In a country such as Russia, with its vast territory and regional differences, the issue of where to locate a business isn’t easy: one region, for example, may have unique infrastructure, another the right people, and a third inexpensive premises. For over 25 years, EY has helped Russian and international firms find the most comfortable environment for their enterprises, and investors always impress on us the need for a single information source that they can use to get their bearings when surveying the range of Russian investment opportunities.

With this in mind, we have summarized our experience with clients and regional administrations and prepared a report based on our study of production and innovation infrastructure in the Russian regions, including systematic information on various essential elements of business infrastructure as well as regional profiles. In preparing the report, we also drew on other EY studies on specific infrastructure (e.g., maps of industrial parks, studies of technoparks and business incubators and regional surveys of the investment climate).

We believe that our report will be useful for a wide range of businesses, including:

- Major companies interested in large territories – for greenfield projects, for example, or business development in special economic zones (SEZ) and advanced development zones (ADZ)
- Medium-sized companies that can study the range of industrial park locations
- Small companies that can consider the options for renting/purchasing premises in technoparks or business parks

In addition, this report will enable regional administrations to analyze consolidated information on constituent entities of the Russian Federation and compare the figures with those for their own region. They can use the data to improve the business climate in their region by updating the list of promising industries, developing investment strategies and using more effective means of interacting with investors.
Keeping clients up to date on key market trends is our central concern. EY regularly publishes a variety of analytical materials, surveys and reports covering the latest economic developments of importance for business.

In May 2015, EY completed a major new study - a survey of Russia's industrial and innovation infrastructure - and presented it at the St. Petersburg International Economic Forum. This material draws on our long history of cooperation with clients and regional administrations. Our study is a unique information product that should prove useful to a wide range of private companies as well as regional leaders.

Facts and figures about the survey

• The most complete survey of Russia's industrial and innovation infrastructure

• **300 pages** of text, graphics and analytical material

• Highly reliable information:
  – 83 constituent entities of the Russian Federation provided first-hand information
  – Exclusive material from Special Economic Zones OJSC and the Ministry for the Development of the Russian Far East

• Around **800 industrial and innovation infrastructure sites** with their key features: specialization, number of residents, area

• Comprehensive profiles of all Russian regions, featuring:
  – Promising sectors for investment and industrial specialization
  – Examples of major private investors in the region
  – Statistical data in such categories as the "consumer market," "investments," and "education and science"

• Detailed maps identifying infrastructure sites

• Messages from regional leaders to potential investors

• Up-to-date information for decisions on doing business in Russia's regions

• The survey has been prepared in two languages, Russian and English

Our services in attracting and making investments in Russia's regions

EY's dedicated, multidisciplinary team offers a wide range of services in attracting and making investments for private and state companies. We help clients successfully develop their business in Russia's regions, selecting a range of potential locations appropriate for a specific business in view of the availability of qualified people, the specifics of the local real estate market, proximity to suppliers and consumers, tax benefits and other factors.

We also advise regional administrations on the creation and financing of all types of industrial and innovation infrastructure to make regions attractive for new companies, and we formulate development strategies for regions and other large territories.

Our understanding of how government agencies operate and our experience in supporting international companies' production localization and cooperating with major development institutions allow us to offer efficient solutions for investment projects in all of Russia's regions.

Report distribution

**Format:** Print version

**Language:** Russian, English

**Price:** RUB 8,000 for the Russian version and RUB 12,000 for the English version. The price is negotiable if several copies are ordered. All prices are inclusive of VAT.

Contact details

If you have any questions on obtaining the report or are interested in advice on attracting and making investments, please contact the Real Estate, Infrastructure and Government & Public Sector Group:

**Ilya Sukharnikov**
Senior Manager
Tel.: +7 (495) 662 9398
Ilya.Sukharnikov@ru.ey.com
Invest.Karta@ru.ey.com
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(Survey excerpt)
In recent years, many Russian regions have made substantial headway in creating industrial and innovation infrastructure to stimulate investments in the real sector of the economy.

A developed infrastructure makes a region much more attractive to investors prepared to open new enterprises in the region, promotes the establishment and expansion of local manufacturers, and encourages the formation of clusters and related production facilities.

In our study, we looked at various types of infrastructure: industrial parks, special economic zones, technoparks and business incubators, advanced development zones, and regional innovation clusters. The report based on this study gives a concise survey of the current situation and development trends for each of these types; provides regional profiles, including key figures and business infrastructure maps; and lists infrastructure facilities along with their salient features.

Sources and disclaimer
In addition to official data published by state and regional administrations, EY’s own research findings and information specially requested from regional administrations were used in preparing this report. For the purposes of our analysis, EY professionals regarded this data, obtained orally and in electronic form, as reliable. We did not independently verify their accuracy or completeness. EY assumes no responsibility for the accuracy or reliability of the initial information provided.
Industrial parks

The industrial park concept came to Russia from abroad, where it is a common format for mid-sized industrial enterprises. In Russia, the initial stage of industrial park development is over, and the market is now going through intensive development.

In this period, growth in supply has more to do with project realization and the expansion of successful sites than it does with an increasing number of projects. Regional and federal law continues to develop in this area, including new terminology and mechanisms for benefits and subsidies, and sites are becoming better prepared and better equipped with the infrastructure needed to launch production.

For the purposes of this study, the concept of an industrial park will include manufacturing and industrial zones, production development zones, production and warehouse technoparks and industrial and logistics zones that conform to the common definition:

**Industrial park:** A territory prepared by a local administration or private entrepreneur in a nonresidential zone and equipped with transport and utility infrastructure for manufacturing, warehouse facilities and enterprises.

**Industrial park resident:** An enterprise that rents or buys manufacturing/warehouse premises/land in an industrial park and has gone through the full round of approvals required for locating, building and operating manufacturing facilities in the given territory.

