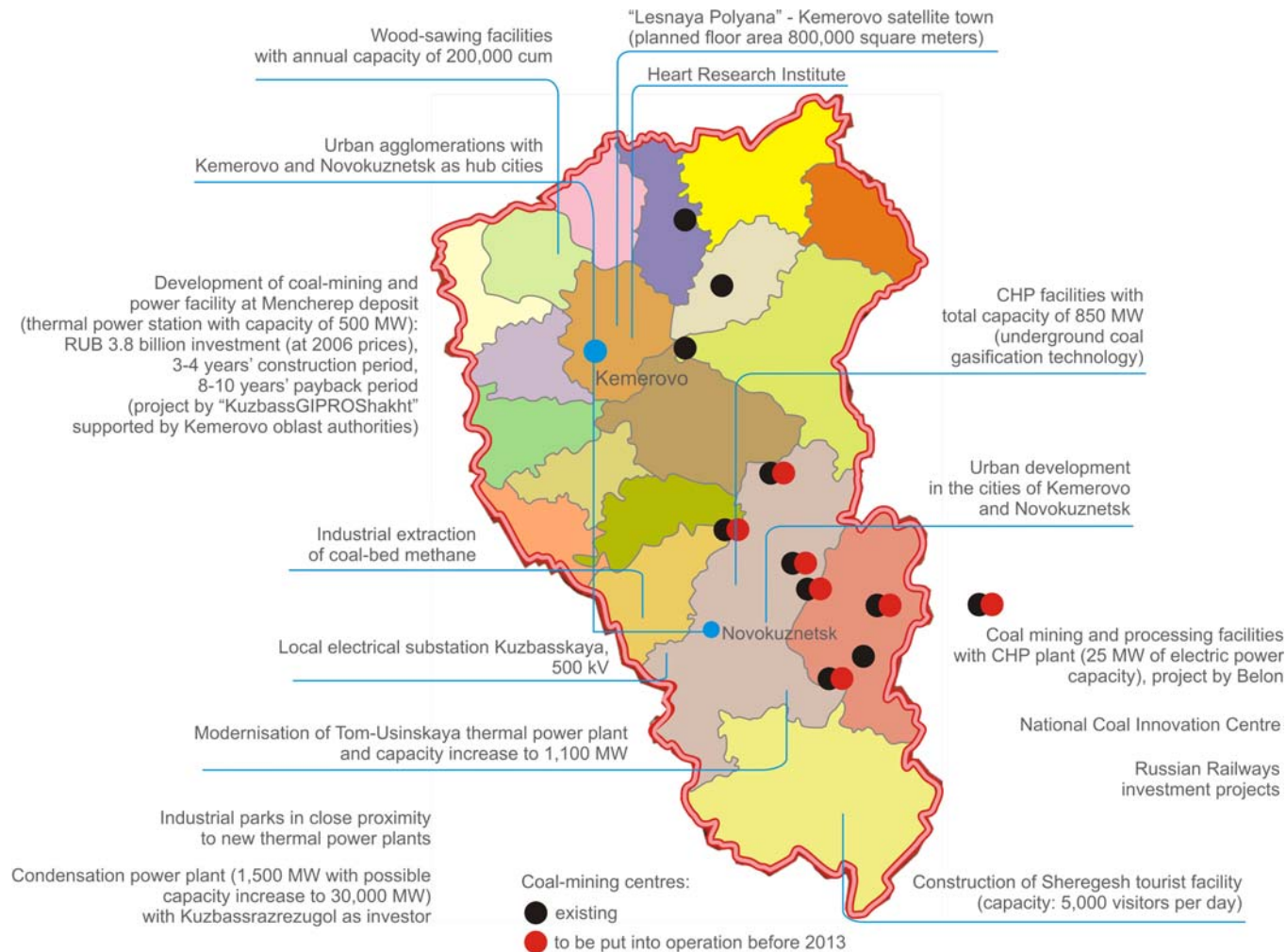
- Regional authorities' role:**
- to adopt city planning documents
 - to provide funding for local infrastructure
 - support for joint development projects and joint strategic planning

1. Major Achievements by 2007
2. External Trends
3. Main Challenges
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5. Priority Areas
- 6 > Key Projects and Expected Results**

OPERATIONAL STRATEGIC PLANNING SYSTEM

- > Long-term strategy
- > Kemerovo Oblast mid-term programmes for socioeconomic development
- > Regular regional authorities' achievement report
- > Package of basic spatial planning documents
- > Regular review and updating of the Strategy [every 3-5 years]





Electric power generation projects not included in RAO UES of Russia investment programme (project name – capacity – probable investor):

- [1] Novo-Kuzbasskaya thermal power plant – 1,650 MW – Kuzbassrazpezugol
- [2] Thermal power plant – 540 MW – Kuznetsk Ferroalloy Plant
- [3] Thermal power plant – 600 MW – RUSAL
- [4] Krapivinskaya hydropower station – 300 MW – Technopromexport
- [5] Prokopievsko-Kisilevskaya CHP plant – 540 MW – SUEK
- [6] Eight power plants using underground coal gasification product gas – 850 MW – federal or/and regional funding

STRATEGY EXPECTED RESULTS

Key projections for the target (active development) scenario in 2005-2025:

GRP growth: 2.9-fold

Industrial production growth: 1.9-fold

Fixed capital investment growth: by RUB 250-330 billion annually

Key target figures

Indicators	Unit	2005	2010	2015	2020	2025
Population	Thousand persons	2,847.0	2,789.0	2,749.0	2,726.0	2,719.0
Gross regional product	Billion RUB	307.3	420.2	566.3	717.9	886.1
Industrial production	Billion RUB	391.6	490.4	605.7	693.2	755.1
Mining and quarrying	Billion RUB	161.2	204.3	261.1	292.9	329.2
Fixed capital investment	Billion RUB	80.3	112.3	157.6	221.1	310.0
Construction completions	Million sq. meters	0.6	1.2	1.9	2.8	2.8
SMEs' contribution to GRP	Billion RUB	66.2	104.7	163.6	240.4	344.1
Average per capita income	RUB per month	7,765.0	17,345.0	30,437.0	47,849.0	72,380.0

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