

Lipetsk, Russian Federation

Kazinka, 2006

a new industrial city based upon sustainable development

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It has been possible to prepare this report thanks to the information and documentation given by the Vice Presidency of Marche Region, by the Department for Economic Development of Marche Region, by the Lipetsk Region in the Russian Federation, by the management of Indesit Company in Lipetsk, by Indesit Company in Fabriano Italy, by Merloni Progetti in Milan, by Studio Associato D'Azzo in Milan and Studio Arassociati in Milan.

1. Economic and territorial features of the Lipetsk Region in 2006

The Lipetsk Region (Oblast) is located in the middle of European Russia where some of the most important highways of the country meet, 450 km South of Moscow. Its territory is part of the basin of the river Don and its surface is 24.100 square meters, to be more precise 0,14% of the total surface of the Russian Federation. The distance between borders in the Eastern and Western parts is 150 km, the distance

between borders in the Northern and Southern part is 200 km. The continental climate is temperate. The average temperature in January is $-9,6^{\circ}\text{C}$ and in July $+19,3^{\circ}\text{C}$.

The most widespread type of soil is the black one. The available raw materials are limestone, dolomite rock, sand, clay and concrete.

The population in 2005 was about 1.200,000 inhabitants, 65% of these lived in urban areas and the remaining 35% in rural areas. In 2005 in the capital city of the Lipetsk region lived 503,800 inhabitants. The growth rate of the population is 0,8%, the average age is 40,3 years with a life expectancy of 73,19 years for women and only 58,86 for men. The population comprises the following age groups: 60,3% of the people are in their working age, 23,6% overcomes the threshold of working age and 16,1% is below this threshold.

The demographic density is 51 inhabitants per square kilometre.

The first foundry that we know was built in this region dates back to 1693 in the village of Studenky Lipsky along the shore of the Lipovka river. Some years later the foundries of Kuzminsky and Nizhny Lipsky were built to produce weapons for the navy of the Zar Peter.

In 1779, following a decree issued by Catherine II, the productive settlements of Lipsky obtained the Status of City which was given the name of Lipetsk. In 1902 two blast furnaces were built, to be part of an important siderurgical plant. In 1931 they started building a big-sized plant, called Novolipetsk Metallurgical Complex NLMK. In the year 2003 about 40,000 people were employed in this plant. In 1943 a tractor factory was built in this area.

In 1954 the Lipetsk Region was created. As regards the administration of the regional territory, it is divided into 20 territorial units including 18 rural districts. Overall in the area is composed by 8 cities and 1,600 villages.

The city of Lipetsk is the administrative, industrial and cultural centre of the region. It is located on the bank of the Voronezh river and here it is possible to find the biggest number of high schools, three universities, museums, theatres and cinemas. The NLMK is one of the most important siderurgical plants in the Russian Federation.

In 2005 in the city of Yelets lived 117,000 inhabitants and besides important historical traditions, this city is characterised by a quite well developed industrial system. In Gryazy in 2005 lived 48,000 inhabitants. This town is an important point of intersection of highways. Zadonsk is one of the religious centres of the orthodox Christianity.

In Lipetsk live 503,800 inhabitants. It is located 450 km South-East of Moscow

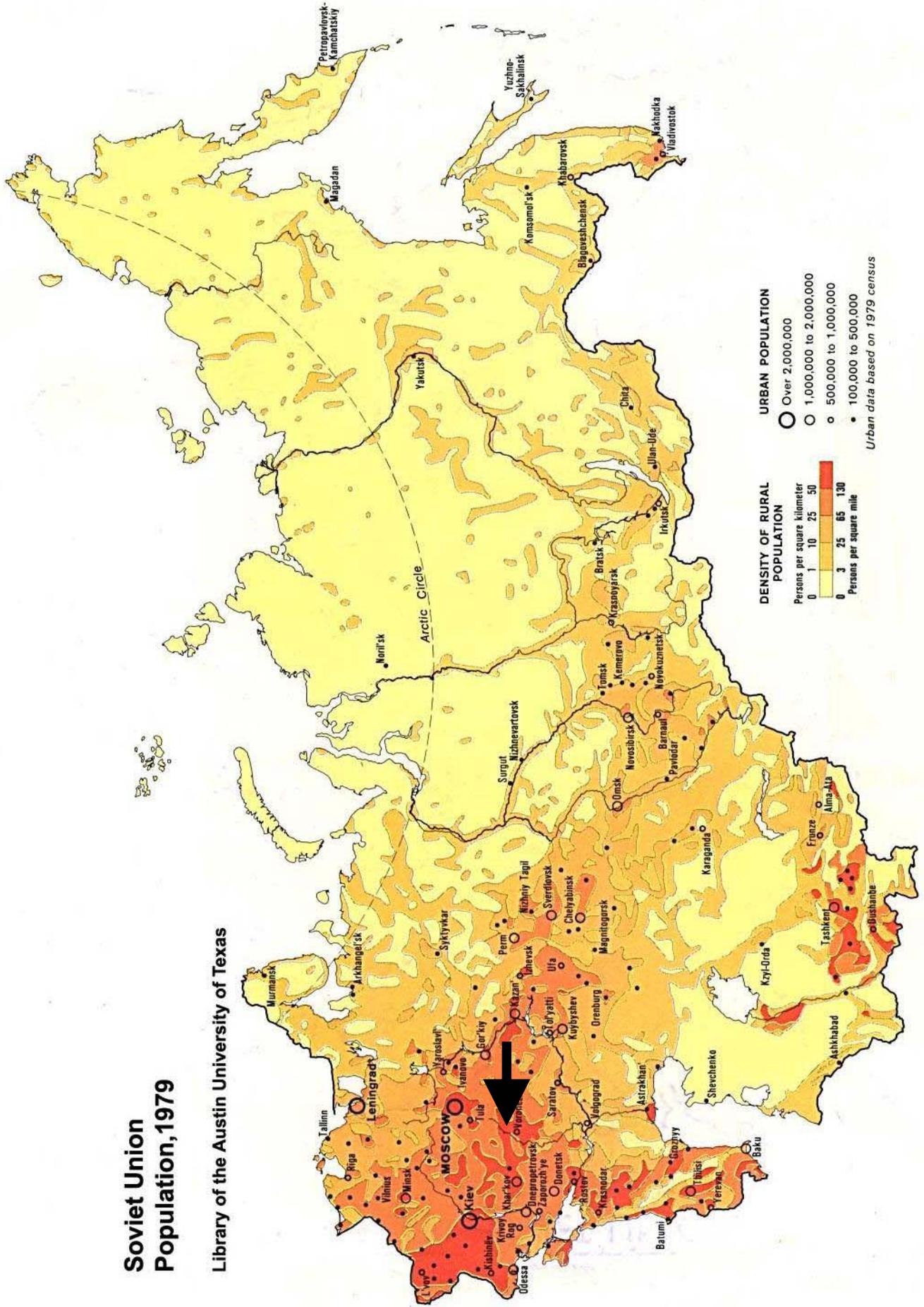


Above on the left is the urban centre of Lipetsk, South-East is the artificial water basin of Matyrskiy and the town of Gryazy

