Guide to Investment
Republic of Karelia
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Dear friends,

It comes as no surprise when the economy of a given region enjoys strong capitalisation and an intensive pace of development thanks to abundant mineral and natural resources enriched by human labour. Moreover, we learned long ago that devoting the time, talent and hard work necessary to attract investors can help produce excellent results in the task of modernising a region’s economic environment across the board. All of Russia’s regions have three types of wealth: the beauty of nature, historical monuments, and skilled people with diverse talents. The beauty of Karelia’s natural environment is well known to all. Karelia is a land of breath-taking landscapes spotted by the unique charm of tens of thousands of lakes, fantastic cliffs and rock formations, and pristine northern forests. Since the times of Peter the Great, this land has been a focus of attention. It is for good reason that Karelia is home to Russia’s first health spa, the Marcial Waters Resort. The islands of Kizhi and Valsam, which represent one of Russia’s most unique cultural and historical treasures, are located in Karelia. As well, the region’s White Sea coastline offers the most direct route to a third shrine of great cultural significance – the Solovetsky Islands, which are part of the neighbouring Arkhangelsk Region. Peterzavodsk State University is the pride of our region’s educational system. As well, we are home to the Karelian Branch of the Russian Academy of Sciences. Both institutions boast a capacity for innovation that has received deservedly high assessments both in Russia and abroad. We also have a conservatory that trains music teachers for all of north-western Russia. As well, we have a number of first-class museums that are a source of inspiration for all who visit them. In short, while our region possesses a wealth of remarkable human capital, we are currently facing a fundamentally new challenge that calls for a fresh, new strategy. Today, Karelia’s government authorities, business community and civil society institutions, together with the State Commission for Preparing Celebrations of the 100th Anniversary of the Republic of Karelia, created by Russian presidential decree, are united in their efforts to stage a worthy celebration to mark this milestone event. We see this event as a unique “driver” for the development of the regional economy, which offers the regional government and business community the opportunity to mobilise their resources and achieve measurable success in transforming our republic into an engine of social and economic development in Russia’s North-Western Federal District. This is our goal. And, we are confident that our work will result in an improved quality of life for our people, greater confidence among business in carrying out various projects, and a shift toward advanced technologies in managing the development of our region. Our strategic plans do not neglect the need for further industrial development, while striving to make our industries more environmentally friendly, and for expansion of fundamental and applied research. Yet, we see our main objective as protecting our natural environment, and historical and cultural monuments, so as to make these treasures open and accessible to all of Russia and the world. This Guide demonstrates that Karelia is committed to creating all necessary conditions for investors. We seek to encourage investors to visit Karelia again and again, to meet its people and enjoy its unique environment. This Guide is an essential tool to help us carry out this task. We are pleased to welcome you to the Republic of Karelia, and look forward to working together with you to promote development and create prosperity for all.

Alexander P. Khudilainen
Head of the Republic of Karelia
Introduction by David Gray, Managing Partner, PwC Russia

Dear readers,

The Republic of Karelia offers the remarkable combination of a pristine landscape, rural communities that retain the flavour of a traditional Karelian village, and cities and towns with a highly developed urban infrastructure.

The region’s favourable geographical location, abundant forest and water resources, and, importantly, government support for investment activities open up a wide array of opportunities for investing.

Hundreds of kilometres of motor, rail and water routes traverse Karelia, connecting Russia’s regions with neighbouring countries and maintaining the republic’s status as a key link not only in the domestic Russian transport grid but also in the global transportation system.

The Government of the Republic of Karelia continues to make a concerted effort to foster a favourable investment climate. This includes improving local legislation and introducing more and more advanced mechanisms for streamlining the investment process, making it as straightforward and easy as possible for Russian and international investors alike.

In addition to their ongoing programmes, the region’s executive and legislative authorities are now intensively engaged in carrying out the landmark Karelia-100 Project, a large-scale initiative devoted to celebrating the 100th anniversary of the establishment of the Republic of Karelia in 2020. The Karelia-100 Project is intended to fundamentally change the image of the republic by 2020 through modernising its economy and social sphere, thus giving a fresh impetus for developing its investment capacity.

This Guide will help potential investors to accurately assess the economic opportunities that Karelia has to offer, so as to select the most promising investment projects that can contribute to the region’s successful further development on beneficial terms.

PwC has prepared this Guide with the support of the Government of the Republic of Karelia, in particular the regional Ministry of Economic Development.

David Gray
Managing Partner
PwC Russia
Overview of the Republic of Karelia

The Republic of Karelia possesses unique natural resources and strong potential for the development of tourism and industry. As a border region, Karelia enjoys an advantageous geopolitical position given its location between other economically developed regions in both Russia and Europe, and thus plays an important role in fostering and strengthening economic links between them.

Facts and figures

• Total area: 180,500 sq km
• Climate: Atlantic continental climate zone
• Capital: The City of Petrozavodsk (population: 272,100 as of 1 January 2014)
• Population: 634,400 (79.2% are urban dwellers) (as of 1 January 2014)
• The regional economy’s key industries:
  • Forest products,
  • Mining, mainly production of iron ore and natural stones,
  • Agribusiness, mainly fisheries and fish processing,
  • Tourism.
• Karelia’s gross regional product (GRP) in 2013: RUB 167.5 billion (0.25% of Russia’s overall GDP)
• Official investment website of the Republic of Karelia: www.kareliainvest.ru

Karelia’s principal competitive advantages

• Significant resource potential, primarily in the forest products and mining industries.
• Advantageous geographical location as a transit link between Russia’s industrially developed regions and European countries (via Finland) provides access to markets and offers attractive opportunities for development as a logistics hub.
• Extensive opportunities for developing the region’s rich tourism and recreational potential, which is currently underutilised.
• Karelia is rich in biological resources, which in turn offer broad potential for developing the food industry, especially fisheries, as well as biotechnologies.

Kostomuksha
Production of crushed stone and high-quality iron ore pellets for the metals industry

Segezha
Production of cut timber, paper, and paper bags and packaging

Kondopoga
Manufacturing of newsprint and wrapping paper, packaged office paper (sizes A3 and A4), container board, ceramic bricks, and paving slabs

Petrozavodsk
Capital of the Republic of Karelia
Wood processing, machinery and equipment manufacturing, shipbuilding and foodstuffs

Sortavala
Lumber and timber production, ferrous metals, production of non-metallic construction materials, foodstuffs

Kostomuksha
Production of crushed stone and high-quality iron ore pellets for the metals industry

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Production of cut timber, paper, and paper bags and packaging

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Republic of Karelia
**Economic potential**

**Gross regional product**

According to preliminary estimates, in 2013 Karelia’s gross regional product (GRP) amounted to RUB 167.5 billion, or RUB 263,500 per capita.

![Graph showing gross regional product in 2008-2013](image)

**Breakdown of Karelia’s economy in 2013 (by added value, %)**

- Agriculture, hunting and forestry: 8.1%
- Fishing and fish farming: 2.6%
- Mining: 11.7%
- Manufacturing: 13.9%
- Electricity, gas and water production and distribution: 8.1%
- Construction: 10.1%
- Wholesale and retail trade: 11.4%
- Hotels and restaurants: 4.7%
- Transport and communications: 4.7%
- Real estate, leasing and services: 4.7%
- Public administration: 3.9%
- Education: 3.9%
- Healthcare: 2.4%
- Other production: 2.4%
Karelia’s key industries

The forest products industry continues to be a leading sector in Karelia’s economy. Forest products enterprises account for more than 50% of the total volume of Karelia-made products shipped.