**Classification of industrial parks**

Depending on the stage of project completion, Russian industrial parks for our purposes may be grouped as follows:

- **Finished (operating) industrial park:** A large area of land classified as “settlement land” or “land for industry, transport and communications” with defined boundaries and approved as a site “for manufacturing and warehouse facilities,” in some cases with industrial and warehouse buildings already in place, that has been made available by a private company or local administration. The land has been surveyed, and approvals have been obtained for enterprises to be located in finished buildings and new manufacturing, warehouse and office facilities to be constructed. The area is accessible to all forms of road transport, has been graded and divided into lots, and has on-site roads and in some cases a rail line. The park has been connected to utility networks (electricity, gas, heat, water and wastewater drainage). The territory has residents and is guarded.

- **Industrial park in the formative stage:** A large tract of land categorized as “settlement land” or “land for industry, transport …” with defined boundaries that has been made available by an administration or private company as a site for manufacturing facilities, warehouses and offices. The land is in the initial stage of being surveyed and prepared. The park has no new residents as of yet. One or more potential investors have stated their intention to locate manufacturing facilities on the site. Issues with respect to further surveying, the construction of an access road and on-site roads, hookups to main utility networks and the required utility capacity may be decided jointly by the landowner and the future investor. The park’s organizer is prepared to do part of the preliminary work involved in surveying, utility hookups and road construction at its own expense.

- **Planned industrial park:** An area allocated for an industrial park – a large tract of land, possibly categorized as agricultural land, that has been made available for manufacturing and storage facilities by decision of the local administration or a private owner. Surveying and site preparation are just getting under way or haven’t yet begun (clear boundaries haven’t been defined, and there may be surface or underground structures owned by outside or unknown entities). Land reclassification, further surveying, the construction of an access road, topsoil removal, landscape grading, drainage and utility hookups are in their initial or planning stages. The owner is prepared to do this work either against guarantees provided by the future resident or jointly with the resident. There are not as yet any residents or potential investors.
Key trends and indicators

Regions of the Russian Federation

Industrial parks are largely concentrated in the European part of Russia – 37% are located in the Central Federal District, and 17% in the Northwestern and Volga Federal Districts. Overall, the sector is expanding geographically, but new industrial parks in Russia are unevenly distributed.

Experience shows that the first residents are critical for a park’s further development, so preferential terms are frequently offered to attract them. Investor interest depends on the professional level of a park’s organizers.

Number of industrial parks in federal districts of the Russian Federation

Also, the regional administration should have a specialized organization to actively recruit investments, and a one-stop shopping principle should apply at all stages of the project.

Certification

In 2012, the Association of Industrial Parks approved a professional Industrial Park Standard, which sets both mandatory and optional requirements for industrial parks. In certifying a site, the Association checks such mandatory features as access to main roads, a management company, the industrial park development concept, available utility capacity, and a parcel of land officially documented and prepared for construction. As of April 2015, the association had certified thirty-two operating industrial parks and ten planned parks.

State support and the regulatory framework

The Law “On Industrial Policy in the Russian Federation” of 31 December 2014 defines an industrial park as “a complex of industrial infrastructure facilities intended for the establishment or modernization of industrial production and managed by a management company that is a commercial or nonprofit organization created under Russian law.”

In 2014, the Russian Ministry of Industry and Trade, together with the Association of Industrial Parks, initiated support for industrial parks as part of the state program “Industry Development and Enhanced Industry Competitiveness.” Based on a selection process, twelve organizations received interest rate subsidies applicable to loans for the formation of industrial parks.

Up to RUB1.6t have been allocated for this program’s implementation in the period until 2020. Under the program’s terms, ten industrial parks in Russia received subsidies from the Ministry for Economic Development in 2014 as part of support provided by constituent entities of the Russian Federation for small and medium-sized business. Part of the program’s budget is to be used to subsidize interest rates on loans and create the required infrastructure for industrial park residents.

Support in terms of information, organization and the state information system

The Association of Industrial Parks is a nonprofit organization uniting the majority of Russian industrial parks as well as service providers involved in industrial construction to promote their common interests. Over 90 legal entities are members of the association, representing 65 industrial parks in 43 constituent entities of the Russian Federation.
Results

At the start of 2015, the Russian Federation had almost 366 industrial parks that are in various stages of formation and preparedness.

As shown in the diagram below, in the five years since EY did the first large-scale study of the industrial park market, the supply of this type of infrastructure by state of preparedness has changed dramatically. The proportion of finished sites has grown substantially — from 29% in 2010 to 44% in 2015 (51 and 160 sites, respectively) — while the proportion of sites at the planning and formative stages has steadily declined. This is because many of the industrial parks previously at these stages are now finished sites that are ready to accept residents’ production facilities.

Support for industrial park residents

In many regions, industrial park residents are granted tax subsidies and exemptions in an amount depending on factors stipulated by local law, such as the amount of investments in fixed assets, an investment project’s status as strategic for the region’s economy, etc. The following are common exemptions and preferences for investors:

- Reduced rate of profits tax (by no more than 4.5%)
- Reduced rate of assets tax or exemption (for fixed assets used in production)
- Reduced rate of transport tax or exemption
- Land tax exemption or a reduced rate for sites on which industrial enterprises are situated
- Interest rate subsidy for loans to management companies
- Subsidies partially covering costs for the creation of utility and transport infrastructure for industrial parks

Most of these benefits apply for a fixed period not to exceed an investment project’s payback period.

Management companies that invest in the development of industrial park infrastructure may receive the following preferences:

- Regional guarantees
- Partial subsidies from the regional budget for costs involved in constructing and reconstructing utility and transport infrastructure

Practice, however, has shown that regional preferences and local exemptions for residents are not enough to guarantee an influx of investors and capital. A region becomes attractive to investors when regional authorities take a proactive position and follow a consistent policy of lowering administrative barriers. Such a policy is based on an understanding that tax benefits are not lost revenues that could have helped the budget, but incentives for industrial development in the region. The expectation is that investments will subsequently yield tax returns far higher than the initial “losses” to the budget. In recent years, the number of regions committed to such a policy has grown. It is becoming increasingly clear that an ill-defined system of benefits, red tape and a lack of transparent administrative procedures greatly reduce the effectiveness of formal legislative initiatives designed to attract investments in manufacturing.

