Overview of the Mining Industry in Russia, Kazakhstan, Ukraine, and Uzbekistan

Market Research Department, SCHNEIDER GROUP
October 2019
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- 2006: Kiev, Ukraine
- 2009: Minsk, Belarus
- 2015: OWC-Publishing House Berlin, Germany
- 2018: Tashkent, Uzbekistan
- 2019: Atyrau, Kazakhstan
- 2004: St. Petersburg, Russia
- 2007: Almaty, Kazakhstan
- 2012: Warsaw, Poland
- 2016: Nur-Sultan, Kazakhstan
- 2018: Yerevan, Armenia

market entry | accounting | ERP | import | legal | tax
Our solutions

- Market entry
- Business setup
- Localization
Market Entry

- Market research
- Import, customs, certification
- Expert recruiting and outstaffing
- Office-in-office solution
- Business workshops and training
- Communication concept
Business Setup

- market research
- accounting outsourcing
- IT/ERP systems
- import, customs, certification
- tax
- office-in-office solutions
- interim management
- legal and compliance services
- business workshops and training
- expert recruiting and outstaffing
- due diligence and internal audit
- communication concept
Localisation

- Localization
- Financial management
- IT/ERP systems
- Import, customs, certification
- Tax
- Legal and compliance services
- Expert recruiting and outstaffing
- Due diligence and internal audit
- Communication concept
Countries Overview

<table>
<thead>
<tr>
<th>Population</th>
<th>Rural: 26%</th>
<th>City: 74%</th>
</tr>
</thead>
<tbody>
<tr>
<td>147mn</td>
<td>42mn</td>
<td>18mn</td>
</tr>
<tr>
<td>74%</td>
<td>69%</td>
<td>57%</td>
</tr>
<tr>
<td>51%</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Russia</th>
<th>Ukraine</th>
<th>Kazakhstan</th>
<th>Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in real terms / PPP, USD bn</td>
<td>1,631 / 4,213</td>
<td>125 / 390</td>
<td>171 / 509</td>
</tr>
<tr>
<td>GDP per capita current prices / PPP, USD bn</td>
<td>11,327 / 29,267</td>
<td>2,963 / 9,283</td>
<td>9,237 / 27,550</td>
</tr>
<tr>
<td>World Bank’s Ease of Doing Business 2019 ranking</td>
<td>31 (↑*)</td>
<td>71 (↑)</td>
<td>28 (↑)</td>
</tr>
<tr>
<td>Corruption Perceptions Index score, 2018</td>
<td>28 (↓)</td>
<td>32 (↑)</td>
<td>31 (-)</td>
</tr>
</tbody>
</table>

*↑* - improved
↓ - declined


market entry | accounting | ERP | import | legal | tax
Key Points: Russia (1)

The industry plays a significant role in the Russian economy. Low production costs and long-standing traditions are the main competitive advantages of the country’s mining industry.

Despite troubled economic times Russia’s mining sector will continue its gradual recovery in 2019 due to the high international demand (e.g. nickel for lithium-ion batteries in the car industry, titanium for aerospace, coal for Chinese factories).

Coal and iron ore will mainly be supported by the construction and steel sectors.

Unlike the oil & gas industry, most mining companies are privately owned (an exception - diamond producer Alrosa).

Vast and untapped reserves (e.g. 85% of iron ore reserves untapped; coal reserves projected to last for ≈ 450 years at current excavation rates).

Most industry equipment requires updating/renewal to increase efficiency and shift from manual to mechanical labor.

Consequently, the level of occupational hazards indicate a great potential for foreign suppliers.


Net foreign direct investment (FDI) in Russia’s mining and quarrying sector peaked to USD 22bn in 2016. In 2017, the sectors net FDI amounted to USD 8bn.
Map of Resources: Russia

21% of the world’s mineral resources are located in Russia

- Lead
- Uranium
- Gold
- Copper
- Aluminum
- Coal
- Diamonds
- Nickel
- Platinum
- Iron Ore
Industry Forecast: Russia (1)

- **COAL**
  - 157 bn tons of coal deposits in the country.
  - Second largest recoverable coal reserves in the world.
  - The majority of Russia's coal deposits are concentrated in the **Kuznets basin (Kuzbass)** in the Kemerovo region in Siberia, which accounts for 60% of the country's coal production.
  - This is followed by **Kansko-Achinsk basin** (15% of total production).
  - The remaining deposits are spread across various parts of **eastern Siberia and the Far East**.
  - Russia's coal production over the coming years will be supported by government investment, strong domestic construction sector growth, and the country's vast deposits.
  - Coal exports will increasingly shift eastwards to cater to the Asian market.