Source: Lipetsk Region, 2003

Soviet Union Population, 1979

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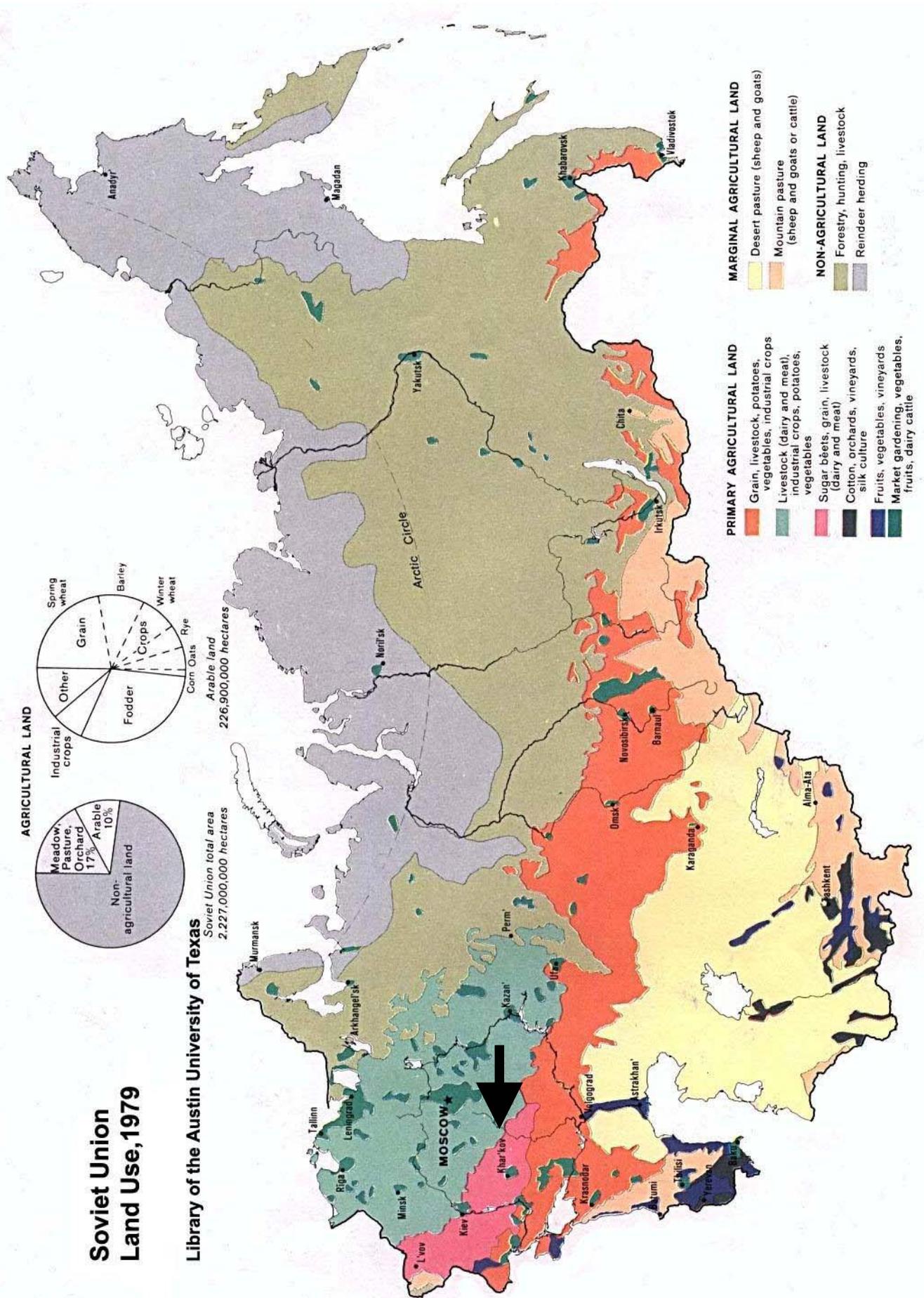
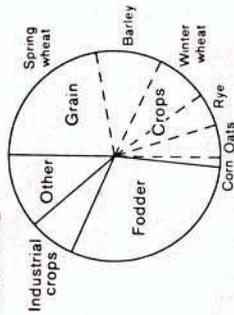
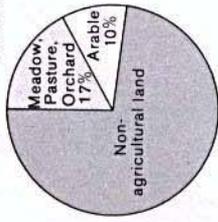
Soviet Union Land Use, 1979

Library of the Austin University of Texas

Soviet Union total area
2,227,000,000 hectares

Arable land
226,900,000 hectares

AGRICULTURAL LAND



- PRIMARY AGRICULTURAL LAND**
- Grain, livestock, potatoes, vegetables, industrial crops
 - Livestock (dairy and meat), industrial crops, potatoes, vegetables
 - Sugar beets, grain, livestock (dairy and meat)
 - Cotton, orchards, vineyards, silk culture
 - Fruits, vegetables, vineyards
 - Market gardening, vegetables, fruits, dairy cattle
- MARGINAL AGRICULTURAL LAND**
- Desert pasture (sheep and goats)
 - Mountain pasture (sheep and goats or cattle)
- NON-AGRICULTURAL LAND**
- Forestry, hunting, livestock
 - Reindeer herding

Soviet Union Metallurgy, 1979

- Ferrous
- Copper
- Aluminum
- Lead and zinc
- Other

Size of circles and segments indicates relative importance.