Reports of the Industrial Park Association single out two problems standing in the way of new industrial parks in Russia.

The first is the low quality of project preparation. Business plans and project documentation for new industrial parks do not, as a rule, meet the standards and requirements of the ultimate users (investors) or of financial institutions that are potential creditors.

A lack of debt financing, in turn, forces park owners to wait for investors, hoping to use their funds for business development. Whereas it costs RUB 5 million to RUB 25 million per hectare to set up a full-fledged industrial park, actual investments in the infrastructure of new industrial parks in Russia have averaged RUB 5.1 million per hectare over the last 10 years.
Special economic zones and advanced development zones

In international practice, special areas that have the infrastructure needed for launching production and offer preferential tax, customs and administrative systems are a common means of attracting large enterprises.

Such areas are generally formed on the state’s initiative to make the economy more competitive on international and inter-regional levels and promote the development of Russia’s regions, priority branches of industry and the service sector as well as to expand exports. In Russia, these purposes are served by special economic zones and advanced development zones.

Special economic zones

A special economic zone (SEZ) is an area in Russia with a special legal status and economic benefits designed to bring Russian and foreign companies into priority sectors of the Russian economy. SEZs are formed under a federal program overseen by the Russian Ministry for Economic Development (Federal Law No. FZ-116 of 22 July 2005). The state management company Special Economic Zones OJSC (SEZ OJSC) manages the majority of SEZs and is responsible for recruiting and assisting resident companies. In regions, SEZ OJSC is represented either by branches or by subsidiary joint-stock companies. Current law envisages four types of special economic zone.

Resident of a special economic zone:
A commercial organization (not a unitary enterprise) that is registered in an SEZ’s municipality and has contracted with the SEZ’s management company and the Russian Ministry for Economic Development to carry out activities appropriate to the type of SEZ in accordance with the procedure and on the terms stipulated by Federal Law No. FZ-116. Under this law, residents of technology implementation and tourist and recreation SEZs may also be individual entrepreneurs.

Classification of SEZs:
- **Industrial SEZs**: Extensive territories in industrially developed regions. Proximity to industrial resources, available utility capacity, accessibility to all forms of ground transport – these are only the most important of an industrial zone’s advantages. Reduced expenses make the output of facilities in industrial zones more competitive on the Russian market.
- **Technology implementation SEZs**: Located in major centers of science and education that have rich scientific traditions and recognized research institutions. Customs and tax benefits, the availability of professional staff, and a growing demand for new technologies and modernization in various sectors of the Russian economy make technology implementation SEZs attractive for venture capital funds as well as for developers and producers of high-tech products.

Advanced development zones

In the Russian Far East and Eastern Siberia, there are plans to establish a network of advanced development zones with preferential conditions for non-resource production that is oriented, among other things, on exports. The formation of ADZs is regulated by Federal Law No. 473-FZ of 29 December 2014 “On Advanced Development Zones in the Russian Federation.” Under the law:

An advanced development zone is an area in a constituent entity of the Russian Federation where, by decision of the Russian Government, a special legal regime has been established for entrepreneurial and other types of activity in order to create favorable conditions for investments and accelerated socioeconomic development, as well as comfortable living conditions for the public.
An ADZ resident is an individual entrepreneur or a commercial organization (legal entity) that has entered into an agreement to operate in an ADZ and is included in the register of ADZ residents.

Key trends and indicators

**Special economic zones**

As of the start of 2015, Russia had thirty special economic zones, including the Northern Caucasus Resorts cluster, which includes nine SEZs.

As with industrial parks, we can identify three stages of SEZ development with their characteristic features:

1. **Zones in operation**, where infrastructure is complete and there are resident companies in operation
2. **Zones in the formative stage**, where infrastructure is under construction and there are resident companies in operation
3. **Planned zones**, where pre-project and project work is under way

One feature of SEZ development is the large number of sites in the second and third stages. Only 8 of 30 sites have a completed infrastructure and residents, and almost half of the non-operating sites are tourist and recreation zones.

According to SEZ OJSC, at the start of 2015, SEZs of all types had 375 registered residents, employing over 13,000 people. Since the launching of the SEZ program, investors have shown the greatest interest in industrial and technology implementation zones, and some 87% of all SEZ residents were residents of such zones at the start of 2015. Dubna and Tomsk technology implementation zones have the greatest number of residents: 89 and 58 companies, respectively. As for port and tourist and recreation SEZs, many are currently in the stage of infrastructure formation or are looking for their first residents.

**Number of SEZ residents**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12</td>
</tr>
<tr>
<td>2007</td>
<td>53</td>
</tr>
<tr>
<td>2008</td>
<td>143</td>
</tr>
<tr>
<td>2009</td>
<td>207</td>
</tr>
<tr>
<td>2010</td>
<td>249</td>
</tr>
<tr>
<td>2011</td>
<td>306</td>
</tr>
<tr>
<td>2012</td>
<td>323</td>
</tr>
<tr>
<td>2013</td>
<td>342</td>
</tr>
<tr>
<td>2014</td>
<td>375</td>
</tr>
</tbody>
</table>

Number of residents by type of SEZ

<table>
<thead>
<tr>
<th>Type of SEZ</th>
<th>Number of residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology implementation SEZs</td>
<td>44</td>
</tr>
<tr>
<td>Industrial SEZs</td>
<td>105</td>
</tr>
<tr>
<td>Tourist and recreation SEZs</td>
<td>220</td>
</tr>
<tr>
<td>Port SEZs</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Special Economic Zones OJSC

According to SEZ OJSC, proposed investments by residents total some RUB 500 billion. As of today, more than RUB 145 billion in investments have been realized, and residents have paid over RUB 14 billion in taxes.