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Source: Fitch Solutions, BMA Research, IMF, EMIS
Industry Forecast: Russia (2)

**IRON ORE**
- The iron ore industry, similarly to the coal industry, will benefit from strong domestic construction sector growth.
- Russia holds more than **25 bn tons of iron ore reserves**, making it the third largest global holder of reserves after Australia and Brazil.
- While iron ore is initially traded in USD, Russia's iron ore production costs are priced in rubles, which increases profit margins for domestic producers in Russia when the ruble weakens.

**COPPER**
- The country is also one of the major global suppliers of copper.
- **It is the 9th largest copper miner in the world**, accounting for ~3.6% of total production.
- In 2017 it produced 710,000 tons of cooper.
Industry Forecast: Russia (3)

GOLD

- Russia is the world’s third largest gold producer, after China and Australia.
- 83% of European gold comes from Russia.
- Russian output amounted to **265 tons of gold production in 2018**.
- As weak economic growth and higher inflation keep real interest rates low in major developing markets, gold prices will continue growing higher in the coming years.
- Polyus Gold’s Natalka mine is seen as a key driver of Russia's gold production growth in the near future. The mine poured its first gold in December 2017 and is expected to have an output of 420,000-470,000 oz per year.

Source: EMIS, Companies websites, Fitch Solutions
Production by Norilsk Nickel, thou. ounces

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palladium</td>
<td>2.75</td>
<td>2.69</td>
<td>2.62</td>
<td>2.8</td>
</tr>
<tr>
<td>Platinum</td>
<td>662</td>
<td>656</td>
<td>644</td>
<td>670</td>
</tr>
</tbody>
</table>

Industry Forecast: Russia (4)

**PALLADIUM and PLATINUM**

- Russia holds the worlds **third largest deposits of platinum group metals**, much smaller than South Africa’s and somewhat smaller than Zimbabwe’s.
- Russia is the largest palladium producer in the world, accounting for almost 40% of global output in 2017.
- The country’s platinum production is forecasted to grow only slightly with an annual growth of 0.8% in terms of output during 2019-2028.

Source: EMIS, Companies websites, Fitch Solutions
Industry Forecast: Russia (5)

- Nickel output will grow higher over the coming years, stimulated by rising global prices.

- **Norilsk** is the world’s lowest-cost nickel producer and accounted for more than 90% of total Russian nickel output in 2017.

- In October 2018, Norilsk Nickel and battery chemical company BASF agreed on a partnership to build a new battery-manufacturing plant in Harjavalta, Finland. The start of production is planned for 2020 and will supply 300,000 electric vehicles per year.

- This presents Norilsk and the Russian nickel sector with a very important growth opportunity:
  - Nickel is to be the key beneficiary from the growing EV market on the demand side as manufacturers increasingly adopt nickel-heavy NMC cathode batteries.
  - There is a distinct lack of homegrown European battery manufacturing capacity to cater to the growing EV demand in the region.

![Nickel production by Norilsk Nickel, thou. tones](image)

Source: Fitch Solutions, IMF, EMIS
The mining sector in Russia is characterized by high entry barriers and a regulatory environment hostile to foreign investment.

In Russia, subsoil operations can be conducted under one of the following types of subsoil licenses: exploration, production, and combined licenses.