As of 1 January 2014, the region’s total forested area was 14.9 million hectares, including 14.5 million hectares of forest fund lands. The commercial forest fund covers 11.4 million hectares. Valuable softwood species predominate in Karelia’s forest fund.

As of 1 January 2014, the total area of forest plots leased out across Karelia for timber-harvesting purposes was 9.5 million hectares, representing 83% of the commercial forest fund.

In the past few years, several large-scale projects to build new wood-processing facilities or upgrade existing facilities have been launched. Investment activity in this area peaked in 2012, when RUB 3.2 billion was invested in wood-processing projects.

As of 1 January 2014, cumulative foreign investment in Karelia’s forest products industry amounted to USD 516.4 million, of which:

Fast-growing companies

OAO Mosavtodor Quarry Management. Currently, OAO Mosavtodor Quarry Management’s annual production capacity is one million cubic metres of crushed stone. The company has the widest range of products in the North-Western Federal District.

OAO Lafarge Non-Metallic Materials and Concretes. Currently, Lafarge Russia owns four non-metallic quarries that produce high-strength crushed gabbro-diabase, granite, quartzitic sandstone and limestone. Its products are used in manufacturing exterior facades, road construction and asphalt, and in the construction of high-speed roads. The company’s products are also certified for usage in railway ballast.

OAO Prionezhskaya Mining Company. The company produces crushed gabbro-diabase at a re-opened quarry at the Chevzhavara gabbro-diabase deposit (Pryazhinsky District) and supplies various fractions of gabbro-diabase to construction companies in Russia’s North-Western and Central Federal Districts.

OAO Karel Trans Nerud. The company produces crushed gabbro-diabase at an optimal quarry at the Chuvashkorm gabbro-diabase deposit (Pryazhinsky District) and supplies various fractions of gabbro-diabase to construction companies in Russia’s North-Western and Central Federal Districts.

OAO Karelsky Okatysh. Russia’s third-largest producer of iron-ore pellets which accounts for 20% of the country’s total output of pellets.

Currently, the region has over 80 producers of building materials. The fastest-growing companies are those businesses that carried out projects to expand existing production facilities or build new operations in 2012-2013.

As of 1 January 2014, cumulative foreign investment in Karelia’s forest products industry amounted to USD 516.4 million, of which:

- Wood processing
- Pulp and paper
- Logging

<table>
<thead>
<tr>
<th>Year</th>
<th>Wood processing</th>
<th>Pulp and paper</th>
<th>Logging</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>254.5</td>
<td>262.8</td>
<td>19.3</td>
</tr>
<tr>
<td>2012</td>
<td>235.5</td>
<td>262.8</td>
<td>19.3</td>
</tr>
<tr>
<td>2011</td>
<td>267.8</td>
<td>262.8</td>
<td>19.3</td>
</tr>
<tr>
<td>2010</td>
<td>296.8</td>
<td>262.8</td>
<td>19.3</td>
</tr>
<tr>
<td>2009</td>
<td>320.8</td>
<td>262.8</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Production output of the forest products industry in physical terms, 2009-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Raw timber, thousand m3</th>
<th>Timber sawn or split lengthwise, cut in layers or peeled, with a thickness of more than 6 mm, untreated wooden railway or tram sleepers, thousand m3</th>
<th>Chips for wood pulp and ground wood production, thousand m3</th>
<th>Chips for other production operations, thousand m3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>5,860</td>
<td>1,406</td>
<td>5,406</td>
<td>5,406</td>
</tr>
<tr>
<td>2012</td>
<td>5,406</td>
<td>1,406</td>
<td>5,406</td>
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<td>1,406</td>
<td>5,406</td>
<td>5,406</td>
</tr>
<tr>
<td>2010</td>
<td>5,318</td>
<td>1,406</td>
<td>5,406</td>
<td>5,406</td>
</tr>
<tr>
<td>2009</td>
<td>5,284</td>
<td>1,406</td>
<td>5,406</td>
<td>5,406</td>
</tr>
</tbody>
</table>

Economic potential

Mining

The mining sector is one of Karelia’s fastest-growing industries. The expanding production of building stone and materials has been driven by both the availability of mineral resources and growing demand for heavy-duty Karelian crushed stone used in the construction of housing, roads and airfields. Currently, the main products of Karelia’s mining industry include iron-ore pellets, crushed stone for construction purposes, block stone, stonecast raw materials, and products made of shungite.

Altogether, Karelia has 26 iron-ore deposits and 69 iron-ore occurrences as well as 4 deposits and 7 occurrences of chrome ores, 5 five deposits and four promising occurrences of titanium, 27 deposits and occurrences of vanadium and vanadium-bearing ores, and 8 eight deposits and 30 occurrences of molybdenum-bearing ores.

A key mining enterprise in the region is OAO Karelsky Okatysh, Russia’s third-largest producer of iron-ore pellets which accounts for 20% of the country’s total output of pellets.

Currently, the region has over 80 producers of building materials. The fastest-growing companies are those businesses that carried out projects to expand existing production facilities or build new operations in 2012-2013.

Production output of the mining industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Raw timber, thousand m3</th>
<th>Timber sawn or split lengthwise, cut in layers or peeled, with a thickness of more than 6 mm, untreated wooden railway or tram sleepers, thousand m3</th>
<th>Chips for wood pulp and ground wood production, thousand m3</th>
<th>Chips for other production operations, thousand m3</th>
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<td>1,406</td>
<td>5,406</td>
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<tr>
<td>2012</td>
<td>5,406</td>
<td>1,406</td>
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<tr>
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<td>1,406</td>
<td>5,406</td>
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<tr>
<td>2010</td>
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<td>5,406</td>
</tr>
<tr>
<td>2009</td>
<td>5,284</td>
<td>1,406</td>
<td>5,406</td>
<td>5,406</td>
</tr>
</tbody>
</table>
Karelia's key industries

Engineering and metallurgy

In 2012-2013, the Government of the Republic of Karelia adopted a number of initiatives to support critical enterprises, specifically heavy engineering companies. Company owners and management teams are keen to implement new development models and carry out asset restructuring, which opens up new opportunities for investors.

Key enterprises

OAO Petrozavodskmash

A major Russian power-plant engineering company, Petrozavodskmash supplies equipment for the nuclear power, petrochemical and other industries. The enterprise is located on the shore of Lake Onega, enabling it to ship large-size equipment and machinery by water to almost any country around the world. Currently, OAO Petrozavodskmash's equipment is used in over 40 countries.

OOO Onezhsky Tractor Plant

One of Russia's oldest industrial enterprises, what is now Onezhsky Tractor Plant was originally established in 1702 by order of Tsar Peter I. At the time, it was called the Petrovsky Plant and gave its name to modern-day Karelia's capital city, the City of Petrozavodsk, which has grown up around the plant from its origins in the original Petrozavodsk settlement (in Russian: sloboda). Since 2007, OOO Onezhsky Tractor Plant has been a member of the Tractor Plants Concern Machinery and Industrial Group, which combines over 20 enterprises in 10 Russian constituent regions. Currently, the Tractor Plants Concern is aggressively rolling out a new business development model under which manufacturing of all timber-harvesting machinery will be transferred to Petrozavodsk from other production sites. The Onezhsky Tractor Plant has been actively renewing its product line of machinery; over the past two years, it has launched several dozens of new modifications.

Nadvoitsky Aluminium Smelter

Currently, this enterprise is a member of the Rusal Group; it produces primary aluminium and aluminium-based alloys using the Soderberg process.