**SEZs by state of preparedness and type**

<table>
<thead>
<tr>
<th>Type of SEZ</th>
<th>In operation</th>
<th>In the formative stage</th>
<th>Planned</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>Alabuga, Lipetsk, Togliatti</td>
<td>Lyudinovo, Moglin, Titanium Valley</td>
<td>Lotus, Vladivostok</td>
<td>8</td>
</tr>
<tr>
<td>Technology implementation</td>
<td>Dubna, Zelenograd, St. Petersburg, Tomsk</td>
<td>Innopolis</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Port</td>
<td>Ulyanovsk-Vostochny</td>
<td>Murmansk, Sovetskaya Harbor</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Tourist and recreation</td>
<td>Baikal Harbor, Gates of Baikal, Altai Valley, Northern Caucasus Resorts (two SEZs)</td>
<td>Northern Caucasus Resorts (seven SEZs), Russky Island (Vladivostok)</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

Total 8 10 12 30

Source: Special Economic Zones OJSC
Advanced development zones

In his address to the Federal Assembly on 12 December 2013, the Russian President proposed that a network of advanced development zones be created in the Russian Far East and Eastern Siberia, providing special conditions for non-resource production that is oriented, among other things, on exports.

New enterprises in such zones would receive

- Five-year tax holidays for profits tax, mineral extraction tax (excluding oil and gas), land and assets tax
- Preferential insurance rates

These zones would provide “business conditions competitive with key business centers in the Asia-Pacific Region”, including procedures for obtaining construction permits, power grid hookups, customs clearance, etc. This type of investment opportunity has developed in the following stages:

- On 12 February 2015, a shortlist of three ADZ candidates was approved. (On the map of infrastructure in the Far Eastern Federal District, presented further in this report, these sites are indicated as finished.)
  - Nadezhdinskaya industrial park site in Primorsky Territory
  - Three sites in Khabarovsk Territory, where it is planned to manufacture thermal insulation materials and tubular piling as well as develop metallurgy, logistics centers, greenhouse complexes, etc.
  - A site in Komsomolsk-on-Amur, where components are to be manufactured for the aviation industry

Brief description of approved sites:

Nadezhdinskaya

The Nadezhdinskaya ADZ project involves the creation of an investment site with a total area of 807 ha, complete with road and utility infrastructure. Target residents are investors with projects in the areas of machine building, food, pharmaceuticals and light industry as well as building materials and production logistics.

According to the Far East Development Industry, private investments as of January 2015 stood at RUB 100 million, and state investments in infrastructure are planned at a level of RUB 3 billion.

Khabarovsk

State investments needed for the creation of infrastructure for Khabarovsk ADZs are estimated at RUB 1.8 billion. The site near Rakitnoye (in the environs of Khabarovsk) is to have five proposed investment projects that are largely industrial in nature (metallurgy, construction, and food products). There are also plans to build a logistics complex. The Avangard Industrial Park unites two projects worth around RUB 4 billion. Khabarovsk Airport may become a third site.

Komsomolsk

The ADZ in Komsomolsk, according to preliminary data, is to get around RUB 15.23 billion in private investments and RUB 1.2 billion in state investments for infrastructure.

Support for investors

One of the chief advantages offered by SEZs is that residents’ initial outlays are held to 30% of their capital investments by granting tax, customs and other benefits and also that the construction of common utility and transport infrastructure is funded by federal and regional budgets.

One of the main features that distinguish SEZs from industrial parks and other investment sites with completed infrastructure is that the former are free customs zones. This means that import duties and VAT are not charged on equipment, parts and materials imported into SEZs, and export duties are not charged on goods produced in an SEZ and exported to countries outside the Customs Union (other than Russia, Kazakhstan and Belarus). Investors are also

Information on approved ADZ projects

<table>
<thead>
<tr>
<th>ADZ</th>
<th>Specialization</th>
<th>Area, ha</th>
<th>Planned private investments, RUB million</th>
<th>Number of residents announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nadezhdinskaya</td>
<td>Light industry, food industry, transport services</td>
<td>807</td>
<td>6,733</td>
<td>3</td>
</tr>
<tr>
<td>Khabarovsk</td>
<td>Industrial, transport and logistics</td>
<td>716</td>
<td>28,517</td>
<td>8</td>
</tr>
<tr>
<td>Komsomolsk</td>
<td>Industry</td>
<td>327</td>
<td>15,230</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Ministry for the Development of the Russian Far East

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1 http://www.kremlin.ru/news/19825
interested in state guarantees of mutual obligations and infrastructure, and they sign such agreements with the Ministry for Economic Development – in effect, with the Government of the Russian Federation.

Since tax exemptions and preferences are among the key conditions that SEZs and ADZs offer to manufacturing companies, we decided, for the purposes of our study, to do a comparative analysis of the tax regimes applicable to these types of infrastructure.

In order to compare the investment appeal of SEZs and ADZs, we analyzed federal laws, regulatory acts of Russian constituent entities, and local regulatory acts. For the purposes of analysis, we selected corporate profits tax, corporate assets tax, land and transport taxes, mineral extraction tax and social contributions. The table gives the ranges of tax rates for a specific period of time. A more detailed analysis of the applicable benefits is required in order to select a specific zone.

SEZs and ADZs generally provide comparable tax benefits, although SEZs offer more attractive and flexible profits tax rates ranging from 0% to 15.5%.

In terms of assets tax, SEZ and ADZ residents are in roughly the same position and can count on a reduced rate of 0% for a specific period, or an exemption. It should be noted that assets tax and land tax benefits for ADZs are established by government decree. ADZs have a major tax advantage over SEZs in that they offer substantial benefits applying to mineral extraction tax and social contributions. Thus, ADZ residents will be eligible for a preferential MET rate of 0% for four years and a reduced social-contribution rate of 7.6%.