The fees payable by subsoil users include:

- A bid fee to participate in a tender or auction
- A signing bonus for the award of the subsoil license
- One-time payments due when certain events specified in the subsoil license occur
- Regular payments for subsoil use
- Taxes

Regulatory authorities:

- Ministry of Natural Resources and Environment
- Federal Agency for Subsoil Use (Rosnedra)
- Federal Supervisory Service for Nature Management (Rosprirodnadzor)
- Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor)

Source: Fitch Solutions, EMIS, Thomson Reuters Practical Low
The subsoil license holder generally undertakes certain commitments under the subsoil license, including:

- To meet certain annual exploration and/or production targets
- To keep environmental contamination within specified limits and remedy instances of environmental pollution

Russian law stipulates that gold ore deposits exceeding 50 tons, found on premises leased to legal entities can be declared assets of national strategic importance and can be ceased (compensation is paid) from the asset holder. This rule is under consideration for change to a more liberal, asset holder friendly approach.

The Strategic Law stipulates that foreign miners willing to enter the sector must obtain a permit from a government commission, headed by the prime minister, and can own a stake of no more than 25% in any Russian mine.

Thus, the best way for a foreign investor to gain exposure to the Russian mining industry is through minority stake purchases or establishing joint ventures with local players.

In August 2019, the Russian government declared the goal to increase coal production by 25-52% by the year 2035. This is only feasible with a considerable investment campaign in modern equipment and infrastructure.

The coal sector will be supported by the government, as according to the Ministry of Energy, the Russian government will spend an estimated USD 123 bn on the coal sector between 2012 and 2030.

The government’s restructuring plan will focus on decommissioning outdated mining capacity, retiring unviable and unprofitable coal operations and increasing investment to upgrade or build new facilities.

Source: Fitch Solutions, BMA Research, IMF, EMIS
## Main Players: Russia (1)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>UC RUSAL PLC</td>
<td>Aluminum</td>
<td>RUSAL is a leading, global aluminum producer. Production capacity: Aluminum - 3.75 mn tons, alumina – 7.77 mn tones, foil – 89,000 tones. 5.8% of global aluminum production, 6.2% of global alumina production in 2018. RUSAL operates in 19 countries on 5 continents.</td>
</tr>
<tr>
<td>Norilsk Nickel</td>
<td>Diversified mining</td>
<td>Russia's largest diversified mining company. It mines 89% of the nickel in the country and holds a 40% share in Russian copper production. The company supplies ~ 75% of total country’s platinum output. 1st global palladium and refined nickel producer, 4th global platinum and rhodium producer, 11th global copper miner. The company also produces gold, silver, iridium, selenium, and others.</td>
</tr>
<tr>
<td>Ural Minerals and Mining Company (UMMC)</td>
<td>Copper</td>
<td>One of the top Russian producers of major commodities including copper, zinc, coal, gold, and silver. Additionally UMMC produces lead, selenium, tellurium, cadmium, and indium. Metals production operations located primarily in the Urals (Sverdlovsk, Chelyabinsk, Orenburg regions, and Bashkortostan Republic). Coal assets mainly located in Siberia (Kemerovo region).</td>
</tr>
</tbody>
</table>
**Main Players: Russia (2)**

<table>
<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metalloinvest</td>
<td>Iron ore</td>
<td>Producer of 39% of Russian iron ore. Metalloinvest extracts iron ore from the second largest measured iron ore reserve base in the world with approximately 14.1 bn tons of proven and probable reserves on a JORC (IMC Montan) equivalent basis and about 140 years of reserve life.</td>
</tr>
<tr>
<td>SUEK</td>
<td>Coal</td>
<td>Producer of 36% of Russian thermal coal. Operates 26 large-scale open pits and underground mines in Siberia and Far-Eastern Russia with total estimated reserves of 5.3 bn tons. 110.4 mn tons coal production in 2018.</td>
</tr>
<tr>
<td>Evraz</td>
<td>Diversified mining</td>
<td>Russia’s second biggest coal producer. Vertically integrated steel, mining, and vanadium business with main operations in Russia. Evraz is among the top steel producers in the world, with crude steel production of 14 mn tons in 2017, and accounts for 15% of total steel production in Russia.</td>
</tr>
<tr>
<td>Alrosa</td>
<td>Diamonds</td>
<td>State owned, accounts for 95% of Russian extraction. Dominates the diamond subsector.</td>
</tr>
</tbody>
</table>
Main Players: Russia (3)