Construction

Karelia's construction industry is enjoying a positive growth trend. This is largely due to the implementation of several federal and regional programmes, including:

- Federal Target Programme (FTP) «Clean Water»;
- Regional targeted programme for resettling residents from unsafe housing;
- Targeted financing from the Investment Fund of the Russian Federation;
- Regional programme for stimulating development of housing construction in the Republic of Karelia for 2011–2015;
- Targeted Investment Programme of the Republic of Karelia.

Construction volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Construction volume in current prices, RUB million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>4,947</td>
</tr>
<tr>
<td>2010</td>
<td>12,445</td>
</tr>
<tr>
<td>2011</td>
<td>10,910</td>
</tr>
<tr>
<td>2012</td>
<td>12,382</td>
</tr>
<tr>
<td>2013</td>
<td>15,992</td>
</tr>
</tbody>
</table>

Karelia's construction sector includes over 50 enterprises. Listed below are the fastest-growing companies that carried out projects to expand existing production facilities or build new facilities in 2012-2013.

Key construction companies:

- OOO Stroyindustria KSM
  Karelia's leader in the prefabricated reinforced concrete and ready-mix concrete market segment. The company produces large-panel building structures, ready-mix concrete with delivery to the construction site, road slabs, and a wide range of traditional concrete products: pipes, road slabs, etc.

- Kalevitsa Wood Processing Mill (WPM)
  Kalevitsa WPM is one of the region’s priority projects in developing the forest products sector. The mill produces oriented strand boards (OSB) and OSB-based products.

Economic potential
Economic potential

Karelia’s key industries

Agribusiness

Agribusiness is an important sector of the region’s economy. In recent years, agribusiness has accounted for about 9% of total GRP, with agricultural products accounting for 3.5-4.0%, followed by fisheries and fish-farming (1.0-1.2%), and processed food products (4.0-4.5%).

As of 1 January 2014, Karelia’s agricultural land fund consisted of 197,100 hectares. In 2013, the actual area under crop cultivation was only 32,100 hectares, or 16.2% of the total agricultural land fund. Currently, the republic’s output of agricultural products meets 64% of local consumer demand for milk, followed by demand for meat (18%), vegetables (42%), and potatoes (85%).

Nineteen agricultural organisations and over 1,000 farms are engaged in producing agricultural products.

Karelia’s fisheries sector includes 241 businesses.

The region’s food processing industry includes the following major segments: milk processing and fat-and-oil production, meat processing, baked goods and confectionery, liquors and spirits, and food canning. There are over 100 businesses operating in the republic’s food industry.

Agribusiness’ key indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural products in current prices, RUB million</th>
<th>in % versus the prior year in comparable prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>99.2</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>96.2</td>
<td>80</td>
</tr>
<tr>
<td>2011</td>
<td>99.8</td>
<td>90</td>
</tr>
<tr>
<td>2012</td>
<td>94.4</td>
<td>100</td>
</tr>
<tr>
<td>2013</td>
<td>107.6</td>
<td>110</td>
</tr>
</tbody>
</table>

Fish farming and processed fish products

<table>
<thead>
<tr>
<th>Year</th>
<th>Live, fresh and refrigerated fish, tonnes</th>
<th>Canned fish, tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>10,602</td>
<td>55,600</td>
</tr>
<tr>
<td>2010</td>
<td>8,887</td>
<td>50,900</td>
</tr>
<tr>
<td>2011</td>
<td>10,315</td>
<td>57,000</td>
</tr>
<tr>
<td>2012</td>
<td>10,315</td>
<td>60,300</td>
</tr>
<tr>
<td>2013</td>
<td>9,798</td>
<td>69,200</td>
</tr>
</tbody>
</table>

The republic’s biggest agricultural businesses by turnover

OAO Rybinskoe Breeding Farm
an Ayrshire cattle breeding farm

OAO Megrega State Breeding Farm
an Ayrshire cattle breeding farm

ZAO Pryazhinskoye
an Ayrshire cattle nucleus breeding farm

OAO Agrarny State Farm
an Ayrshire and Kholmogory cattle nucleus breeding farm

ZAO Medvezhyegorsk Dairy Plant
an Ayrshire cattle nucleus breeding farm

The republic’s biggest agricultural businesses by turnover

OAO Rybinskoe Breeding Farm
an Ayrshire cattle breeding farm

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ZAO Pryazhinskoye
an Ayrshire cattle nucleus breeding farm

OAO Agrarny State Farm
an Ayrshire and Kholmogory cattle nucleus breeding farm

ZAO Medvezhyegorsk Dairy Plant
an Ayrshire cattle nucleus breeding farm
In 2007-2013, approximately 30% of all industrial products made in Karelia were exported.

According to the North-Western Customs Department, the Republic of Karelia demonstrated the following foreign trade performance in 2009-2013:

Non-CIS countries, primarily Finland and Turkey, account for over 90% of the region’s exports and imports.

Foreign trade turnover in 2013 broken down by country

Breakdown of commodity exports in 2013


1. Forestry, including forest cultivation, coppice forest and commercial timber cultivation, cultivation of New Year trees, cultivation of plant materials for horticulture, cultivation of tree and shrub seedlings
2. Reproduction of fish and aquatic and biological resources
3. Production of food products, including beverages, but excluding spirits
4. Wood processing and wood products manufacturing
5. Manufacturing of machinery and equipment
6. Manufacturing of electrical, electronic and optical equipment
7. Manufacturing of medical equipment, measuring devices, optical instruments and apparatus
8. Shipbuilding and manufacturing of other transport vehicles
9. Processing of secondary raw materials, excluding processing of waste metals and ferrous, non-ferrous and precious scrap metals, and processing of precious stone scrap
10. Water, air and land transport operations, excluding taxis
11. Organisation of comprehensive tourism services
12. Manufacturing of brick, tile and other construction products made of burnt clay
13. Cement production
14. Electric power, gas, steam and hot water production, transmission and distribution
15. Water collection, purification and distribution
Given its advantageous geopolitical location, extensive recreational resources, and centuries-old cultural and historical heritage, Karelia occupies a special place in the tourism market. The region has proven to be a popular destination for Russian and foreign visitors alike.

With its unique northern nature, architecture, churches and cathedrals, museums and other sights, Karelia attracts tourists from all over the world. Karelia’s natural environment harmoniously combines forest, lake and coastal landscapes.

The republic has a number of nature reserves and national parks. Karelia is a tourism hub within Russia’s North-West Federal District, as it has around 4,000 cultural, historical and natural monuments. A unique environment has been formed in the region for recreation and tourism of various types: cultural, educational, event-focused, natural, environmental, sporting, water and rural tourism.

It is also a popular destination for religious pilgrimages.

The region’s most prominent monuments and sights are:

Karelia boasts over 61,000 lakes, about 27,000 rivers, and 29 water basins. The total surface area of the region’s lakes is 18,800 km². Eighty percent of Lake Onega and 40% of Lake Ladoga are located in Karelia. The region is a huge source of clean fresh water.

Karelia’s mineral resources include 494 proven fields, yielding 31 different types of minerals with reserves recorded in the National Register. Minerals include: iron ore, titanium, vanadium, molybdenum, noble metals, diamonds, mica, construction materials (granite, greenstone, granular limestone), ceramic raw materials (graphic granite, spar), apatite carbonate ore, and amphibole asbestos.

Karelia's economic potential

Altogether, 54.5% of Karelia’s territory is covered by forests, 23.2% by water reservoirs, and 1.1% by cultivated land. Forest resources mainly include fine coniferous species.
Developing tourism has been recognised as one of the most promising areas for economic development in Karelia. Official statistics show that in 2013 inflows of organised tourists to Karelia amounted to 595,000 people, or 10% more than in 2012 (540,000 people). Taking into account independent tourists, the total number of visits is estimated at the level of 1.9 million people.

