



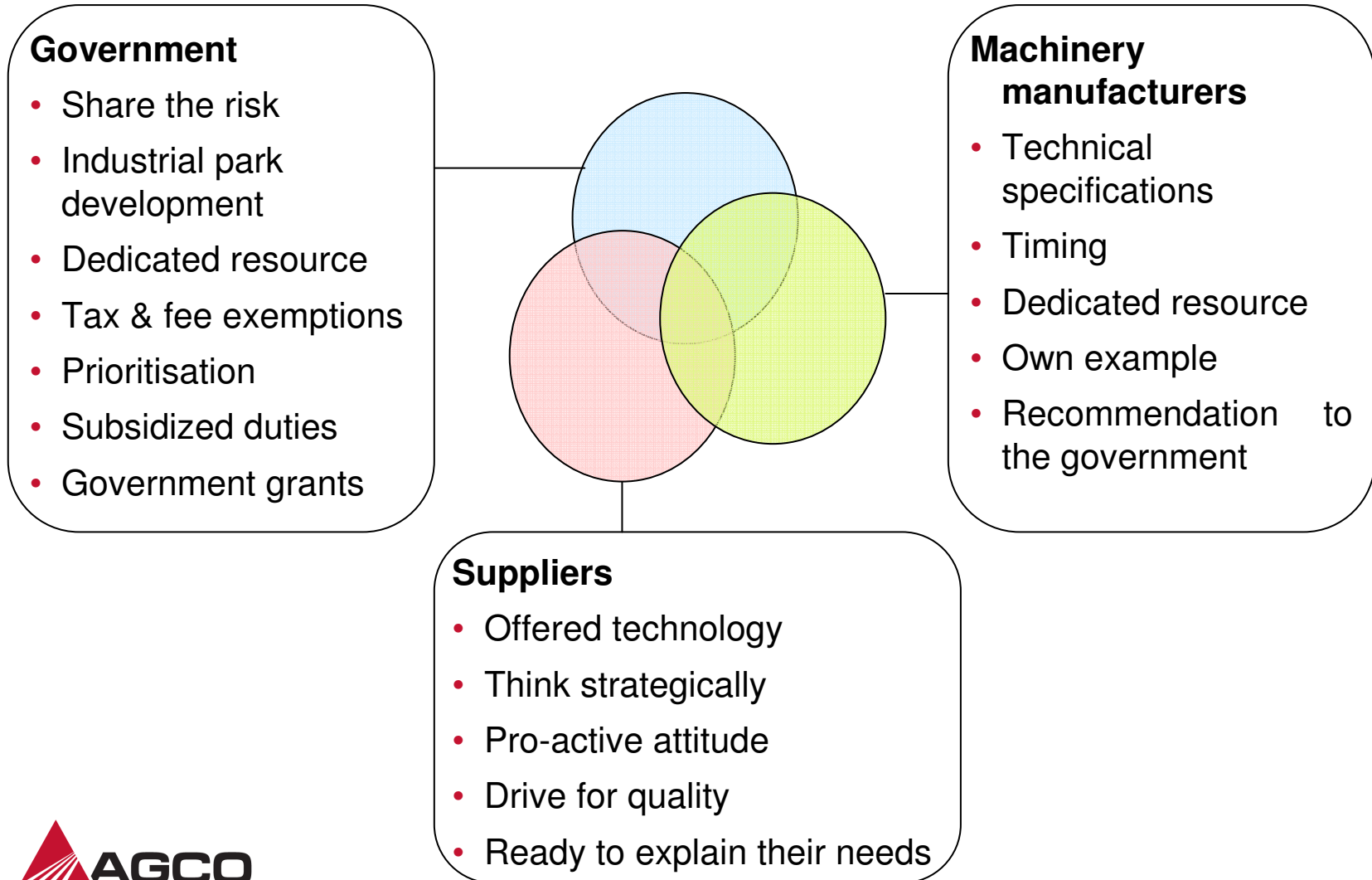
AEB Round Table on Production Localization