<table>
<thead>
<tr>
<th>Company name</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Novolipetsk Steel PJSC</td>
<td>Steel</td>
<td>Novolipetsk is the main production site of NLMK Group, Largest steel producer in 2018, 13.3 mn tons, 18% of all steel produced in Russia. 31% – Share of the Russian CRC market. 23% – Share of the Russian HDG market. 22% – Share of the Russian pre-painted steel market. 81% - Share of the Russian transformer and dynamo steel market.</td>
</tr>
<tr>
<td>Severstal</td>
<td>Steel</td>
<td>Russian company mainly operating in the steel and mining industry, headquartered in Cherepovets. Production in 2017 – 11.7mn tons, in 2018 12 mn tons.</td>
</tr>
<tr>
<td>Magnitogorsk Iron &amp; Steel Works PJSC</td>
<td>Steel</td>
<td>MMK is one of the world's largest steel producers and a leading Russian metals company. The company's operations in Russia include a large steel producing complex encompassing the entire production chain, from preparation of iron ore to downstream processing of rolled steel. In 2018 MMK Group produced 12.7 mn tons of crude steel and 11.7 mn tons of commercial steel products.</td>
</tr>
</tbody>
</table>
### Main Players: Russia (4)

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<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polyus Gold</td>
<td>Gold</td>
<td>Owns second largest proven reserves in the world (68 mn ounces). Extracted 26% of the gold in the country in 2017. Gold production in 2018 – 2.44 mn oz, which is 13% higher than same indicator in 2017 – 2.16 mn oz.</td>
</tr>
<tr>
<td>Polymetal International PLC</td>
<td>Gold</td>
<td>In 2018 gold equivalent production was 1.562 mn oz. Both extending mine life through near-mine exploration and new discoveries from greenfield exploration contribute to the company’s long-term growth prospects. In 2018, Group Ore Reserves increased by 15% year-on-year and are now estimated at 24.0 mn oz of gold equivalent (GE). The main drivers were the successful resource-to-reserve conversion at Mayskoye and the completion of a revised estimate at Nezhda following the company’s consolidation of 100% ownership in the property.</td>
</tr>
<tr>
<td>Highland Gold Mining Ltd</td>
<td>Gold</td>
<td>Highland Gold Mining Limited was incorporated in Jersey in 2002 for the purpose of acquiring, consolidating, and developing a portfolio of quality gold mining projects in the Russian Federation with good growth potential. Production of gold in 2018 was 270,000 oz, in 2017 272,000 oz.</td>
</tr>
</tbody>
</table>
Main Players: Russia (5)

International firms active in Russia’s mining industry

USA
- Caterpillar Inc.
- Boart Longyear

Sweden
- Atlas Copco
- Sandvik
- Volvo

Australia
- AMC
- Micromine
- Newtrax
- Hatch
- BHP Billiton
- SICK
- Alcoa
- RPM Global

Japan
- Komatsu

China
- Sany

Germany
- Liebherr

UK
- JCB

Belarus
- BelAZ
Opportunities for foreign suppliers in Russia

- The Russian mining sector is highly dependent on imported mining equipment and spare parts.
- The volume of Russian mining equipment and machinery imports floats around USD 3 bn annually.

### Share of imported goods by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Power shovels</th>
<th>Hydraulic excavators</th>
<th>High volume dump trucks</th>
<th>Bulldozers 50%</th>
<th>Automation equipment 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>10%</td>
<td>95%</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
</tr>
<tr>
<td>Stackers 30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drilling &amp; boring equipment</td>
<td>50%</td>
<td></td>
<td></td>
<td>60%</td>
<td>30%</td>
</tr>
<tr>
<td>Low volume dump trucks</td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High volume dump trucks</td>
<td>20%</td>
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<td>Bulldozers 50%</td>
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<td>Automation equipment 30%</td>
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</tr>
</tbody>
</table>

### Areas with predominant foreign suppliers

- To maintain its current growth, the industry is highly dependent on international equipment.