The Strategy for the Republic of Karelia’s Social and Economic Development in the Period Through 2020 sets the following objective: by 2020 the tourism industry should become a driver of the regional economy, together with forestry and mining, while the annual number of official tourists visiting Karelia should grow to 3.5 million people. To this end, measures are being taken to unleash the region’s existing tourism potential, improve its competitive position, and attract investment in the sector.

The following facilities were commissioned in Karelia in 2011-2013:

<table>
<thead>
<tr>
<th>Type of facility</th>
<th>Objects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>4* Onego Palace, Petrozavodsk, for 200 persons</td>
</tr>
<tr>
<td></td>
<td>4* Park Inn, Petrozavodsk, for 400 persons</td>
</tr>
<tr>
<td></td>
<td>3* Onezhsky Zamok, Petrozavodsk, for 66 persons</td>
</tr>
<tr>
<td>Theme parks</td>
<td>Completion of reconstruction of Ruskeala Mountain Park (Sortavalsky municipality). Visits have increased to 50,000 people per year</td>
</tr>
<tr>
<td></td>
<td>Lamberg (Sortavalsky municipality)</td>
</tr>
<tr>
<td></td>
<td>Ladoga (Medvezhegora municipality)</td>
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<tr>
<td></td>
<td>Raduga (Pryazhsky municipality)</td>
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<tr>
<td></td>
<td>The Thirteenth Cordon (Pitkyarantsky municipality)</td>
</tr>
<tr>
<td>Recreation centres</td>
<td>Shishki (Kondopozhsky municipality)</td>
</tr>
<tr>
<td></td>
<td>Sonostrov (Loukhsky municipality)</td>
</tr>
<tr>
<td></td>
<td>Ust-Viditza (Olenetsky municipality)</td>
</tr>
<tr>
<td>Diving centres</td>
<td>The Arctic Circle</td>
</tr>
<tr>
<td>Other facilities</td>
<td>Green Dockage for cruise ships on Pellotsaari Island in Sortavalsky municipality</td>
</tr>
</tbody>
</table>

Karelia is well-positioned to access attractive markets. To the west, the republic borders on Finland, while to the south its neighbours are the Leningrad and Volgograd regions of Russia. Karelia shares its northern and eastern borders with the Murmansk and Arkhangelsk regions, respectively. To the north-east the republic is washed by the White Sea. The region’s western border, which runs along the international border between Russia and Finland, is 798.3 km long. The distance between Petrozavodsk and Moscow is 1,091 km, while St Petersburg is 412 km away. The international Blue Road motorway to Finland stretches 350 km.

The region’s geographical and geopolitical location helps promote close relations between Russian and its neighbours.

** distance is shown for road transport
Several important thoroughfares traverse Karelia, connecting Russia’s industrially developed regions with the northern warm-water port of Murmansk as well as with Europe via Finland.

The White Sea-Baltic Sea Canal also runs through the republic.

Karelia’s network of roads is developing in line with the growing demand for auto transport. Top priority has been given to building access roads to large cities and transportation hubs, as well as to motor roads that will promote the gradual development of transport corridors integrated into a unified Eurasian transport network, including seaports.

The total length of the republic’s motor roads is currently 12,463.2 km, including: public roads (7,969.2 km) and roads under the control of a government agency (4,594 km). Roads totalling 11,271 km are hard-surfaced.

The Kola federal highway (St Petersburg – Petrozavodsk – Murmansk – Pechenga – Borisoglebsky) is 1,073.7 km long.

Rail transport plays an important role in the republic’s economic development. It accounts for over 90% of freight transportation. The total length of railways in Karelia is 2,225.6 km. Railway routes to Murmansk, St Petersburg and Helsinki traverse the republic.

The regional government is working to enhance the rail transport sector in cooperation with OAO Russian Railways (RZD). The key project in this area will be the opening of a new route from Petrozavodsk to Finland. In 2013 Russian Railways invested RUB 1.6 billion in railway infrastructure in the republic, and by 2015 investments will amount to RUB 5.3 billion.

### Three airports

3 airports, 11 airfields and a helicopter aerodrome operate in Karelia. Petrozavodsk International Airport is a critical transport hub for Russia’s North-Western region.

Expanding relations with Northern and Western Europe in the industrial sector, tourism and culture have given fresh impetus to developing the region’s air transport capabilities, especially at the Petrozavodsk airport. Engineering structures are currently being rebuilt and renovated at the airport complex.

Passenger flights are available to the following cities: Moscow, St Petersburg, Kostomuksha, and Helsinki. Plans call for establishing regular air service between Petrozavodsk and Pudozh, Solovki, Sochi and Gelendzhik.

Lakes, rivers, and channels form a developed transport system in Karelia, giving the region access to the White Sea, Baltic Sea, Caspian Sea, Black Sea, and Mediterranean Sea, as well as to world oceans.

Two main waterways are used for navigation: the White Sea-Baltic Sea and the Volga River-Baltic Sea. Altogether, waterways provide access from St Petersburg on the Baltic via Lake Ladoga and Lake Onega to the White Sea, to the town of Belomorsk and further to the Barents Sea, or to the Black Sea in the south.
Border and customs infrastructure

The region’s well-developed border and customs infrastructure is a key element in successful foreign trade activities and international cooperation.

The Karelian section of the border between Russia and Finland is 798.3 km long (representing over 60% of the Russo-Finnish border’s total length).

The Karelian Customs Office of the North-Western Customs Authority operates in the republic, including 13 customs stations, five of which are located at border checkpoints. The border is serviced by three international checkpoints for motor vehicles, two international checkpoints for rail transport, and two simplified checkpoint for motor vehicles. The Petrozavodsk international air checkpoint also operates in Karelia.

A customs and logistics terminal has been established near the Vyartsiila international checkpoint for motor vehicles. Similar terminals are expected to be opened at three more checkpoints.

Freight traffic through the Karelian section of the international border depends on the foreign trade environment and amounts to 7-8 million tonnes annually. Passenger traffic is still growing and has recently exceeded 2 million people. Therefore, another checkpoint for motor vehicles at Svy or is expected to open in the next few years.

Business infrastructure

Karelia’s main business infrastructure facilities are concentrated in Petrozavodsk. The following major Russian banks have branches in the city: Vozrozhdenie Bank, VTB24, Sberbank of Russia, and Uralsib, among others.

Insurance companies are also present in Karelia, including RESO-Garantia, ROSNO, Moscow Insurance Company (MSK), Ingosstrakh, Rosgosstrakh and others, as well as a number of business centres and business platforms.

Key business centres and business platforms

<table>
<thead>
<tr>
<th>Business centre</th>
<th>Address</th>
<th>Contact details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severnaya Hotel Business Centre</td>
<td>21 Lenin Street, Petrozavodsk</td>
<td>Tel.: 8 (8142) 76-39-65</td>
</tr>
<tr>
<td>Karelia Hotel Business Centre</td>
<td>2 Gyutting Embankment, Petrozavodsk</td>
<td>Tel.: 8 (8142) 73-33-33</td>
</tr>
<tr>
<td>Sweden-Karelia Informational Business Centre</td>
<td>5 Kirov Street, Petrozavodsk</td>
<td>Tel.: 8 (8142) 76-92-57</td>
</tr>
<tr>
<td>OOO Expo centre</td>
<td>1 Gogol Street, Petrozavodsk</td>
<td>Tel.: 8 (8142) 76-38-21</td>
</tr>
</tbody>
</table>

Energy and public utilities infrastructure

Lacking its own hydrocarbon reserves, the Republic of Karelia seeks to meet its energy needs and eliminate energy deficiencies by working actively to bring in power generating companies and promote alternative energy sources.