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9 June 2011

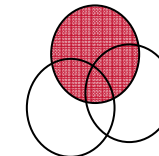
Main challenges

- Conceptual difference in production infrastructure of Russian and Western factories (vertically integrated complex versus focused manufacturing facility)
- In the wake practically total lack of focused components production standards
- Substantial investments in fixed assets are required to start up business
- Low investment attractiveness of this sector due to the low profitability and long return on investment period in comparison to raw hydrocarbon, IT, telecom, etc
- High risk caused by unsteady economic situation and conditions in Russia
 - import duties policies keep changing
 - interest rates may change dramatically year on year
 - unclear situation with subsidy programs – often quoted, but not always available
 - political risks (e.g. AGCO's own experience in Bashkortostan)
- Small and medium companies that operate in this business cannot afford long-term investments

Solutions – looking for everyone’s involvement

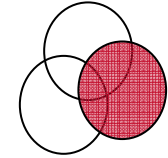


Solutions – how Government can help



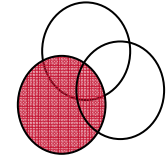
- Show the business community its real interest in development of components business first of all by sharing the risk. Creation of infrastructure is the best field of activity
- Creation of industrial park for components manufacturers at the state budget expense will strengthen confidence in intentions of the Government
- Workshops with all infrastructure suitable for production of components should be constructed in the industrial park
- The residents of the industrial park should be exempted from the rental fee for 5-8 years and from taxes by analogy of Special Economic Zones
- Companies that produce components specified as mandatory for localization should be invited in the first place
- Components producers should enjoy compensation of interest rate for purchase of equipment as well as export subsidies for overseas deliveries
- Government grants for the development of components production at the most prospective Russian factories

Solutions - what Machinery manufacturers can do



- Carry out engineering work together to adjust product specifications where possible, so commonising technology and tooling in order provide “critical mass” for volume - examples can include non-functional parts like mirrors, lights, floor mats, ladders, batteries, etc
- Run common commercial negotiations between Machinery manufacturers aiming to approach same western suppliers simultaneously when possible to accelerate decision of those suppliers to establish footprint in Russia
- Dedicate resource to the functions of Supplier development to successfully work with Russian traditional component suppliers
- Involve new western Suppliers in the dialogue with the Government and industry associations leading by example and sharing own experiences
- Give recommendations to the Government on the development of specific Russian factories with high potential

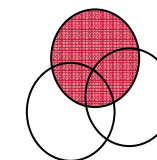
Solutions - what Suppliers can do



- Western suppliers can offer simpler technology to achieve acceptable part quality – in a close dialogue with Machinery manufacturers to facilitate transfer of technology across the borders
- Execute deep marketing studies analysing long-term perspective (5-10 years) of agricultural market. Base decisions not only on quick rate of return, this may not be the case for Russia
- Establish a dialogue pro-actively with government, administration, financial institutions early on, in order to get necessary support
- Russian suppliers should thrive for quality systems enhancement. Implement Quality Standards of ISO, QS or similar type to provide basis for future cooperation with Machinery manufacturers
- Suppliers should be ready to articulate exactly their needs in terms of infrastructure, production facility design, human resource

BACKUP

Part of the Solution – Special Economic Zones



READY-MADE INFRASTRUCTURE

The infrastructure of special economic zones is funded by the federal budget. About \$1.6 bn have been invested in infrastructure creation so far.

Utilities: an investor is provided with the required area of land with all utility connections (heating, power, gas, water, and telecom cables) already in place. Ready-made infrastructure enables investors to slash the costs of establishing new enterprises and to save time.

Customs: customs posts are open 24 hours a day, reducing the time for clearance of goods or equipment imported to the SEZs, which essentially operate as free customs areas.

Business: modern business centres, conference rooms, bank offices, equipped office buildings, restaurants, fitness centres – all the amenities necessary to ensure pleasant working conditions are provided.

Transport and logistics: SEZs proactively build roads, logistic centres and container yards. Industrial zone residents have immediate access to railroads.

CUSTOMS PREFERENCES



- This is a non-exhaustive list of preferential conditions
- There are 2 established SEZ¹ within Russia: in Lipetsk and Tatarstan regions
- Similar government programs exist in other countries, e.g. China, Poland and other
- **Government can make a stronger effort advertising the advantages and attracting targeted companies to establish production in SEZ**