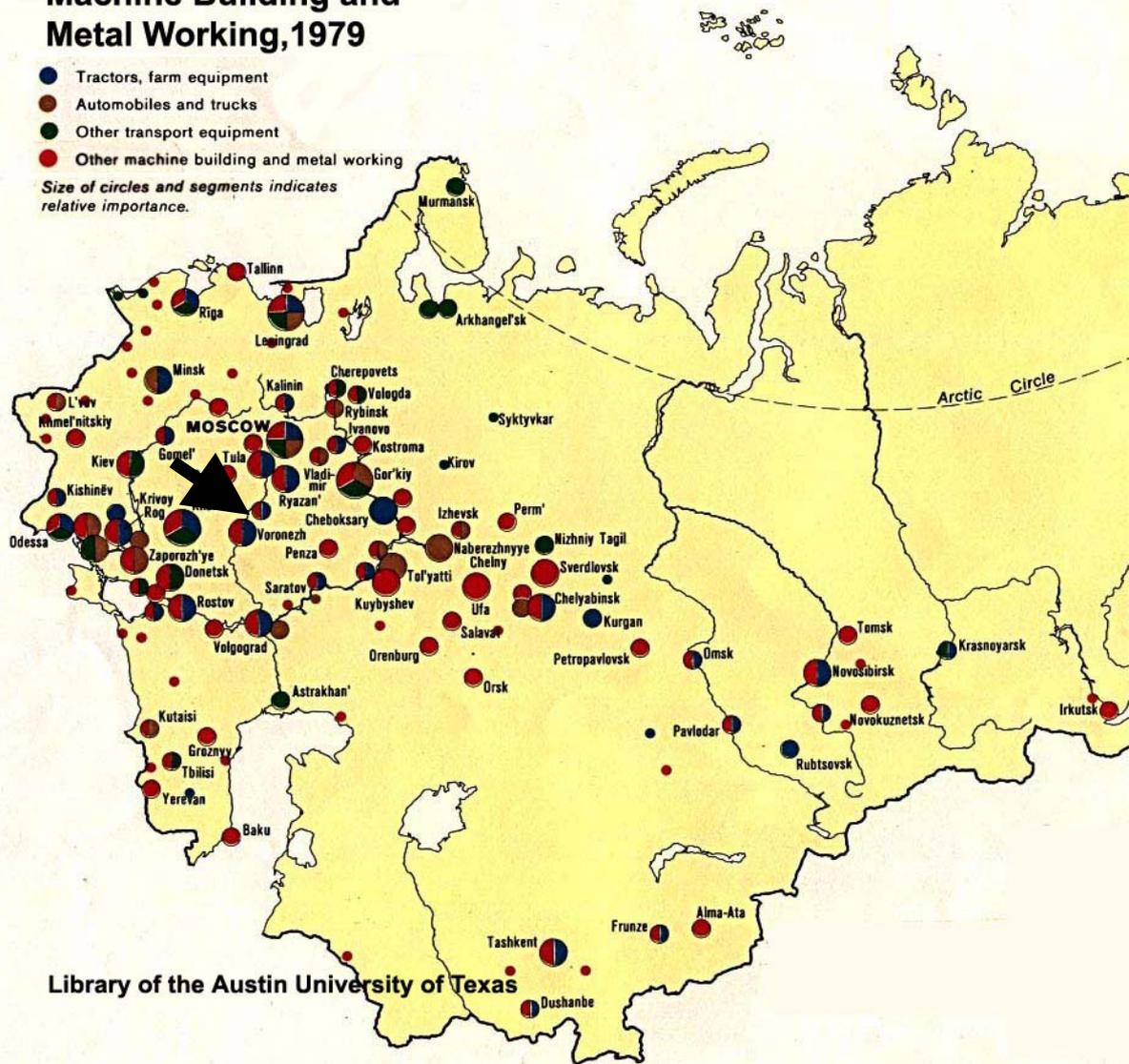


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Soviet Union Machine Building and Metal Working, 1979

- Tractors, farm equipment
- Automobiles and trucks
- Other transport equipment
- Other machine building and metal working

Size of circles and segments indicates relative importance.



In 2005 the total length of the railway network in the region was 746 km. The length of the road network was a little more than 8,000 km. The airport in Lipetsk can allow the landing of aircrafts with a take-off weight of more than 60 tons. So far, it does not have the requisites for international flights so it is necessary to land in Moscow first, to be able to reach Lipetsk.

The telecommunication system in the region can count on cable, radio and satellite systems. Four companies are active and offer services in the field of mobile telephony. The number of people having a contract for a mobile telephone was about 90,000 in 2003 and increased to 400,000 in 2005. In the Lipetsk region in 2005 the number of people who had an Internet subscription was 7,740 comprising about 500 schools.

In 2005 the percentage of illiterate people was 0,93% of the total population. Despite this the number of people who were not illiterate but did not have any kind of education was 1,63%. 13,62% of the population had access to universities and only 0.14% attended post-graduate courses.

In the region there are 3 public universities: the Technical University in Lipetsk, the University of Pedagogy and the University of Elezky. The scientific activity at the Technical University in Lipetsk focuses on the fields of iron metallurgy, creation of new materials, energy saving, logistics of public transport systems. The research activity is carried out in the three Universities and in some research centres with an historical tradition.

Two regional banks are active in the field of credit, besides 17 branches of other Russian banks.

In the region, the industrial activities contributed to 50% of the total Gross Regional Product, that increased to 66% in 2004. In 2004 the industrial sector comprises nearly 2,000 companies, 197 of these were medium-big sized enterprises. The most important sectors are the siderurgical sector, the mechanical and metal sector, the production of electricity, the food industry, chemical industry, the production of medicines, the production of components for the building sector. Private companies represent 90% of the companies working in the industrial sector. Private companies produce 98% of the value on a yearly basis. In 2004 the siderurgical sector produced 71% of the value on a yearly basis.

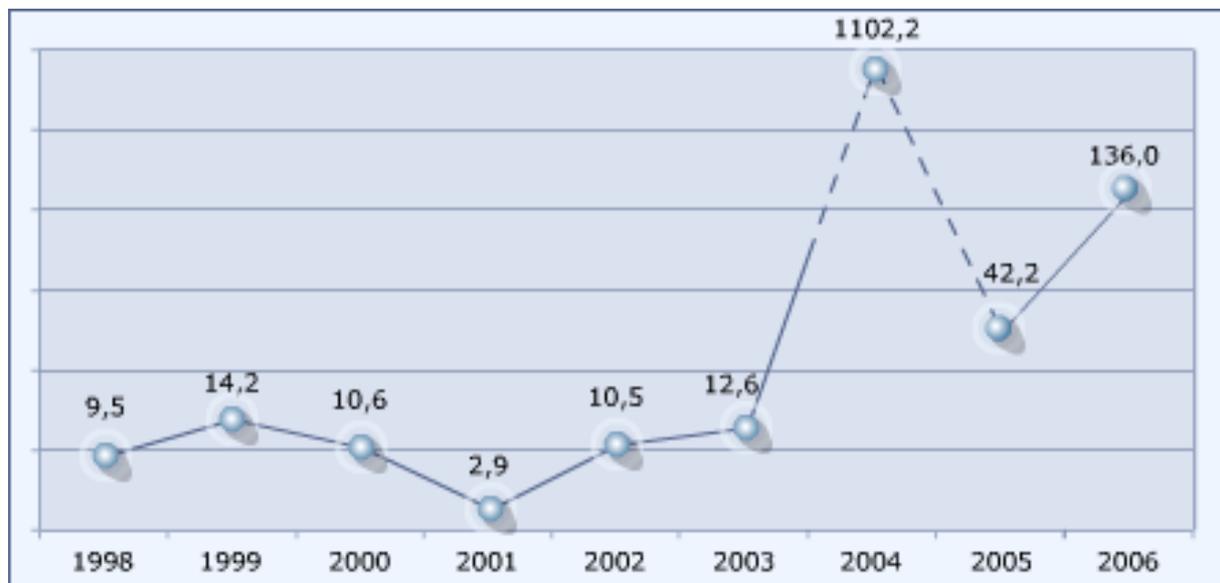
Besides two siderurgical companies that have already been mentioned, in Lipetsk the most important companies are Merloni Elettrodomestici with its Stinol factory, the tractor factory in Lipetsk, the factory producing machines for agriculture, the chemical company Silane, the energy producing company Lipetsk Energo.

In 2005 the Lipetsk region ranked third in the Central Federal District (Tsentralny Federalny Okrug) as regards the total volume of industrial production, following

Moscow and the Moscow region. Lipetsk and its region rank first as regards the production of refrigerators and freezers, contributing to more than 40% of the total Russian production. It is in fourth position as regards steel production, contributing to 14% of the total production in Russia and to 16% for the production of laminates from iron metals. In this region are located the most important producers of caster sugar whose production is 7% of the total production but also the most important producers of fruit and vegetable conserves representing 29% of the total production. The companies in this region keep relations with enterprises in more than 90 countries all over the world.

As regards the total amount of foreign investments in the Russian Federation in 2006, the Lipetsk region accounted for 0,36%.

The foreign countries with a partnership in companies with foreign participation are 25 (84%) while those belonging to the Community of Independent States (CIS) are 16%.



Foreign investments in the Lipetsk region from 1998 to 2006, million US Dollars

Source www.invest.region48.ru – Lipetsk region

At the end of June 2006 investments from 11 countries flew into the Lipetsk region and the total amount of foreign capitals invested in the region was 9.962,28 million US Dollars. Among the five main companies with foreign capitals is Indesit Company.