<table>
<thead>
<tr>
<th>Category</th>
<th>Lifting machinery &amp; cranes</th>
<th>Roadheaders, Roller crushers</th>
<th>Mechanized penetrators</th>
<th>Concentrate dewatering equipment</th>
<th>Geological IT surveying solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control support systems</td>
<td>Magnetic separators</td>
<td>Photo &amp; X-ray separators</td>
<td>Self-propelled drilling rigs</td>
<td>Hydraulics</td>
<td></td>
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<td>Self-propelled drilling rigs</td>
<td>Hydraulics</td>
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</tr>
</tbody>
</table>
Key Points: Kazakhstan (1)

- The extractive sector in Kazakhstan generates around 30% of GDP. Mineral fuels contribute approximately 60% of export earnings, with hard minerals and metals accounting for roughly 22%.
- The predominance of the extractive sector in Kazakhstan’s economy makes the country vulnerable to commodity price fluctuations and risks related to resource dependency.
- The government initiated a wide-ranging reform agenda aimed at diversifying economic activity after the country faced a sharp downturn in 2015-2016, resulting from the fall in commodity prices and decreased demand in Russia and China, Kazakhstan’s key export markets.
- Kazakhstan’s hard minerals sector has suffered from a lack of new exploration activity. Most of the mines in Kazakhstan have been operating for decades.
- Kazakhstan is working to enhance the investment attractiveness of its extractive sector, particularly mining exploration activities.
- The new Code on Subsoil and Subsoil Use (SSU Code) entered into force in 2018 in Kazakhstan with key reforms, many of which have the potential to be successful in improving the investment climate.

Sources: [OECD](https://www.oecd.org): Ministry Of Industry And Infrastructure Of The Republic Of Kazakhstan
Key Points: Kazakhstan (2)

Kazakhstan has a variety of minerals. Of the 105 elements in the periodic table, 99 are found in Kazakhstan, 70 have explored reserves, and more than 60 are in production.

Kazakhstan produces around 13% of the world's chromite, 6% of the titanium sponge and 3% of the magnesium. Other important mineral production includes cooper, iron ore, precious metals, zinc and aluminum.

The country is estimated to contain 30% of the world's reserves of chrome, 25% of the manganese, 10% of the iron ore, 10% of the copper and 13% of the lead and zinc, and 12% of the world's uranium resources.

Approximately 40% of the world uranium mining by the in-situ recovery (ISR) uranium extraction method originates in Kazakhstan. It is #1 by volume in uranium mining in the world (in 2017 and 2018). Kazakhstan has the second largest reserves of uranium in the world (Australia is first).

Aluminum and zinc are among the two fastest-growing export products.

According to the results of geological and economic evaluation of the available mineral resources in Kazakhstan, the ones of greatest economic importance are coal, oil, copper, iron, lead, zinc, chromite, gold, and manganese.

Ferrous and non-ferrous metals mined in Kazakhstan, are exported to Japan, South Korea, USA, Canada, Russia, China, and the EU.

Sources: OECD; Ministry Of Industry And Infrastructure Of The Republic Of Kazakhstan
Key Points: Kazakhstan (3)

- Kazakhstan has the largest recoverable coal reserves in Central Asia and is the second largest coal producer in the region (after Russia). The total coal reserves in Kazakhstan reach 162 bn tons.

- There are 10 basins of hard coal and lignite (brown coal), and more than 300 deposits have been explored.

- Total coal production in 2018 reached 117.8 mn tons, consisting of 111.4 mn tons of hard coal and 6.4 mn tons of lignite (brown coal).

- Most of the produced coal (78%) remains in the country and only 22% goes for export. Russia is the largest export market, followed by Ukraine.

- Coal remains the main source for the country’s total electricity generation. Kazakhstan’s power industry will continue to drive the country’s coal industry in the near future.

- The main part of coal production is focused on thermal coal, but the country also produces coking coal (metallurgical coal) in Karaganda mining region. In 2018, it produced around 2.8 mn tons.

Sources: Ministry of National Economy of the Republic of Kazakhstan Statistics committee
Iron ore production in Kazakhstan in 2018 reached 41.7 mn tons. Most of the iron ore (78%) remains in the domestic market for steel production companies and only 22% goes for export to China and Russia.

Eurasian Resources Group (ERG) is the largest producer of iron ore, with nearly 75% of the country's total output.