### Tax benefits for residents by type of SEZ

<table>
<thead>
<tr>
<th>Type of SEZ</th>
<th>Profits tax</th>
<th>Corporate assets tax</th>
<th>Transport tax</th>
<th>Social contributions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial zones</td>
<td>0% to 13.5% for 10 years</td>
<td>Exemption/benefit</td>
<td>Possible benefit</td>
<td></td>
</tr>
<tr>
<td>Technology implementation zones</td>
<td>13.5% to 15.5% for 10 years</td>
<td>Exemption</td>
<td>Exemption for 5 to 10 years</td>
<td>14% to 28%</td>
</tr>
<tr>
<td>Tourism and recreation zones</td>
<td>13.5%</td>
<td>Reduction to 0%</td>
<td>Possible exemption</td>
<td></td>
</tr>
<tr>
<td>Port zones</td>
<td>2% to 15.5% for 10 years</td>
<td>Reduction to 0%</td>
<td>Exemption for 10 years</td>
<td>–</td>
</tr>
</tbody>
</table>

* In industrial zones, benefits with respect to social contributions are provided only to residents engaged in technology implementation

### Tax exemptions for ADZ residents

<table>
<thead>
<tr>
<th>Mineral extraction tax</th>
<th>Profits tax</th>
<th>Assets and land tax</th>
<th>Transport tax</th>
<th>Social contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% for 4 years, subsequently raised incrementally to 100%</td>
<td>No more than 5% for the first 5 years, no less than 10% for the next 5 years</td>
<td>Possible exemption</td>
<td>–</td>
<td>7.6% for 10 years</td>
</tr>
</tbody>
</table>
Regional innovation clusters

Synergy between cluster participants enhances the competitiveness of a cluster's output as well as of individual cluster participants. Synergy is a product of the geographical proximity of cluster participants and expanded access to innovations, technologies, know-how, specialized services and highly qualified personnel.

A regional innovation cluster (RIC) is a complex of enterprises and organizations (cluster participants) located in a defined territory and characterized by:

- A unifying science and production chain in one or more areas (key types of economic activity)
- A mechanism for coordinating operations and for cooperation between cluster participants
- A synergy effect: the high degree of concentration and cooperation makes each enterprise/organization more cost-efficient and productive².

Key trends and results

In Russia, legislators have made active use of cluster initiatives over the past few years to make the national economy more competitive, and these efforts are still in the early stage of development. In August 2012 the Russian Government approved a list of 25 pilot regional innovation clusters. In finalizing the list of RICs, the specially formed expert group considered 94 proposals from various regions of Russia. The approved list includes clusters in the following broad areas of technology:

- Nuclear and radiation technologies
- Production of aircraft and spacecraft and ship building
- Pharmaceuticals, biotechnologies and the medical industry
- New materials
- Chemical industry
- Information and communication technologies and electronics

Based on the proposals' level of development and potential, 25 approved clusters were divided into two groups:

- Group 1: 14 clusters with well-developed proposals and high potential
- Group 2: 11 clusters with development programs that need further work

The 25 selected clusters are largely located in areas with a high concentration of scientific/technical and manufacturing activity: the Central, Siberian and Volga Federal Districts.

By 2016, according to the Strategy for Specialized Cluster Development, constituent entities of the Russian Federation should have some 30 centers of cluster development that have been in operation for at least two years.

Projects included in development programs for the period from 2012 through 2017 are to receive a total of almost RUB 1.5 trillion in financing for the development of the network of regional innovation clusters. RUB 480 billion (33%) are to come from the federal budget and some RUB 213 billion (14%) from regional and local budgets. Off-budget sources are expected to contribute RUB 780 billion (53% of total financing).

The two groups will be financed in differing degrees. The 14 clusters in the first group will get around 80% (RUB 1.2 trillion) of funds raised for further development. The remaining 20% (RUB 282 billion) will go to support the 11 clusters in the second group. In view of the high potential of clusters in the first group, the funds they get from off-budget sources and the federal budget will total 55% and 30%, respectively. The second group requires greater state involvement, and the proportion of federal investments (41%) is thus higher than for the first group.

² http://innovation.gov.ru/taxonomy/term/545

Regional clusters are a means of bringing together participants in the innovation system for the realization of joint projects. As a rule, such participants represent business, education and science.
Geographical location of regional innovation clusters in the first and second groups

Source: Ministry of Economic Development of the Russian Federation, Russian Cluster Observatory
Participants in regional innovation clusters include such leading Russian scientific and educational institutions and enterprises as:

- Institutes of the Russian Academy of Sciences and the Russian Academy of Medical Sciences, research centers and universities, federal universities and major institutions of higher education
- Major companies in the Russian machine- and ship-building sectors, the fuel and energy complex and metallurgy
- Major Russian companies in IT and telecommunications, as well as the biotechnology sector
- Branches and subsidiaries of transnational corporations

The number of a cluster’s participants generally reflects the cluster’s geography. The greatest number of participants are concentrated in the Central and Volga Federal Districts (38% and 25%, respectively).

### Number of RICs by district

<table>
<thead>
<tr>
<th>District</th>
<th>Number of RICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Federal District</td>
<td>307</td>
</tr>
<tr>
<td>Northwestern Federal District</td>
<td>202</td>
</tr>
<tr>
<td>Far Eastern Federal District</td>
<td>161</td>
</tr>
<tr>
<td>Siberian Federal District</td>
<td>92</td>
</tr>
<tr>
<td>Ural Federal District</td>
<td>49</td>
</tr>
<tr>
<td>Volga Federal District</td>
<td>7</td>
</tr>
</tbody>
</table>


An important role in regional innovation ecosystems can be played by technoparks and business incubators. Business incubators are designed to provide support for new business projects in their earliest stages, while technoparks focus on supporting companies that are developing and scaling up their high-tech business.

It should be noted that, although technoparks and business incubators have a long history in Russia, only some of those in operation actually operate as their names would imply. The core activity of many sites designated as technoparks or business incubators remains property rental, rather than quality support for residents’ business objectives.

At the same time, a survey of Russian business incubators and technoparks done by EY in cooperation with the Russian Venture Company (RVC) shows that some Russian innovation sites achieve results comparable to their European and American counterparts. Most regions thus face the task of bringing their business incubators and technoparks up to the level of the Russian leaders.

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As a result of the survey, the following key success factors were identified for innovation sites:

- Thorough screening of residents, taking into account their development potential
- The experience of resident companies’ employees
- An expert board with broad powers
- A wide range of technological and consulting services

Problems most frequently encountered by residents are:

- Lack of qualified experts, especially with business experience
- Lack of quality business projects
- Lack of seed investments and business angels
- Insufficient demand for innovations

A number of solutions suggested by survey respondents formed the basis of strategic recommendations made to RVC and the relevant state agencies on support for incubators and technoparks.