The total amount of foreign investments in 2006 was 136 million US Dollars.

Exports from the Lipetsk region in 2006 increased by 9,7% compared to 2005.

Exports from the Lipetsk
region in 2006, million US
Dollars

Country	2006
Germany	310,5
Italy	421,2
USA	746,5
Turkey	852,3
Other countries	129,0

Source www.invest.region48.ru – Lipetsk region

2.The acquisition of the refrigerator factory Stinol by Merloni Elettrodomestici spa (now Indesit Company) in 2000 and the building of two more plants for the production of washing machines in 2004 and 2005

Merloni Elettrodomestici decided to take over 100% of Stinol in 2000 for an amount of 119,3 million US Dollars, thus acquiring the most important company in Russia for the production of refrigerators. This decision was taken on the 25th anniversary of the multinational company Merloni, which was created in 1975 from the company producing household appliances belonging to the Merloni Industries set up in Fabriano (Ancona) in 1930.

According to its chairman Vittorio Merloni, Merloni Elettrodomestici is a “pocket-sized multinational company whose headquarter is a plane and whose strategy is focusing on foreign markets”. In a period of 25 years this company has ranked third in Europe thanks to its cooperation with a hundred suppliers. In 2003, Indesit Company with two main brands Indesit and Ariston and three regional brands, employed 21,000 people, produced 12 millions of pieces corresponding to a turnover of 3 billion Euros, covering 14% of the European market. The turnover, divided into geographic areas, amounted to 71% in the solid markets of Western Europe and 29%

in developing markets. Merloni Elettrodomestici and Antonio Merloni accounted for 6% of the global market share which corresponds to 250 million products comprising refrigerators, kitchens and washing machines.

The Russian company Stinol set up in 1990, had a plant with a surface of 100,000 square meters and produced about 700,000 units every year with a turnover amounting to 100 million US Dollars. NKML was the only owner of Stinol and the factory had been planned in 1989 by Merloni Progetti in Milan. It was built from 1990 to 1991 and started in 1993. Stinol was created to streamline the production of steel coils in the third biggest siderurgical plant in the Soviet Union based on integral cycle. This kombinat, built in the 30's, employed 40,000 workers in 2003 in comparison to 6,000 workers employed by Stinol when this company was taken over by Merloni in 2000.



Lipetsk, Stinol plant for the production of refrigerators

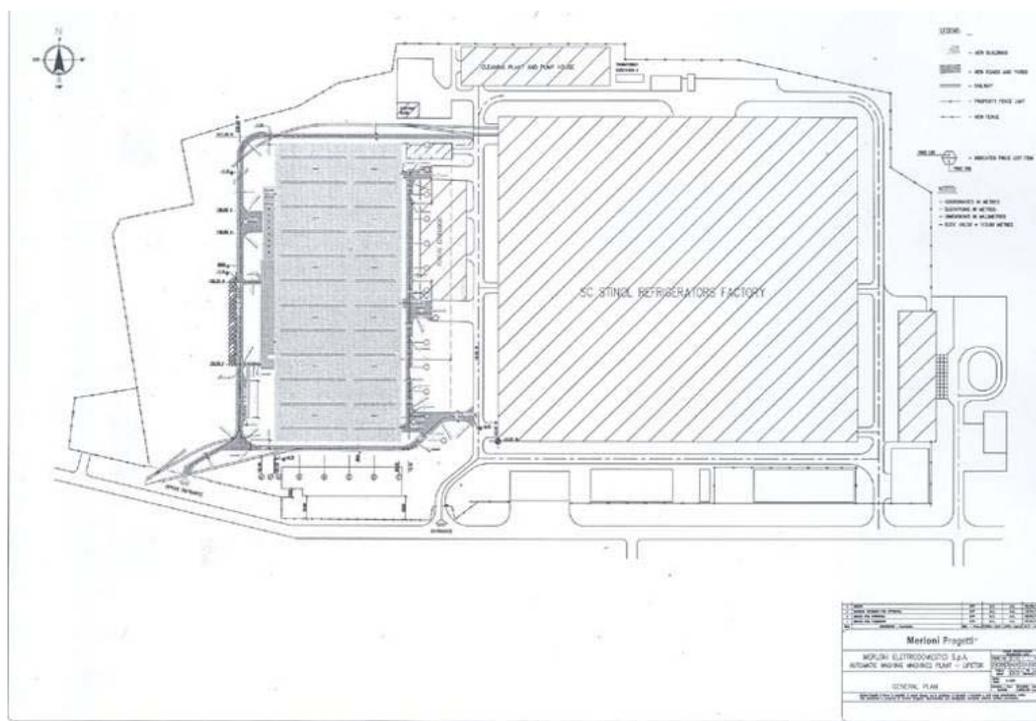
Source: Merloni Elettrodomestici spa Fabriano AN Italy, 2003

The plant is managed by Italian managers, together with some Russian “managerial employees” while factory workers are local people. The cost of labour is lower than in Italy and the level of productivity is lower, too. Labour quality has been growing thanks to training courses organised both in Lipetsk and in Italy. This shows that Merloni has not focused on the CIS to decrease costs, but the reason is the potential of the market. The European Investment Bank EIB in 2001 reported that it was likely for Merloni to invest around 60 million US Dollars in a period of 4 years to innovate

and develop products in order to make Stinol products consistent with EU standards. Stinol has adopted all performance principles in the environmental field, already followed by all Merloni plants in Italy and abroad.

The organisation and work pace focus on the quality of every unit produced and in 2003 the output capacity amounted to 1,3 million units a year, even if the output per worker was lower than in Italy. From 2000 until 2002 the total number of workers decreased by 1,000 to 4,900 people employed. The workers are mainly young people and 47% of workers are women.

In 2003 the average pay in Stinol, like in the siderurgical sector, amounted to 8.000,00 Rubles, that is 250 Euros. However the pay of a worker in the production department was 140,000-150,00 Euros, slightly higher than the average pay in the metal and mechanical industry in Russia which amounts to 4.000,00 Rubles (125 Euros).



Lipetsk, general plan of the Stinol factory

Source: Merloni Progetti spa Milan, 2003

The Russian Parliament, Duma established by law a minimum pay to survive which was 600,00 Rubles in 2003, that is less than 20 Euros. Negotiations at national and regional level, through agreements with trade unions established a minimum guaranteed salary which amounted to 1.600,00 Rubles in the Lipetsk Region in 2003

(about 50 Euros). Through negotiations at company level higher salaries can be established, this is the case of Stinol.

The offer by Merloni was considered the best one in comparison with other Asian potential buyers, considering the old relations between Merloni Elettrodomestici and NLMK.

The doubts expressed by some analysts regarding the selling of Stinol to Merloni were rejected by NLMK highlighting that it was very difficult for a big siderurgical company to efficiently manage a business working in the sector of household appliances.

NLMK decided to focus on its core business whose exports amounted to 1,5 billion US Dollars in 2003, in comparison with a revenue of 110 million US Dollars for Stinol.

The big investments by Merloni in the CIS follow a strategy based on industrial development. These investments had already been planned through a capital stock of 150 million Euros in the bond market, aiming at new takeovers.

This was made by keeping a balanced financial structure and the same profitability target even though the pay back expected after this investment is about 8 years.

Various factors have contribute to this decision. The main reason is the willing to complete the range of products sold on the markets of the Russian Federations and Republics of the ex Soviet Union. Another reason, even if not very important, was linked to the likely decision by the Russian government to introduce duties in order to discourage imports and promote domestic imports.