Its major energy sources include peat, wood waste, and renewable energy sources. The demand for electricity, gas, coal and oil products in Karelia is met by large vertically integrated energy companies with the direct involvement of federal authorities.

The investment projects overseen by the Republic of Karelia are focused mainly on small-scale power generation, energy supply from renewable energy sources, energy conservation and upgrading utilities.

To ensure reliable, high-quality power supplies, the regional government has approved a Programme for the Long-Term Development of the Electric Power Industry in the Republic of Karelia through 2018. It involves implementing top-priority measures to build, reconstruct, and re-equip the region’s power supply network.

To improve gas supplies for public utilities and transition industrial enterprises (boiler houses) and municipal housing to run on natural gas, the Government of the Republic of Karelia has launched a set of gasification measures. The Gas Supply and Gasification Master Plan for Karelia, as developed by OAO Gazprom Promgaz, calls for providing gas supplies to the Olonetsky, Pitkarantsky, Sortavalsky, and Lakshedpokhsky municipal districts through the construction of gas pipelines.

By 2015, 84 facilities are expected to have been refitted to run on gas. About 1,430 individual houses, apartment blocks, and over 10 boiler houses in Petrozavodsk, and the Kondopozhsky and Prisonezhsky districts are to be connected to gas supply system by this time.
Karelia’s economically active working population numbers **328,100 people**. Among the region’s economically active population, 25.4% hold university degrees. The level of unemployment is 8.2% (versus an official registered unemployment rate of 1.9%).

The Republic of Karelia has **19 universities** (including branches of Russia-wide educational institutions), in which **23,700** students are enrolled, including 3,000 students of technical disciplines.

**Petrozavodsk State University**

Petrozavodsk State University (PSU) is a prominent centre of research in programming, IT, plasma, microelectronics, mathematics, physics, medicine, biology, history, philology, political and social sciences, law, economics, forestry, construction, and agricultural sciences, among other disciplines. The university has been recognised as a leading university in Russia’s North-Western Federal District in terms of the development of international cooperation. Currently, it has 99 international agreements with foreign universities, research organisations, and research and production companies from Finland, Canada, the United States, Great Britain and Italy. Each year, PSU carries out about 30 international projects with financial support from various international foundations, programmes and organisations. Several bilateral student exchange agreements with foreign partners have been in place for over 20 years.

Currently, the university has 80 chairs, nine academic departments (Agricultural Engineering, Mining and Geology, Mathematics, Physics and Engineering, Philology, Ecology and Biology, Economics, Law, and Continuing Professional Training), seven educational institutes (institutes of History, Political and Social Sciences; Forestry, Engineering and Construction Sciences; Pedagogy and Psychology; Medicine; Foreign Languages; Physical Training, Sports and Tourism; and the Karelia Regional Institute of Management, Economics and Law). PSU also maintains a Kola Branch in the town of Apatity in the Murmansk Region, and eight research institutions. The research and teaching staff at Petrozavodsk State University consists of 1,000 people, including 508 doctors of philosophy, 118 doctors of science, and four associate members of the Russian Academy of Sciences. Over 14,800 students are enrolled at the university.

PSU is also home to the **Karelian State Pedagogical Academy (KSPA)**, which is one of the oldest teacher training institutes in Russia’s North-Western Federal District and laid the foundation for higher professional education in the Republic of Karelia. With a new faculty and research staff structure, KSPA has maintained its authoritative position as a recognised resource centre for innovative development and support for pre-school, general, and professional education in the region. The PSU faculty has also made a significant contribution toward the internationalisation of Russian higher education and its effective integration into the single European educational and scientific environment, thus driving the implementation of a sustainable partnership between Russia and the EU.

**Break down of workforce by level of education in 2013**

- Higher vocational education: 4.6%
- Secondary vocational education: 0.5%
- Basic vocational education: 15.3%
- General secondary education: 25.4%
- Elementary general education or no elementary general education: 26.5%
- Secondary general education: 27.9%
- Higher medical education: 8.2%

The region’s scientific capabilities are mainly represented by academic research, with a leading position held by the Karelia Research Centre of the Russian Academy of Sciences. This integrated R&D centre includes seven institutes with a single management and shared infrastructure, research, support and production units. The Centre has signed over 80 international agreements and contracts with partners from more than 40 countries.

The Centre’s main areas of research include investigating the biological resource potential in forest and marsh ecosystems, and developing methods for their integrated use; studying the ecological and physiological fundamentals of plant and animal productivity; researching water regimes and resources and their sustainable use and protection; formulating a scientific framework for developing Karelia’s mining industry; developing mathematical and informational models for solving complex scientific, technical and environmental tasks related to optimum management of natural resources and economic structures; developing fundamental elements of the region’s economic policy; and studying and protecting the history, language and culture of Karelia’s indigenous peoples.

Recently, Karelian scientists have been deeply engaged in innovative research and technological development. In particular, research is being conducted to develop new nano-structured products based on schungite. As well, technologies are being implemented to reclaim industrial land, remove heavy metal from soil through biological treatment, improve the tolerance of feed crops and agricultural plants to heavy metals, and use biological indicators to monitor soil condition in case of industrial waste utilisation. New research areas include biotechnologies and microbiological R&D. Thus, cloning technologies for valuable and rare plants have been developed and implemented, as well accelerated tree growing technologies for economically valuable species, and forestry waste recycling technologies for generating new types of products and fuel. Genetic mechanisms of cardiovascular and oncological diseases progression are being studied, and diagnostics and treatment methods for these diseases are being developed.

Innovation-driven businesses in Karelia have a good track record of working closely with the Russian Fundamental Research Foundation, the Russian Foundation for Liberal Arts, the Foundation for Assistance to Small Innovative Enterprises in Science and Technology (Bortnik Foundation), the Zvorykin Project, etc., as well as with private venture funds and centres.
Economic potential

Karelia’s long-term economic development priorities

The region’s economic development priorities and objectives have been defined in accordance with the Strategy for the Republic of Karelia’s Social and Economic Development Through 2020 as follows:

- Raise Karelia’s profile as a leading border area in Russia’s North-Western region in terms of economic, R&D, and cultural interaction between Russia and its neighbours among countries in northern Europe and the Europea Union
- Streamline the social sphere and develop human capital
- Promote public-private partnership arrangements
- Carry out technological modernisation and diversification of the economy, improve Karelia’s competitive position through developing traditional and innovation-driven sectors, taking into account global economic trends and increasing domestic consumption
- Create efficient land and property markets, facilitate improvement of Karelia’s investment attractiveness and development of entrepreneurship
- Upgrade infrastructure and enhance the region’s spatial organisation, concentrate and distribute future resources
- Strengthen Karelia’s image as a Russian region with a well-developed information space and mature civil society, and as an attractive destination for living, investment and joint projects.

Investment climate

According to a study by RIA Rating, in 2013 the Republic of Karelia ranked 67th in terms of the amount of investment per capita and 44th in terms of the amount of foreign investment per capita.

In a 2013 rating of Russian regions’ investment attractiveness by the Expert RA rating agency, the Republic of Karelia was rated 3В1 (decreased potential – moderate risk).

The Government of the Republic of Karelia has set the objective of improving the region’s investment climate as part of activities linked to Karelia’s large-scale anniversary celebration.

Based on 2013 results, the total amount of investment in Karelia was RUB 32.1 billion (up 8.4% against the previous year), including RUB 2.2 billion in foreign investment.