**Key trends and indicators**

As in the case of industrial parks, the distribution of Russian technoparks and business incubators is uneven, with over half concentrated in the Volga and Central federal districts. The Central Federal District leads in terms of the number of technoparks (41 sites), while the Volga Federal District has the most business incubators (75 sites).

**Technoparks**

The history of Russian technoparks began in the 1990s. The first Russian technopark was the Tomsk Science and Technology Park, formed in 1990. In 2007, the state program “Formation of Russian Technoparks with a High-Tech Profile” was launched under the auspices of the Russian Ministry of Communication. As a result of this program, over RUB 12 billion in federal funds have been allocated for capital construction, and 13 technoparks with a high-tech profile, covering a combined area of over 400,000 sq.m., are being developed in 11 constituent entities of the Russian Federation. These parks have created over 18,500 jobs.

According to information obtained from regional authorities for the purposes of this report, the Russian Federation currently has 117 technoparks. Most Russian technoparks specialize in high technologies, with 26% specializing in information technologies and telecommunications (including data processing, storage and analysis, computer technologies and telecommunication systems), around a quarter in electronics and instrument making, 13% in biomedicine (including genetic engineering, pharmaceuticals and microbiology) and 12% in chemistry and petrochemistry. In other cases, “Other/ various sectors” is indicated.

**State support**

On 16 February 2015, the Ministry of Communication began the selection procedure to determine which Russian constituent entities would qualify for state infrastructure subsidies for technoparks with a high-tech profile. The selection rules and the list of documents provided by constituent entities were approved by Government Decree No. 1119 of 30 October 2014.

According to the ministry, a new support mechanism for the formation of technoparks will become effective in 2015. Costs incurred by constituent entities setting up industrial parks and technoparks will be reimbursed out of residents’ federal taxes and customs payments. Although the state program of support for technopark construction officially ended in 2014, it is expected to be extended until 2018. Over the next four years, regions must meet a number of commitments involving the development of technopark ecosystems and improved technopark efficiency.
Business incubators
According to information obtained from regional authorities for the purposes of this report, Russia currently has 231 business incubators, although considerably fewer are actually in operation. Fifty-three incubators responded to the survey “Challenges and Solutions: Business Incubators and Technoparks in Russia,” and most of these operate under the auspices of regional or municipal authorities. Over a quarter of our respondents operate under the auspices of institutions of higher education.

The reasons for the relative scarcity of private business incubators in Russia are substantial risks, a poorly developed legal framework, business-model complexity, modest expected returns and inadequate state support for private sites.

Consolidated data on investment projects in federal districts

In preparing this survey with the assistance of regional administrations, we collected data on the amounts that private companies have invested in their enterprises’ fixed assets in the last ten years. Although not all regions provided data, the overall picture of investments on a national scale is quite informative.

The greatest concentration of investments is in the chemical industry. The largest projects are in various regions, which is evidence of growing regional specialization in the leading branches of modern industry. The largest investment projects by region are shown in the table on the following page.

An analysis of projects by specialization shows that the industries with the greatest investment appeal in the last ten years have been:

- Agriculture
- Oil and gas production, mining
- Timber and wood processing
- Food processing
- Construction materials industry
- Metallurgy
- Chemical industry
The largest number of projects are in oil and gas production and mining, with agriculture coming in second. These areas are being developed in virtually every federal district. Murmansk Region and Kamchatka Territory specialize in fishing, and the Kursk, Voronezh and Belgorod Regions in animal husbandry. The Central Federal District specializes largely in food production: the largest projects are in the Tula, Orlov and Vladimir Regions.

Since Russia is a world leader in oil, gas and mineral production, regions with the chief deposits — the Ural, Siberian and Far Eastern Federal Districts — have received greater investments in this sector than other federal districts. The largest investment projects are being realized by Surgutneftegaz and LUKOIL in the Khanty-Mansiysk Autonomous District-Yugra and by Irkutsk Oil Company in Irkutsk Region.

The timber and wood-processing industry has two segments:

- Wood pulp and paper production
- Wood processing and woodwork

The main investments in enterprises producing paper pulp, paper and paper goods are concentrated in the Central and Northwestern Federal Districts. The largest projects under way are in the Moscow and Tula Regions.

The wood-processing and woodworking industry has investment appeal in the Republic of Khakassia, Tomsk Region and Krasnodar Territory.

Construction materials tend to be manufactured in proximity to the sources of required natural materials. Investment projects in this area are under way in many regions of the country, with the greatest number in the Central and Ural Federal Districts. The largest capital investments in the last ten years have been made in the Republic of Mordovia and Rostov Region.

The chemical industry has attracted major investments in the last ten years. The industry is developing thanks to growing state support and substantial investments by private companies. The main investment targets are:

- Fertilizer production
- Production of plastic and rubber goods

The following map indicates Russian federal districts that have seen the largest investment projects in the last ten years.

Largest projects, in terms of investments, realized by private companies in the last 10 years, RUB billion

<table>
<thead>
<tr>
<th>Company</th>
<th>Line of business</th>
<th>Investments, RUB billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khanty-Mansiysk Autonomous District – Yugra</td>
<td>Surgutneftegaz OJSC</td>
<td>822.3</td>
</tr>
<tr>
<td>Khanty-Mansiysk Autonomous District – Yugra</td>
<td>LUKOIL OJSC</td>
<td>721.4</td>
</tr>
<tr>
<td>Primorsky Territory</td>
<td>National Chemical Group CJSC</td>
<td>435.4</td>
</tr>
<tr>
<td>Khanty-Mansiysk Autonomous District – Yugra</td>
<td>TNK-BP Holding OJSC</td>
<td>371.3</td>
</tr>
<tr>
<td>Tyumen Region</td>
<td>Sibur Holding JSC</td>
<td>358.8</td>
</tr>
</tbody>
</table>

Source: Regional administrations, economic ministries, development corporations

The chemical industry is well developed in the Volga, Far Eastern and Ural Federal Districts. Major projects have been realized in Tyumen Region as well as Primorsky Territory.