The level of sales of refrigerators to Russian families is still lower in comparison with Western Europe. Merloni has opened itself to a market with 280 million consumers and whose refrigerators are quite old, thus needing to be renewed.

After this operation, in the year 2003 Merloni acquired a total market share of 35% in Russia with its brands Ariston, Indesit and Stinol, compared with the most important competitor whose market share was 14%.

The new washing machines factory has contributed to local development, also considering its capacity to attract other suppliers. This is the case of other industrial compounds where Merloni has settled.

On the 31st December 2003, Merloni employed 19,476 people.

PLANT	MEN	WOMEN	TOTAL
Albacina	417	93	510
Brembate	288	223	511
Carinara	524	130	654
Comunanza	613	142	755
Melano	431	137	568
None	322	293	615
Teverola	417	144	561
All Italian plants	3.012	1.162	4.174
Manisa (Turkey)	239	33	279
Setubal (Portugal)	224	75	299
Thionville (France)	256	37	293
Lodz (Poland)	605	45	650
Lipetzk(Russian Federation)	2.619	2.357	4.976
Kinmel Park	710	115	825
Peterborough	513	260	773
Blythe Bridge	970	233	1.203
Yate	582	254	836
All UK plants	2.775	862	3.637
TOTAL	9.730	4.571	14.301

Staff employed in Merloni plants in 2002

For Merloni Elettrodomestici, like the whole sector, the trend is to “move towards East” where the demand is growing (+11% in 2002), whereas Western Europe is characterised by stagnation.

In 2007 Indesit Company employs 17,000 workers.

3.The expansion of Indesit Company in the Lipetsk Region until 2005

After the take over of Stinol in 2000 by Merloni Elettrodomestici spa, now Indesit Company, an expansion path was started. During this path the company built two more plants in 2004 and 2005, thus increasing the production volume.

In order to have a general idea of the path followed by Indesit Company, it is possible to divide it into three main phases of its expansion.

The first phase is characterised by high production costs per unit and focused on the take over of Stinol, turned into the first Merloni factory in the area.

The second phase is based on improving productivity and efficiency of Stinol, and during this time a second plant for washing machines was built.

The plant was necessary to balance production levels between Eastern and Western Europe, because 86% of the total volume was produced in the Western plants against sales amounting to 67%. It was opened in April 2004.



Lipetsk, Stinol factory. The first pole of the washing machine plant

Source: Merloni Progetti spa Milan, 2003

The plant was built within a period of 12 months because 400 people worked continuously on it and the volume of investments amounted to 50 million US Dollars against an output capacity of about one million units per year. The plant covers a surface of 25,000 square meters and employs about 1,000 workers. In its first year the plant improved productivity by 14%.



Lipetsk, building site of the new washing machine plant Stinol

Source: Merloni Progetti spa Milan, 2003

The third phase is characterised by the opening of the last plant in October 2005 making this area the biggest production area of household appliances (the biggest sector in Europe) in the Russian Federation. The investments for this plant were about 32 Million Euros. It is organised for producing washing machines and has a capacity of 250,000 units covering an area of 50,000 square meters. It employs 200 people, besides 5,000 people already working in this productive area. During the inauguration ceremony the management announced the willingness to expand the industrial district in order to achieve an output capacity of 3,000,000 units.

4. The policy carried out by the Marche Region to help the internationalisation projects for industrial districts. The territorial partnership between the Marche Region and the Lipetsk Region and the creation of a mechanical district in Lipetsk

Indesit Company has been working for a long time on a project to create an industrial area in Lipetsk and have the chance to use components for its plants which have been produced in Russia by Russian companies or by foreign investors, possibly including Italian ones.

This project was developed in 2002 and 2003 and concerned the creation of an industrial area covering a surface of 20 hectares. Besides this, the project focused on

the modernisation of already existing companies and the creation of new companies to supply Indesit Company with the necessary pieces for the production process.

This project was necessary because most Russian companies which could be potential suppliers were all located near Lipetsk and their characteristics were not the best ones.

The outlook was based on a volume of investments of 42 million Euros in 2004 and 2005 by the companies supplying Indesit Company. This project has been characterised by cooperation among Indesit Company, local authorities and potential investors.

In the area around Lipetsk, which is among the first five regions in the Russian Federation in terms of economic development thanks to 180 companies working mainly in the fields of metallurgy, mechanics, electronics, chemistry and building, the Marche Region has decided to join the initiative carried out by Indesit Company by supporting an internationalisation project for the mechanical district from Marche.

5.A very important chance that must not be overlooked: contributing to outline a compatible development policy for the local communities

Among the most important activities being the core of the partnership, besides the industrial development, we can highlight those related to research and university teaching, culture, arts, sport, logistics, and the management of airport services.

As regards this partnership, the Marche Region has highlighted the importance to develop social cohesion which is a fundamental and unavoidable factor to outline a real development project for a mechanical district that is based on the peculiar model of Marche. This model has needed some decade to grow and can not be implemented in a very different context with a simplified model, based on some elements.

In Lipetsk in 2002 the Marche Region and the Lipetsk Region signed a Protocol of Purposes that foresaw a three-year collaboration that could be renewed in the following sectors:

- The industrial sectors of mechanics and electromechanics, agricultural machines, furniture, wood, plastic materials, textile and clothing
- Integrated logistic systems
- Agricultural production and the processing of agricultural products
- tourism, agritourism, connection infrastructures for sport and leisure activities
- cooperation in the field of university education, research, culture and the arts

In September 2002 in Ancona took place the first meeting of the working group composed by representatives of the Marche Region and the Lipetsk Region, which focused on the following issues :

- Cooperation between Marche Politechnical University in Ancona and the Technical University in Lipetsk
- Economic relations between the two regions, considering the possibility to apply the model of the mechanical district in Marche to the Lipetsk Region
- Develop economic cooperation in different sectors: food farming, textile-clothing and so on.
- Create a Casa Marche (sort of representative office for the Marche Region) in Lipetsk

During that meeting some important actions were outlined:

The integration of training courses in the Agreement between the Marche Region and the Italian Ministry of Productive Activities for the staff of all those companies from Marche which aim at investing in the Lipetsk region. The same action will be taken in favour of Russian companies from Lipetsk.

Activate a base unit of Meccano spa from Fabriano as a training and technical support centre for companies from Marche which will invest in Lipetsk. This is project to be developed with the Regional Financial Company Svim (Ancona) and within the EU Programme Tacis.

In June 2003 a Russian delegation from the Lipetsk Region met a delegation of the Marche Region in Ancona, together with representatives of the Confederation of Industries and the Marche Politechnical University. Representatives of MAP (Ministry of Productive Activities) and ICE (Institute for Foreign Commerce) took part in the meeting.

The meeting focused on the following issues:

- Twinning between the municipalities of Lipetsk and Fabriano
- Cooperation between the Technical University in Lipetsk and Marche Politechnical University in Ancona
- Creation of a Casa Marche (sort of representative office for the Marche Region) in Lipetsk
- Progress of the Integrated Project between the Marche Region and the MAP
- Cooperation in the fields of tourism, sport, culture and media

Cooperation between the two universities focuses on:

- the geotechnical component in civil engineering
- research on ecological and environmental issues

- psychological basis for the prevention of job-related diseases
- simulation for studying the effect of laser rays on biological objects
- social and psychological aspects of management
- modification of ionic rays on biomaterials
- other activities to enhance cooperation between the two universities

The integrated project presented by the Marche Region to the MAP and ICE was approved in June 2003.