As of early 2014, accumulated foreign investment totalled RUB 43 billion (USD 764 million). In the total amount of 2013 investments, Finland accounted for 32% of total foreign investment, while Cyprus accounted for 20% and Germany for 17.5%. During the past five years, Finland has also been one of the investment leaders in the Karelian economy. The neighbouring country’s investments in 2009-2013 totalled RUB 8.17 billion (USD 148.7 million), making it second only to the Czech Republic, which has accounted for investments worth RUB 11 billion (USD 201.3 million). However, this amount was generated primarily thanks to major investments made in 2011–2012.

Breakdown of 2013 foreign investments in the Republic of Karelia by source country

- Finland: 32%
- Cyprus: 20%
- Germany: 17.5%
- Other countries: 30.5%
Forms of support for investment activities

Karelia provides governmental support for investment activities in the following forms specified in the Republic of Karelia's Investment Declaration:

- Granting tax incentives on regional taxes: discounted profits tax and property tax rates;
- Granting benefits in the form of setting a discounted corporate profits tax rate for the portion of taxes allocated to the Republic of Karelia's budget;
- Granting regional government guarantees for investment projects on a competitive basis;
- Granting subsidies from the Republic of Karelia's budgetary funds for partial reimbursement of interest expenses on loans obtained for financing investment projects;
- Granting investment tax credits on corporate profits tax at the rate set for such tax payments to the Republic of Karelia's budget, and on regional taxes;
- Granting preferential terms for use of land and other types of real property;
- Granting subsidies from the Republic of Karelia's budgetary funds for partial reimbursement of expenses related to cadastral activities.

Legal status of investment activities

The Republic of Karelia has ensured adequate legal status and the protection of rights and interests with respect to both Russian and foreign investors, as well as transparent principles for working with governmental authorities, and a system of support and guarantees for investors. The regional government has put in place a corresponding regulatory framework designed to support Russian and foreign investors. Specifically, to date the following laws and regulations have been enacted or issued:

- Republic of Karelia Government Resolution No. 311-П of 14 October 2013 “On Approving the Procedure and Terms for Concluding Investment Agreements for Granting Tax Benefits to Investors”;

* Until 2014, the functions of a specialised authorised organisation had been performed by OAO Corporation for the Development of the Republic of Karelia. Starting from 2015, these functions will be transferred to a company to be selected via an open tender.
With the aim of improving the investment climate and optimising governmental support for investment activities, the Republic of Karelia is implementing a standard for ensuring a positive investment climate in the region, which may be applied by the executive authorities of other Region Federation constituent regions. The standard calls for engaging in several key activities aimed at:

• improving the transparency of the republic’s investment policy;
• creating mechanisms for attracting investments and ensuring proper investor relationship management (including working with investors ensuring balanced regional development, efficiently using the region’s natural and economic resources, and developing the region’s public-private partnership framework.
• providing investors with accessible infrastructure and professional labour resources;
• rendering comprehensive information support for investors.

To date, Karelia has gained strong practical experience in implementing investment projects through PPP mechanisms.

**PPP projects at the implementation and planning stages**

Construction and reconstruction (treatment facilities in the Petrovskoselsk Urban District (Stage II: Long-term vision of this project is supported by the government)

Integrated water treatment system for the Republic of Karelia’s small towns (presentations of the projects)

Construction of heat-and-power engineering facilities in the Republic of Karelia’s Northern Lodey region for the period through 2026

Reconstruction of engineering facilities of the Savoniaro airport system

Construction of a new deep-water commercial port in Sortavala


Examination, a state-financed bureau of forensic medical examination

Construction of the Yalguba sports and tourist centre, and other projects

The draft Federal Law “On the Basic Principles of Public-Private Partnerships in the Russian Federation”, the text of which is currently available to the public, would authorize Russian constituent regions and municipalities to establish the procedure for conducting tenders based on the principles of openness and transparency, and as well would ensure a level playing field for bidders to compete for the right to conclude a PPP agreement. Given the unique nature of each public-private partnership project from the standpoint of allocation of risks and obligations between the parties and selection of the financial model, this proposed regulation would give Russia’s regions the flexibility to develop partnerships with businesses within the framework of specific projects. The bill also provides guarantees for the lawful rights and interests of private partners.

Once this draft law is enacted, the Republic of Karelia intends to take appropriate measures to bring its regional legislation in line with the federal law in this area. The Republic of Karelia Ministry of Economic Development, in its role as coordinator of the regional authorities’ efforts to attract extra-budgetary investments in regionally significant public infrastructure based on PPP principles, has encouraged the regional executive authorities, municipalities and potential private partners to submit their proposals for investing in PPP projects in those areas that are aligned with the Strategy for the Republic of Karelia’s Social and Economic Development in the Period Through 2020.

**Applicable PPP legislation of the Republic of Karelia:**

• Republic of Karelia Law No. 1568-3PK of 5 December 2011 “On the Participation of the Republic of Karelia in Public-Private Partnership Projects”;
• The Procedure for Developing and Concluding a Public-Private Partnership Agreement, approved by Republic of Karelia Government Resolution No.26-11 of 30 January 2013;

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**Regional investment standard**

With the aim of improving the investment climate and optimising governmental support for investment activities, the Republic of Karelia is implementing a standard for ensuring a positive investment climate in the region, which may be applied by the executive authorities of other Region Federation constituent regions. The standard calls for engaging in several key activities aimed at:

• improving the transparency of the republic’s investment policy;
• creating mechanisms for attracting investments and ensuring proper investor relationship management (including working with investors ensuring balanced regional development, efficiently using the region’s natural and economic resources, and developing the region’s public-private partnership framework.
• providing investors with accessible infrastructure and professional labour resources;
• rendering comprehensive information support for investors.

To date, Karelia has gained strong practical experience in implementing investment projects through PPP mechanisms.

**Public-private partnerships**

Developing public-private partnerships (PPP) at the regional level represents one of the main mechanisms to be used in addressing the need for improving a given region’s investment attractiveness. The priority regional policy areas that can be covered through relevant PPP mechanisms include: transport, housing and public utilities, power industry, communications, education, healthcare, culture, science, and sports, among others, etc.

The Republic of Karelia’s government authorities and local population under the Republic of Karelia’s government authorities and local population under...

**Organisation**

The Inter-Departmental Commission for the Development and Deployment of Production Resources Forces in the Territory of the Republic of Karelia. This agency operates under the direction of the Head of the Republic of Karelia.

**Functions**

Coordination of activities by federal and regional executive authorities, and republic’s local municipal governments, for region’s natural and economic resources, and developing the region’s public-private partnership framework.

**Lead coordinator of activities aimed at attracting investments**

Responsible for structuring projects and drafting investment agreements on behalf of the regional government. With a view to ensuring efficient coordination of ministries and agencies’ activities, a task force for assisting in attracting investments to the Republic of Karelia has been set up. Personal responsibility for implementing investment projects in the republic has been assigned to those individuals listed among regional officials in charge of supporting top-priority investment projects being implemented and/or targeted for implementation in the region; the list has been approved by the Head of the Republic of Karelia.