The following map indicates Russian federal districts that have seen the largest investment projects in the last ten years.
Regional profiles by federal district

Survey excerpt
Volga Federal District

**Consumer market (2014)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Volga Federal District</th>
<th>District median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>29.7m people</td>
<td>1,799,300 people</td>
</tr>
<tr>
<td>Economically active population</td>
<td>15.4m people</td>
<td>928,100 people</td>
</tr>
<tr>
<td>Monthly average income per capita</td>
<td>RUB24,000</td>
<td>RUB21,000</td>
</tr>
<tr>
<td>Retail turnover</td>
<td>RUB4,843b</td>
<td>RUB233b</td>
</tr>
</tbody>
</table>

Sources: Rosstat, EY estimates.

**Investment**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Volga Federal District</th>
<th>District median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investment, 2014</td>
<td>RUB2,356b</td>
<td>RUB111.3b</td>
</tr>
<tr>
<td>Foreign direct investment, 2013</td>
<td>US$2,307.9m</td>
<td>US$74.2m</td>
</tr>
</tbody>
</table>

Sources: Rosstat, EY estimates.

**Education and science**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Volga Federal District</th>
<th>District median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities (including branches) / graduates in the 2013–14 academic year</td>
<td>463 / 257,800 people</td>
<td>27 / 14,000 people</td>
</tr>
<tr>
<td>Number of R&amp;D organizations / employees, 2013</td>
<td>633 / 114,000 people</td>
<td>29.5 / 5,300 people</td>
</tr>
</tbody>
</table>

Sources: Rosstat, EY estimates.
Kirov Region

Message from the regional authorities to potential investors

“Kirov Region has strong industrial, scientific and human potential. We support projects to develop mineral and forest resources as well as create resource-saving high technologies and scientific and production systems guaranteeing product competitiveness and environmental safety. We have all the conditions that are needed for successful business and investments.”

Consumer market (2014)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of the region / capital city (Kirov)</td>
<td>1.3m people / 487,000 people</td>
</tr>
<tr>
<td>Economically active population</td>
<td>680,000 people</td>
</tr>
<tr>
<td>Monthly average income per capita</td>
<td>RUB20,400</td>
</tr>
<tr>
<td>Retail turnover</td>
<td>RUB166.1b</td>
</tr>
</tbody>
</table>

Investment

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investment, 2014</td>
<td>RUB56.3b</td>
</tr>
<tr>
<td>Foreign direct investment, 2013</td>
<td>US$11.8m</td>
</tr>
</tbody>
</table>

Education and science

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities (including branches) / graduates in the 2013-14 academic year</td>
<td>24 / 9,600 people</td>
</tr>
<tr>
<td>Number of R&amp;D organizations / employees, 2013</td>
<td>23 / 1,600 people</td>
</tr>
</tbody>
</table>

Industrial / innovation infrastructure

<table>
<thead>
<tr>
<th></th>
<th>Completed</th>
<th>Planned and in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial parks</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Electricity balance (regional generation as a share of regional consumption) 55%

Sources of information on the Kirov Region: Rosstat, Corporation for Development of the Kirov Region. Population data on the regional center is for the beginning of 2014, while population data on the region is for the end of 2014.

Investment web portal: www.razvitie43.ru
**Nizhny Novgorod Region**

**Message from the regional authorities to potential investors**

“In Nizhny Novgorod Region, investors and the authorities are on the same wavelength. We guarantee transparency and short approval periods, tax benefits and personnel-training support. In 2014, 1,403 projects worth RUB 138 billion were approved, and 1,042 of these have already been launched.”

**Consumer market (2014)**

<table>
<thead>
<tr>
<th>Population of the region / capital city (Nizhny Novgorod)</th>
<th>3.3m people / 1.3m people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economically active population</td>
<td>1.8m people</td>
</tr>
<tr>
<td>Monthly average income per capita</td>
<td>RUB 27,900</td>
</tr>
<tr>
<td>Retail turnover</td>
<td>RUB 623.1b</td>
</tr>
</tbody>
</table>

**Investment**

<table>
<thead>
<tr>
<th>Equity investment, 2014</th>
<th>RUB 286.6b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment, 2013</td>
<td>US$ 514.8m</td>
</tr>
</tbody>
</table>

**Education and science**

<table>
<thead>
<tr>
<th>Universities (including branches) / graduates in the 2013-14 academic year</th>
<th>55 / 31,400 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of R&amp;D organizations / employees, 2013</td>
<td>96 / 41,500 people</td>
</tr>
</tbody>
</table>

**Industrial / innovation infrastructure**

<table>
<thead>
<tr>
<th>Type of infrastructure</th>
<th>Completed</th>
<th>Planned and in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial parks</td>
<td>4</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Technoparks</td>
<td>2</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Business incubators</td>
<td>8</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>

**Electricity balance (regional generation as a share of regional consumption)**

37%

**Investment web portal:**

[www.mininvest.ru](http://www.mininvest.ru)

**Sources of information on the Nizhny Novgorod Region:** Rosstat, Ministry of Investment Affairs of the Nizhny Novgorod Region.

Population data on the regional center is for the beginning of 2014, while population data on the region is for the end of 2014.
For reference

Private investor companies

For the purposes of our study, a private company is a legal entity whose share capital is no more than 50% owned by the state as ultimate beneficiary. Data from regional administrations, economic ministries, development corporations and the SPARK system were used in selecting investor companies.