In September 2003 the Regional Government has approved a project to create in the Lipetsk Region a "clone" of the peculiar model of the mechanical district rooted in Marche.

This project will be implemented within the framework of collaboration with the MAP and the Convention with ICE in July 2003 within the Programme Agreement between the MAP and the Marche Region.

6.The policy carried out by the Italian Government, the Ministry of Productive Activities and the Ministry of Foreign Affairs to create some industrial districts with the SMEs in the Russian Federation

It is known that the Italian SMEs have moved a part of their productive cycle to Eastern Europe by building new plants in Romania, Poland, the Czech Republic, Hungary, Bulgaria, Albania and other countries, even if they still have not invested in a systematic way in the CIS and in particular in the Russia Federation.

In many cases Italian companies have used only a part of the economic support made available by the Ministry of Productive Activities and Foreign Affairs, or by the existing laws to support the activities of our companies abroad.

In few cases Italian companies have operated on a systematic basis, looking at the model of productive districts. According to the map of industrial districts outlined by Istat (Institute of Statistics), the number of districts in 2002 was 199 with 239,000 manufacturing plants employing 2,2 million workers.

Promoting industrial districts in the foreign markets is very important instrument to support the relaunch of the Italian economy. In the CIS or the Russian Federation, the commitment of Italian companies supported by their Regional Authorities together with the MAP and the Ministry of Foreign Affairs, is bringing about the first real and positive results in the Lipetsk and Sverdlovk region where the most important Italian productive facilities have been or are now being built.

In 2007 the Marche Region outlined a project on an industrial park in Dmitrov, a city with 130,000 inhabitants located 65 km North of Moscow. This initiative is now being developed thanks to the recent Agreement with the Marche-Russia Association.

In 2002 when the Italian and Russian governments met during the Moscow and Sochi Summit a joint Italian-Russian working group was set up whose task was to promote the creation of industrial districts in Russia based on the Italian model.

To keep the competitive advantages that characterise agglomeration economies which are a peculiarity for industrial districts, it seems suitable to allocate public incentives to promote the internationalisation of the industrial district as a whole, not only of the single company. To attain this goal in 2002 the MAP decided to include within the guidelines for promotional activities a package of measures to create new Italian industrial districts in the most interesting countries from the point of view of the internationalisation strategies of our SMEs: the Russian Federation, Romania, Morocco and Tunisia.

It was observed that, as regards the creation of an Italian industrial district the first real and positive results have been achieved with the pilot case of Lipetsk based on project for the creation of a mechanical district.

It seems clear that the creation of industrial district in Russian regions, following the Italian model, can contribute to the development of SMEs in the Russian federation and to enhance the economic relations between Italy and Russia.

The MAP has decided to outline a model of agreement among Italian and Russian regions on the cooperation in the field of industrial districts.

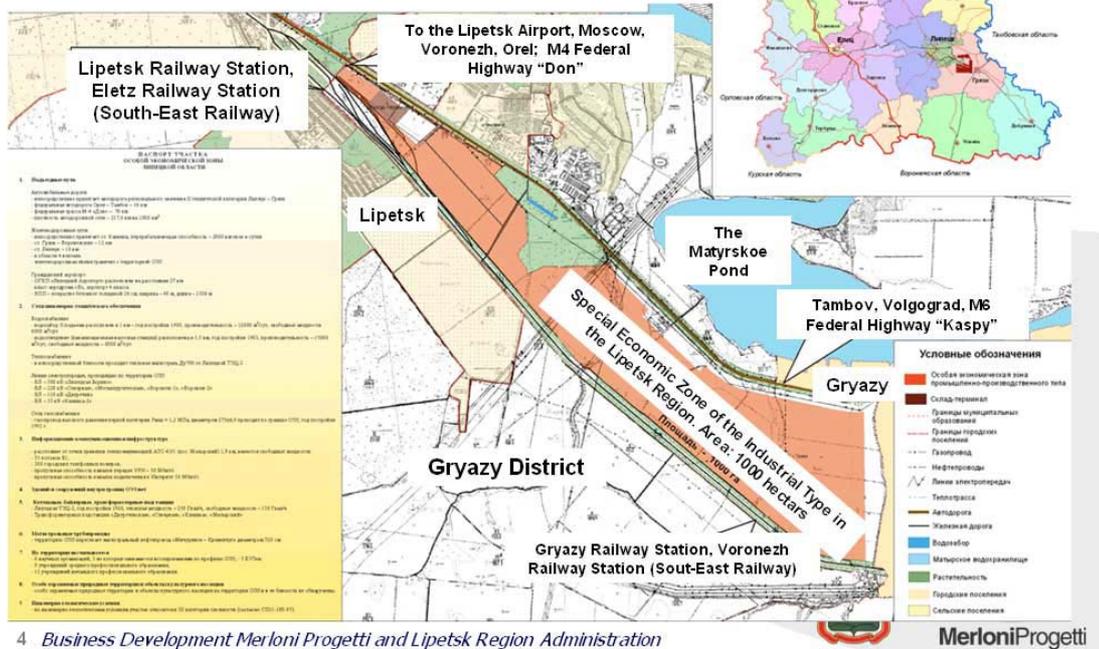
7.Special economic zones

According to the national law on “Special Economic Zones in the Russian Federation” the Russian government adopted on the 21st December 2005 the resolution 782 through which it accepts the proposal forwarded by the Ministry of Economic Development and Commerce to create a Special Economic Zone SEZ in District of Gryazy in the Lipetsk Region.

The Lipetsk Region had previously won a competition organised to select the requests for the creation of a Special Economic Zones. In the region the building of a SEZ has started, the name of this area is Kazinka because it is located in a rural area called Kazinka, in the District of Gryazy.

The SEZ is the result of an agreement between the Ministry of Economic Development, the Lipetsk Region and the District of Gryazy signed on the 18th January 2006.

Lipetsk Special Economic Zone Map



Plan of the Special Economic Zone in Lipetsk

Source: Merloni Progetti spa and Lipetsk Region

When the building of the new industrial area is completed, it could cover a surface of 1,030 hectares, that is 10 square km. The area is located at the centre between the cities of Lipetsk and Gryazy. It is located between the regional road and the railway connecting both cities. This new industrial area is less than 10 km South-East of the urban centre in Lipetsk.

It is assumed that the implementation of the project will help attract 21,5 billion Rubles as investments in the decade from 2006 until 2016. The main investor is Indesit Company which has assigned the task of planning this big industrial area to Merloni Progetti Spa in Milan.

The project foresees the building of some plants in the SEZ of Kazinka in order to guarantee highly technological productions. The creation of a SEZ in the Lipetsk Region will contribute to enhance cooperation among SMEs, to develop interregional relations. Now a process to attract new potential investors is underway.