**Specialised organisations supporting the investment process**

**Organisation**

OAO Corporation for the Development of the Republic of Karelia

**Functions**

Established by Republic of Karelia Government Decree No. 146 p-II of 1 April 2011 for the purpose of creating a corresponding investment infrastructure, and developing and improving the public-private partnership framework in the Republic of Karelia; The Corporation’s key areas of activities include:

• Searching for and attracting investment resources for ensuring further development of the regional infrastructure and implementing top-priority projects by applying PPP mechanisms;
• Supporting investment projects approved by the Republic of Karelia on a “one-stop-shop” basis;
• Coordinating and accelerating investment project implementation;
• Monitoring investment projects involving the creation and development of industrial parks and techno-parks in the Republic of Karelia;
• Representing the Republic of Karelia’s interests within the framework and on the terms of projects approved by the Republic of Karelia Government;
• Providing assistance in attracting new sources of finance;
• Developing a mechanism for cooperation between investors and the Republic of Karelia’s government authorities and local population under the Corporation’s auspices.

**Information support for investors**

**Organisation**

The Republic of Karelia for Investors: www.kareliainvest.ru

**Functions**

This website’s primary objective is to provide investors with information on investment activity opportunities in the Republic of Karelia (the regulatory framework, key events, available investment projects, etc.).

In 2013, an automated reference and information system was developed, featuring interactive three-dimensional monitoring of the Republic of Karelia’s investment projects. Each database object has its own coordinates anchoring (gridding). The database and related software component allow users to keep a register of investment projects and investment sites, as well as supplement the system with any relevant cartographic materials (infrastructure, power system, social facilities).
The Republic of Karelia’s 100th anniversary as a driver of the region’s further development

The Karelia-100 Project was initiated by Russian Federation Presidential Decree No. 517 of 24 May 2013 “On Celebrating the 100th Anniversary of the Establishment of the Republic of Karelia”. This large-scale, landmark project has set the ambitious goals by the year 2020 of transforming the republic’s image, modernising its economy and social sphere, and laying the groundwork for maximising the realisation of the republic’s existing investment potential.

The table below presents the Republic of Karelia’s key development issues to be addressed within the framework of the Karelia-100 Project.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Action plan within the framework of Karelia-100 Project implementation</th>
<th>Expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric power industry</td>
<td>• Reconstruction of worn-out capacities and distribution grids; • Construction of new generation facilities (mini-hydro power plants); • Increased capacity, elimination of electric power shortages.</td>
<td>Development of all power-consuming industries, creation of conditions for developing the tourism industry.</td>
</tr>
<tr>
<td>Gas supply</td>
<td>• Gasification of the republic’s populated localities; • Conversion of key utility infrastructure facilities to gas fuel.</td>
<td>Removal of infrastructure limitations, momentum towards further development of all economic sectors of the republic.</td>
</tr>
<tr>
<td>Transport infrastructure</td>
<td>• Construction of the high-speed Ogoni toll motorway (the Karelian section of the North-Western Development Corridor); • Reconstruction of the most worn-out regionally significant routes and road network facilities; • Replacement of wooden bridges; • Reconstruction of rail infrastructure facilities and the Petrozavodsk railway station; • Reconstruction of the White Sea Canal; • Reconstruction of the Kem Seaport.</td>
<td>Improved transport accessibility for both the local population and businesses. Momentum towards further development of all economic sectors in the republic.</td>
</tr>
<tr>
<td>Communications</td>
<td>• Ensuring a complete coverage of the republic’s populated localities and federal routes.</td>
<td>Ensured availability of information services for Karelia’s entire population. Momentum towards further development of the region’s IT sector.</td>
</tr>
</tbody>
</table>

The impact of the Karelia-100 Project on the republic’s investment potential is expected to be as follows:

1. **Tourism industry**: Elimination of existing infrastructure and transport limitations will create the essential prerequisites for actively developing the tourism industry, making it possible to achieve the target figure of 3.5 million tourists visiting Karelia by 2020.

2. **Agribusiness**: Elimination of existing infrastructure limitations will ensure the creation of favourable conditions for deploying production operations involving advanced processing of agricultural raw materials and fish, and will drive increased output of agricultural products in general, which in turn will allow for tapping both the domestic Russian market and markets in neighbouring regions (the St. Petersburg metropolitan area, etc.).

3. **Forest products, mining, and construction**: The implementation of the Karelia-100 Project and the resulting improvement of economic activity will prompt increased demand for construction materials and wood processing products. Further development of the transport infrastructure and improved freight routes and throughput capacity will also incentivise production in these industries.

4. **Engineering**: The implementation of large-scale projects will lay the groundwork for a revival of demand for engineering projects.

5. **Innovation**: The Karelia-100 Project is in an innovation-driven programme, which will spur additional demand for innovative projects. This, in turn, will lay the groundwork for implementing both existing and new innovation-driven projects in Karelia.
<table>
<thead>
<tr>
<th>№</th>
<th>Project name, Brief description</th>
<th>Project initiator</th>
<th>Amount of investments, RUBL million</th>
<th>Scheduled project timeline</th>
<th>Project implementation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Development of commercial mineral resource deposits in Karelia’s Pudozhsky District (Pudozhsky Mega Project)</td>
<td>The Republic of Karelia Ministry for Management of Natural Resources and Environment</td>
<td>114,500</td>
<td>2016-2020</td>
<td>Intention stage. The Government of the Republic of Karelia has: 1) set up a commission for strategic projects involving subsurface use under the auspices of the Government of the Republic of Karelia; 2) provided information on the Pudozhsky District’s mineral resource base to the Russian Federation Ministry of Industry and Trade; 3) engaged ZAO Rogozhina-ovda to formulate a concept for the full-fledged development of mineral deposits in the Pudozhsky District; 4) prepared and submitted information for consideration to the Russian Federation Presidential Executive Directors’ Directorate on potential markets for the Pudozhsky District’s mineral deposits; 5) drafted a package of documents on the full-fledged development of mineral deposits in the Pudozhsky District’s potential investors; 6) completed a feasibility study with a view toward acquiring the project (Pudozhsky Mega Project) in the natural plan for preparing for celebrations of the 100th anniversary of the Republic of Karelia in 2020.</td>
</tr>
</tbody>
</table>

### Agriculture

<table>
<thead>
<tr>
<th>№</th>
<th>Project name, Brief description</th>
<th>Project initiator</th>
<th>Amount of investments, RUBL million</th>
<th>Scheduled project timeline</th>
<th>Project implementation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Construction of a 405 Head commercial dairy farm in Sortavala (before 2013 - Sortavala dairy farm on dairy thread and basalt fibre-based production, with introduction of the company’s own generating capacities (gas generators))</td>
<td>OOO Tek Logistic – St Petersburg</td>
<td>16,970</td>
<td>2014-2018</td>
<td>Implementation stage. The Government of the Republic of Karelia and OOO TEK Logistic – St Petersburg have signed a cooperation agreement (dated 19 August 2014). Vnesheconombank (VEB) has been approached about providing the credit resources required to implement the project.</td>
</tr>
<tr>
<td>13</td>
<td>Construction of the Sunskaya Poultry Farm for broiler chicken meat production, with introduction of the company’s own generating capacities (gas generators)</td>
<td>OAO Konsputopolsky Kombinat Kibolovodnokvit</td>
<td>1,355</td>
<td>2014-2016</td>
<td>Intention stage. VEB has been approached about financing.</td>
</tr>
<tr>
<td>14</td>
<td>Restoration and upgrading of the Sankoskoe Poultry Farm</td>
<td>OAO Konsputopolsky Kombinat Kibolovodnokvit</td>
<td>1,354</td>
<td>2014-2018</td>
<td>Implementation stage. The Government of the Republic of Karelia and OAO Konsputopolsky Kombinat Kibolovodnokvit have signed a cooperation agreement for implementation of the Restoration and Upgrading of the Sunskaya Poultry Farm project (dated 19 August 2014). VEB has been approached by the investor about providing the credit resources required for implementing the project.</td>
</tr>
<tr>
<td>15</td>
<td>Upgrading and reconstruction of the Konsputopolsky Kombinat Kibolovodnokvit</td>
<td>OAO Konsputopolsky Kombinat Kibolovodnokvit</td>
<td>1,354</td>
<td>2014-2016</td>
<td>Pre-project activities. Registration of title to land plots.</td>
</tr>
<tr>
<td>16</td>
<td>Setting up of an abattoir business holding company in Sortavala (before 2013 - centralised control and a focus on agriculture/industrialisation)</td>
<td>OOO Seliuputoproligatry Sortavala</td>
<td>898</td>
<td>2014-2016</td>
<td>Pre-project activities. Registration of title to land plots.</td>
</tr>
<tr>
<td>17</td>
<td>Setting up of a fish farm and incubatory/incubation pond for frog farming in the Medynskoye District</td>
<td>OOO Kansk products</td>
<td>80</td>
<td>2014-2017</td>
<td>Implementation stage. Based on the results of an auction, OOO Kansk products has acquired ownership of a land plot in the village of Fedor, design and environmental survey activities are currently under way.</td>
</tr>
</tbody>
</table>