The full version of the report is distributed on a commercial basis and includes profiles for all 85 regions of the Russian Federation.
Volga Federal District

<table>
<thead>
<tr>
<th>No.</th>
<th>Type</th>
<th>Name</th>
<th>Area</th>
<th>Specialization</th>
<th>Number of residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirov Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V1</td>
<td>IP</td>
<td>Vyatskie Polyany</td>
<td>60 ha</td>
<td>Metalworking, construction materials</td>
<td>8</td>
</tr>
<tr>
<td>V2</td>
<td>IP</td>
<td>Igrograd</td>
<td>2 ha</td>
<td>Children's goods</td>
<td>7</td>
</tr>
<tr>
<td>V3</td>
<td>IP</td>
<td>Slobodino</td>
<td>16 ha</td>
<td>Metalworking, construction materials, instrumentation</td>
<td>7</td>
</tr>
<tr>
<td>Nizhny Novgorod Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V4</td>
<td>IP</td>
<td>Bor-Tsentralny</td>
<td>277 ha</td>
<td>Various industries</td>
<td>2</td>
</tr>
<tr>
<td>V5</td>
<td>IP</td>
<td>Dzerzhinsk-Vostochny</td>
<td>680 ha</td>
<td>Automotive industry, motor vehicle parts</td>
<td>24</td>
</tr>
<tr>
<td>V6</td>
<td>IP</td>
<td>No data (based on facilities of OJSC Zavolzhsky Motor Plant)</td>
<td>120 ha</td>
<td>Motor vehicle parts</td>
<td>11</td>
</tr>
<tr>
<td>V7</td>
<td>IP</td>
<td>Oka-Polymer</td>
<td>300 ha</td>
<td>Chemical industry, metalworking, motor vehicle parts</td>
<td>21</td>
</tr>
<tr>
<td>V8</td>
<td>TP</td>
<td>Ankudinovka</td>
<td>5,401 sq.m.</td>
<td>Information and communication technology</td>
<td>24</td>
</tr>
<tr>
<td>V9</td>
<td>TP</td>
<td>Sarov</td>
<td>23,000 sq.m.</td>
<td>Various industries</td>
<td>57</td>
</tr>
<tr>
<td>V10</td>
<td>BI</td>
<td>CLEVER</td>
<td>3,688 sq.m.</td>
<td>High technology</td>
<td>29</td>
</tr>
<tr>
<td>V11</td>
<td>BI</td>
<td>Borsky</td>
<td>1,368 sq.m.</td>
<td>TBD</td>
<td>12</td>
</tr>
<tr>
<td>V12</td>
<td>BI</td>
<td>Vyksa</td>
<td>2,988 sq.m.</td>
<td>TBD</td>
<td>4</td>
</tr>
<tr>
<td>V13</td>
<td>BI</td>
<td>Dzerzhinsk</td>
<td>799 sq.m.</td>
<td>TBD</td>
<td>19</td>
</tr>
<tr>
<td>V14</td>
<td>BI</td>
<td>Krasnie Baky</td>
<td>No data</td>
<td>TBD</td>
<td>No data</td>
</tr>
<tr>
<td>V15</td>
<td>BI</td>
<td>Lyskovo</td>
<td>No data</td>
<td>Various industries</td>
<td>No data</td>
</tr>
<tr>
<td>V16</td>
<td>BI</td>
<td>Zavolzhsky</td>
<td>1,099 sq.m.</td>
<td>TBD</td>
<td>12</td>
</tr>
<tr>
<td>V17</td>
<td>BI</td>
<td>Pavlovsky</td>
<td>1,141 sq.m.</td>
<td>TBD</td>
<td>20</td>
</tr>
<tr>
<td>V18</td>
<td>BI</td>
<td>Sarov</td>
<td>8,525 sq.m.</td>
<td>Information and communication technology, new materials</td>
<td>22</td>
</tr>
<tr>
<td>V19</td>
<td>BI</td>
<td>Tonshaevsky</td>
<td>1,859 sq.m.</td>
<td>Industrial production</td>
<td>8</td>
</tr>
</tbody>
</table>

Abbreviations

IP – industrial parks (including manufacturing and industrial zones, production development zones, industrial manufacturing parks, manufacturing parks, production and warehouse technoparks, industrial and logistics zones and agroparks)
SEZ – special economic zones, managed by Special Economic Zones OJSC
RSEZ – regional special economic zones, managed by regional authorities
ADZ – advanced development zones
TP – technoparks (including technology implementation parks, science and technology parks, IT parks, innovation and technology centers and science parks)
BI – business incubators (including centers for first-time entrepreneurs and young entrepreneurs)
ICT – information and communication technologies
IT – information technologies

Membership in specialized associations

● Member of the International Association of Science Parks (IASP). The IASP’s mission is to make international science parks and other innovation infrastructure sites as well as related national associations more effective by linking them in a single network. In early 2015 the IASP had 398 members, representing 72 countries.
● Certified by the Association of Industrial Parks. The association is a nonprofit organization uniting the majority of Russian industrial parks and service providers involved in industrial construction to promote their common interests. Over 90 legal entities are members of the association, representing 65 industrial parks in 43 constituent entities of the Russian Federation.

Sources: regional administrations, economic ministries, development corporations, Association of Industrial Parks, International Association of Science Parks (IASP)
Types of business and industry specializations

As far as possible, types of business and industry specializations are aligned with the Russian Classifier of Types of Economic Activity OK 029-2001 (OKVED). In some cases, industry specializations/types of business and the corresponding icons are of a general nature, reflecting the essence of business activity without matching any specific OKVED code. This is because many regions provided information in a format that didn’t make use of codes.

Regional innovation clusters

- Aircraft and spacecraft construction
- Automotive industry
- Biotechnologies
- Chemical industry
- Electronics
- Energy
- Engine building
- Health care and pharmaceuticals
- ICT
- Instrumentation
- Laser technologies
- New materials
- Nuclear technologies
- Oil and gas processing and the petrochemical industry
- Radiation technologies
- Shipbuilding

Regional tax incentives

- High rating in terms of regional tax benefits
- Medium rating in terms of regional tax benefits
- Low rating in terms of regional tax benefits

The rating is based on EY experts’ analysis of regional tax benefits. For purposes of analysis, we considered corporate profits tax, assets tax, transport tax and land tax. Our analysis takes into account benefits provided under regional law in the form of a reduced tax rate and/or tax exemption.
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