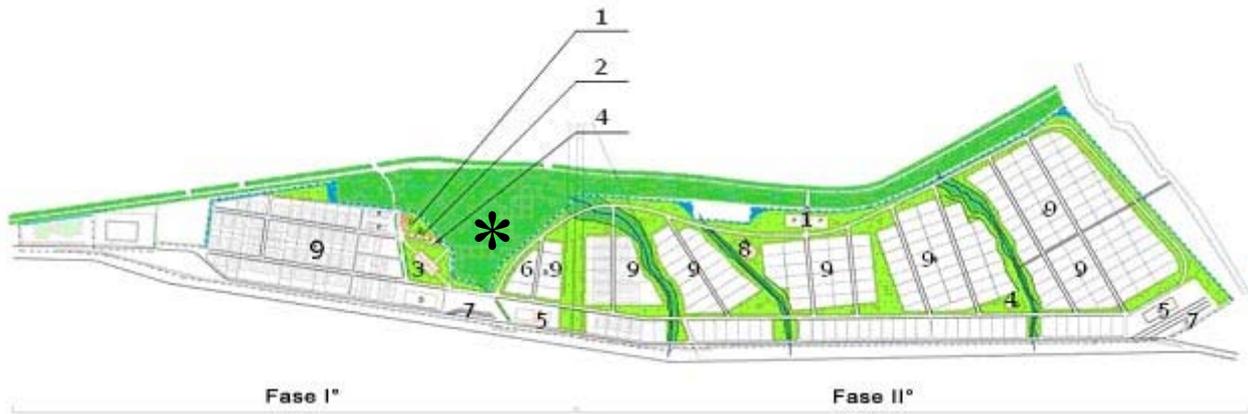


The people in charge of the SEZ visit Kazinka, December 2005

Source: Lipetsk Region

It is assumed that the implementation and development of a SEZ in Kazinka from 2006 to 2016 will allow to:

- attract more than 50 new companies in the new industrial area: the industrial lots available cover a total surface of 703 hectares. This lots will be rented to companies interested in investing in the SEZ. The cost will be defined by the Federal Agency and probably it will be about 0,60 Rubles/square meter (€ 0,017/square meter)
- attract investments amounting to more than 21,5 billion Rubles
- guarantee, around 2016, an increase in sales of industrial products (from the region) to reach 55 billion Rubles a year, on the basis of the price of products in 2004, in comparison with a total sales volume amounting to 186 billion Rubles in 2004.
- create about 6,000 new jobs by 2008 and employ 12,750 workers during the period from 2006 until 2016.



Plan of the Kazinka project, step one and two

1. Administrative business centre 6.000 square meters 2. Scientific laboratories 1.000 square meters
 3. Fair 1.500 square meters 4. Fire service area 500 square meters 5. Warehouse 15.000 square meters
 6. Possible thermal plant 300 MW 7. Railway 8. Local purifiers 9. Industrial lots

Source: Merloni Progetti spa and Lipetsk Region

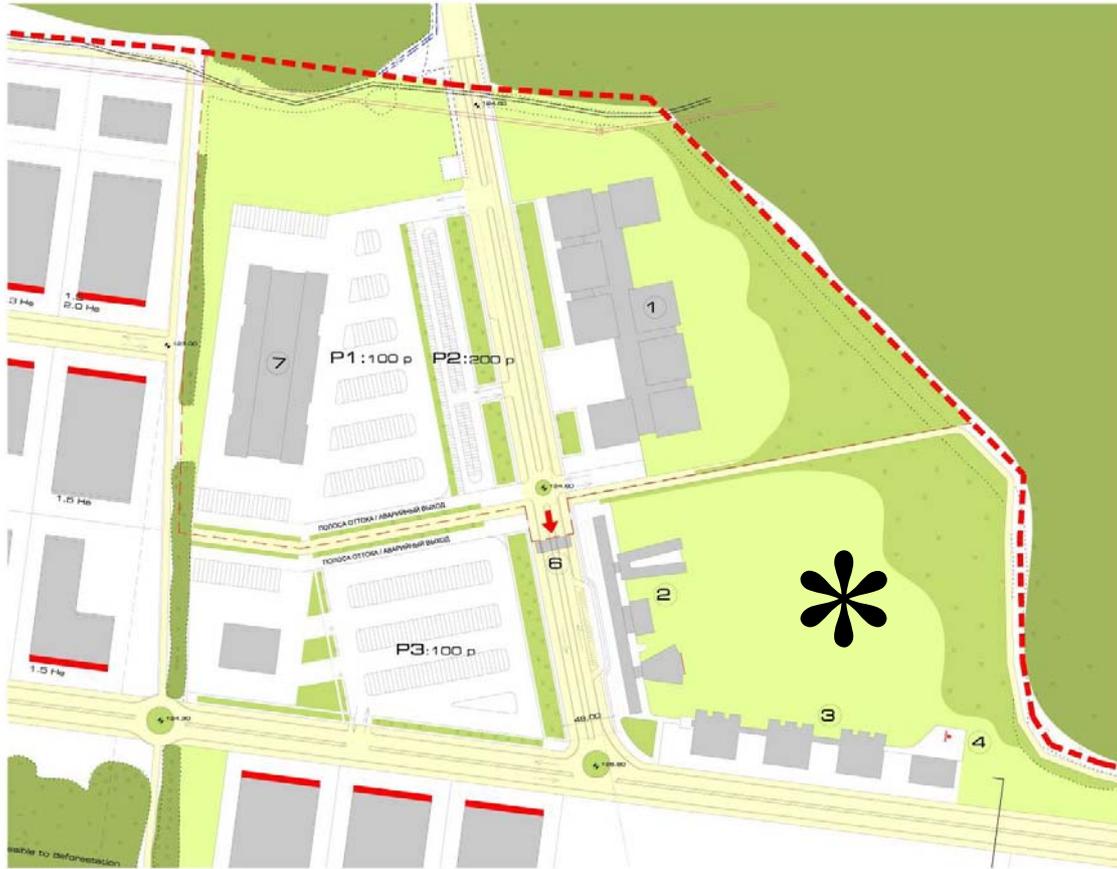
It is considered that the implementation of the SEZ in a poorly promoted area as the District of Gryazy will have a chain effect on the local economy.

The development of industrial production on a territorial surface of 1,030 hectare will enhance all types of economic activities: building sector, logistics, fairs, hotels.

The Programme has the following objectives: modernise industrial production and enhance the production of competitive products; create a system to guarantee the production and creation of innovative products; strengthen industrial infrastructures.

The area can already count on the necessary communication networks for the establishment of an industrial area.

The distance between the Lipetsk airport and the SEZ is only 25 km. However it is still used for internal flights.



Plan of the service centre of ZES Kazinka. First phase of implementation: customs, customs tower, offices, canteen, congress centre, research labs

Source: Merloni Progetti spa, Marco D'Azzo Milano, Arassociati Milano, Lipetskgrasdanproject Institute Lipetsk

The economic and legal conditions for investing in the Lipetsk Region are regulated by the Constitution, the Tributary Code of the Russian Federation and other laws in force like the one on "investment support for the economic activities in the Lipetsk Region".

This law sets the conditions and procedure for providing state funds to investors in the Region.

To help the settlement of new companies in the SEZ some useful regulations have been introduced:

- The SEZ is a tax-free area: the goods imported are not subject to duties or the VAT.
- When the goods produced in the SEZ are exported outside the Russian Federation, the export duties and taxes are not applied, with the exception of

foreign good imported into the SEZ and exported again without being modified.