### Engineering and metallurgy, production of finished metal goods

<table>
<thead>
<tr>
<th>№</th>
<th>Project name, Brief description</th>
<th>Project initiator</th>
<th>Amount of investments, RUBL million</th>
<th>Scheduled project timeline</th>
<th>Project implementation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Setting up an integrated power-generation and metallurgical plant on the industrial site of the Nizhnevartovsk Aluminum Plant (NAZ)</td>
<td>OK RUSAL</td>
<td>6,800</td>
<td>2012-2014</td>
<td>Intention stage. An investment request and project-related materials have been submitted to VEB. Negotiations are under way for acquisition of the Oktiabrsky Hydro Electric Power Station and opening of a credit line by VEB for procurement of roll-rolling mill.</td>
</tr>
<tr>
<td>19</td>
<td>Setting up a plant to manufacture aluminium alloy castings on a site in the town of Nadezhdino</td>
<td>Elise Group</td>
<td>335.6</td>
<td>2014-2016</td>
<td>Intention stage. The investor is currently assessing the project feasibility, taking into account the potential for obtaining government support. VEB has been approached about providing the credit resources required to implement the project.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>№</th>
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<th>Amount of investments, RUB million</th>
<th>Scheduled project timeline</th>
<th>Project implementation stage</th>
</tr>
</thead>
</table>
| 26 | Reconstruction and construction of mini hydro power plants in the Republic of Karelia | | ZAO Nord Hydro | 7,703.5 | 2014-2019 | Implementation stage. Lyaskelya mini hydro power plant (commissioned on 5 September 2011): Basic parameters: Project parameters: • Installed capacity – 4.8 MW; • Annual electric power output – 27 million kWh; • Total amount of investment – RUB 170.2 million. Ryumyakoski mini hydro power plant (commissioned on 9 July 2013): Basic parameters: • Installed capacity – 650 kW; • Annual electric power output – 2,562 million kWh; • Total amount of investment – RUB 184.3 million. Kalliokoski mini hydro power plant (implementation deadline – 2014): Basic parameters: • Installed capacity – 975 kW; • Annual electric power output – 3,520 million kWh; • Total amount of investment – RUB 384.3 million. Khaapakoski mini hydro power plant (implementation deadline – 2019): Basic parameters: • Intended installed capacity – 700 kW; • Total amount of investment – RUB 199 million. Pre-project preparation activities have been completed: an engineering survey of the hydraulic engineering installations (HEI) has been completed; documents of title to HEI have been issued; an engineering certificate has been issued; and probable electric grid connection points have been determined. Vyartsilya mini hydro power plant (implementation deadline – 2019): • The amount of investment has not been estimated at this point. Pre-project preparation activities have been completed: an engineering survey of the HEI has been completed; documents of title to HEI have been issued; an engineering certificate has been issued; and probable electric grid connection points have been determined. Reboly mini hydro power plant (implementation deadline – 2016): Basic parameters: • Intended installed capacity – 500 kW; • Total amount of investment – RUB 220 million. Examination of the current condition of the HEI has been completed. A partnership agreement for the project has been signed by Jormakka OY, a leading Finnish partner, and ZAO Nord Hydro. An approved certificate has been obtained for the selection and examination of a land plot for ZAO Nord Hydro with a view to conducting design and environmental survey activities, construction and operation of hydraulic engineering structures, and an electric power transmission line for the Reboly mini hydro power plant. Beloporozhskaya-1 mini hydro power plant (implementation deadline – 2017): Basic parameters: • Intended installed capacity – 249 kW; • Total amount of investment – over RUB 3.0 billion. Initial planning permission documentation has been issued. A range of engineering survey activities for the deployment of the power plant’s HEI and water reservoir have been completed. Beloporozhskaya-2 mini hydro power plant (implementation deadline – 2018): Basic parameters: • Intended installed capacity – 249 kW; • Total amount of investment – over RUB 3.0 billion. Initial planning permission documentation has been issued. A range of engineering survey activities for the deployment of the power plant’s HEI and water reservoir have been completed.

| 27 | Tourism | The Petrovskaia Sloboda district in Petrozavodsk – integrated redevelopment of a former industrial area on the grounds of the Osio Tractor Plant | OOO Okhta Group Onega | 660 | 2010-2015 | Implementation stage. Tourists Business Centre (commissioned in 2013): The first half of 2014 saw continuous construction of the Osio Tractor Plant Residential Compound, comprised of a single three-building housing complex with 260 apartment units and total living space of 27,041.8 m². It is scheduled to be commissioned in June 2015. Construction of external networks (gas and water pipelines, and sewage and storm water drainage systems) is currently under way in the district.

| 38 | Investment climate | Republic of Karelia | Guide to Investment PwC | | | |
# Contact details

## Republic of Karelia

**Head of the Republic of Karelia:**
Alexander Petrovich Khudilainen

**Office of the Head of the Republic of Karelia**
19 Prospekt Lenina, Petrozavodsk 185028

Phone numbers:
- Reception: (814-2) 79-93-09
- For organisations: (814-2) 79-93-69
- For individuals: (814-2) 79-93-75
- Fax: (814-2) 79-93-91, 79-93-92
- Email: government@karelia.ru

**Deputy Head of the Republic of Karelia;**
Republic of Karelia Minister of Economic Development:
Valentin Yakovlevich Chmil

2 Ulitsa Andropova, Petrozavodsk 185028

Phone: (814-2) 792-300

Fax: (814-2) 781-039

Email: economy@karelia.ru

**Republic of Karelia Deputy Minister of Economic Development**
(in charge of investment policy issues):
Sergey Vyacheslavovich Alimpiev

Phone: (814-2) 792-307

Email: alimpiev@economy.ongo.ru

**Directorate for Investments and Government Support for Entrepreneurship;**
Head of the Investment Policy Division:
Evgeny Vladimirivich Kharramov

Phone: (814-2) 792-361

Email: invest@economy.ongo.ru

**Investors Hotline on The Republic of Karelia for Investors website:**
www.kareliainvest.ru/ru/7079/

**Representative Office of the Republic of Karelia in Moscow**
9 Armyansky Pereulok, Office 555, Moscow 101934,

Phone: +7 (495) 628-3447

Fax: +7 (495) 628-5930

Email: msk.karelia@yandex.ru

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## PwC Russia (Moscow)

White Square Office Centre
10 Butyrsky Val, Moscow 125047

Phone: +7 (495) 967-6000

Fax: +7 (495) 967-6001

Email: www.pwc.ru

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