- The companies that decide to invest in the SEZ are exempt from paying the inventory tax for 5 years starting from the first inventory.
- The tax rate on the profit of a company operating in the SEZ after implementing an investment project, that must be paid to the Local Treasury, is reduced for 5 years.
- The companies operating in the SEZ are exempt from paying the Corporation Tax for 5 years starting from the moment they have a property right on a lot assigned to company by the SEZ.
- The companies working in the SEZ are entitled to apply a special coefficient of amortization on the costs of their equipment and plants.
- The national laws concerning the tax regime and all decisions about taxes taken by the local authorities that could worsen the tax regime for the company in the SEZ are not applied.
- The companies operating in the SEZ can be deprived of their status only through a legal procedure.
- Regulations concerning urban planning can not be applied to the area of the SEZ.

The facilitations granted by the law on “investment support for economic activities in the Lipetsk Region” can not be subject to modifications that could bring disadvantages to the investors during all the time necessary for the Pay-Back after the approval of the company project.

8.The Project on the Special Economic Zone in Kazinka, covering 1,030 hectares in the Lipetsk Region, District of Gryazy, has been worked out by Merloni Progetti in Milano in March 2006

The Project on the Special Economic Zone in Kazinka was presented in March 2006 by the engineering firm Merloni Progetti spa in Milan.

Merloni Progetti played the role of Project Management and Main Contractor, assigned by the Lipetsk Region. Two important Firm of Architects in Milan collaborated to the project: the Firm Marco D’Azzo as Architectural Services Coordinator, the Firm Arassociati as Architectural Designer.

The Lipetskgrasdanproject Institute in Lipetsk has took part in the different planning steps.



Prospective view of the service centre in the SEZ, first phase of implementation

Source: Merloni Progetti spa, Marco D'Azzo Milan, Arassociati Milan, Lipetsk Region

The area chosen by the Lipetsk Region is located between the urban area of Lipetsk in the Northern part and the urban area of Gryazy in the Southern part. In the nearby, North East of this area is the water basin of Matyrskiy.

The industrial area has a narrow shape and its length is 11 km. Its depth varies from some hundred meters in the Northern part to 3 km in the Southern part. It is expected to implement the project in two different phases: The first phase (2006-2008) foresees to cover an area of five kilometres and the plans for the second phase concern a wider expansion covering an area of six kilometres from 2008 until 2012.

The reason behind the choice of this area is that it located between a regional road connecting Lipetsk and Gryazy and establishing the North-Eastern border, and a railway along the South-Western border which is vital for the big siderurgical plant Novolipetsk Metallurgical Complex NLMK where 40,000 workers were employed in 2003.



Prospective view of the service centre in the ZES, first phase of implementation

Source: Merloni Progetti spa, Marco D'Azzo Milan, Arassociati Milan, Lipetskgrasdanproject Institute Lipetsk

As regards the road system, there is a road connecting both the Districts of Lipetsk, Gryazy and Dobrinka, and the ZES with the urban area of Lipetsk. This regional road stretches 15,8 km: 13,6 km have a width of 7,5 m and 2,2 of these have a width of 7m. The daily capacity is 7,000 automobiles.

As regards the railway, its length is 70 km with three railway parks. There are two train stations in the SEZ: the one in Lipetsk, 20 km far away, and the one in Gryazy 18 km far away. The SEZ is 1,2 km far from the Kazinka station. In 2005 a connection was built between the Kazinka station and the SEZ.

The criteria used for planning this big industrial area of 10 square meters, where it is expected that 12,000 people will work are the following:

- Keeping and improving the meaningful features of the area like the vegetation and water courses that are particularly important here.
- Building an industrial city that can represent a model of sustainable development. This city must be able to meet the needs of the market in a rational and flexible way by integrating with the natural environment and with the existing infrastructures.

- In order to meet these needs this big industrial area will be built in two phases. The first phase (2006-2008) foresees to cover an area of five kilometres and the plans for the second phase concern a wider expansion covering an area of six kilometres from 2008 until 2012.
- Giving the area its own identity despite its considerable dimensions, thanks to clear boundaries. To achieve this result, in the North-Eastern part which covers an area of 11 km, it is planned to build a road lined with trees along a water course, while in the South-Western part whose extension is 11 kilometres, the project foresees a new railway along an artificial hill where trees will be planted.
- In the new industrial area many services will be at disposal to meet peoples' needs and interests and to guarantee a high level of autonomy and a strong future development.
- The classification of roads, services and technological infrastructures for services will play an important role to ensure functionality and outline spaces.
- The planning of public buildings will be very important because it will be possible to distinguish them on the basis of their shape and colours. In this way the project attempts to harmonise innovation and tradition.
- The core that will be built in the first years of development for the Kazinka SEZ being a sort of “downtown” of this industrial city, will comprise the following main elements: customs offices 1.100 square meters, administrative offices on two floors 1.200 square meter, business centre 1.100 square meters, fair 39.000 square meters, congress centre 4.630 square meters, scientific labs 6.555 square meters, canteen 525 square meters, fire station 1.000 square meters, warehouse 34.000 square meters, a railway park.
- Of course it is necessary to add the first companies that have decided to build plants in the industrial lots as part of the first phase.

In the ZES, besides Indesit Company we find four more companies: the Russian company Bioetanol on a lot of 20 hectares, Belon-Metakom, a Russian company that produces panels and metal structures on a lot of 6 hectares, the Italian company Sest Luve that produces components for refrigerators on a lot of 3 hectares and the Russian-Finnish company CSZ-Lipetsk that produces glass containers on a lot of 12,5 hectares.



Project for the implementation of the SEZ . Plan of the first phase in the years 2006-2008
Source: Lipetsk Region

It is expected that the first phase of implementation of the SEZ will last three years, from 2006 until 2008. In this first phase 19 new companies may settle in the SEZ, investing the following resources.

Years	Financial resources			Total Million Rubles
	Companies localized in the ZES	Federal Budget	Lipetsk Region's Budget	
2006	80	250	250	580 (€ 17 million)
2007	100	300	300	700 (€ 20 million)
2008	70	210	250	530 (€ 16 million)
Total	250	760	800	1810 (€ 53 million)

Source: Merloni Progetti spa and Lipetsk Region

The objective of this investments on infrastructures is to have earnings amounting to 8.716 millions Rubles in the years from 2006-2008.

The amounts of resources needed by the companies operating in the SEZ in the first phases are reported in the following table.

Type of resource	Unit of measurement	Need
Electricity	x 000 kWh/year	67. 000
Water for industrial activities	x 000 m3/year	105
Drinking water	x 000 m3/year	85
Thermal energy	Hcal./year	145
Natural gas	x 000 m3/year	105. 000
Sewage system	x 000 m3/year	85

Energetic resources needed by the new companies in the SEZ, first phase

Source: Lipetsk Region

In 2006 about 20 companies showed their interested to operate in the SE. The countries of origin and the sectors of these companies are:

Italy: production of household appliances

Russian Federation: production of nanomaterials and nanosystems

South Korea: production of household appliances

Mexico, Spain: electromechanical industry and household appliances

Germany: metal and mechanical industry, production of materials for the building sector

Czech Republic: production of nonvowen materials, for the hygiene and ecological products

Norway: production of tools for the agriculture

Sweden : production of refrigerators, kitchens, washing machines



The borders of the new industrial city will be characterised by a raised structure supported by towers for network-based services

Source: Merloni Progetti spa, Marco D'Azzo Milano, Arassociati Milano, Lipetsk Region

During the second phase from 2008 until 2012, it is expected that 51 companies will be operating in the SEZ and will produce a profit of 12.810 million Rubles.