Copper ore production in Kazakhstan in 2018 reached 121.5 mn tons. In comparison to 2015, it has almost doubled, thanks to development of Bolzshakol copper mine, which is the largest single mine development in the CIS region by scope and volume of production.

99% of copper ore remains in the country for processing. Of the refined copper and copper alloys 95% are exported to foreign countries.

Kazakhmys (trading as KAZ Minerals) is the largest copper producer in Kazakhstan, focused on copper mining and developing new copper mining projects in Kazakhstan.

Sources: companies sites; Engineering and Mining Journal; Ministry of National Economy of the Republic of Kazakhstan Statistics committee
Uranium production in Kazakhstan is operated mainly by Kazakhstan’s national operator Kazatomprom (23% of global primary uranium mining), which is the world’s largest producer of natural uranium. Kazatomprom operates through its subsidiaries, JVs and Associates, with 26 deposits grouped into 13 asset clusters, all of which are located in Kazakhstan.

The other player in the uranium business in Kazakhstan is Betpak Dala (13% of the total amount of uranium mined in Kazakhstan), a joint venture of Kazatomprom and Uranium One (Rosatom).

Kazakhstan has no operational nuclear reactors. The only one available in Aktau was decommissioned in 2001.

Kazakhstan exports uranium to China (34%), India (23%), EU (9%), USA (4.5%) and other countries.

Sources: companies sites; Ministry of Energy of the Republic of Kazakhstan , Kazatomprom National Atomic Company
Industry Forecast: Kazakhstan (1)

COAL

Kazakhstan has the largest recoverable coal reserves in Central Asia and is the second largest coal producer in the region (after the Russian Federation).

Production growth of coal in Kazakhstan is supported by domestic demand from the power sector.

Most of the coal deposits are located in the Karaganda, Pavlodar, and Kostanai regions. The Karaganda coal basin is the main coal base of Kazakhstan. Karaganda coal is coked, its quality is very high. The total coal reserve of this basin is 45 bn tons. The second most important coal basin is Ekibastuz (containing Bogatyr, Severny, and Vostochny mines).

Kazakhstan’s coal output growth is generated by Bogatyr Komir (Bogatyr Coal), which is the largest coal mining group in Kazakhstan. Currently 70% of all the coal mined in Ekibastuz coal basin and 40% of the total volume of coal production in the Republic of Kazakhstan is from Bogatyr Coal LLP. Its balance reserves are 2.62 bn tons. The production capacity of the enterprise is 42 mn tons of coal p.a., including 32 mn tons of coal from the Bogatyr mine and 10 mn tons from the Severny mine.

Sources: http://stat.gov.kz

Sources: companies sites; Gornaya Encyclopedia
Industry Forecast: Kazakhstan (2)

**IRON ORE**

- Kazakhstan has large iron ore reserves, ranking 11th in the world for iron ore reserves with a 2% share of global reserves.
- Production growth of iron ore in Kazakhstan is supported by vertically integrated steel operations. The volume of iron ore produced in Kazakhstan meets domestic demand in full. The exports go predominantly to Russia and China.
- Investments from foreign companies will support the mining industry further, e.g. Eurasian Resources Group (ERG) announced in 2017 the USD 10 mn investment in a “smart mine” project at the Kacharsky iron ore mine.
- Kazakhstan is a key supplier of iron ore to the Chinese market. Chinese companies and financial institutions have announced several big investments in iron ore mining projects in the country.
- NORINCO International and “Aktobe Steel Production” LLP signed a contract agreement for the establishment of the Iron Ore Processing Plant in the Kokbulak iron ore deposit in Kazakhstan in 2017. The contract value is USD 710 mn and the iron ore processing capacity is 13 mn tons. The total reserves of Kokbulak is 2.1 bn tons. After completion, this project will be the largest iron ore processing plant in Kazakhstan.
- In 2015 ERG announced about USD 2bn investment in the development of aluminum and iron ore mining projects in Kazakhstan, financed by the China Development Bank.
COPPER

The global copper market is forecast to enter a supply deficit in the medium term as output from existing mines declines and demand from traditional and new sources continues to grow. Global copper consumption is forecast to rise 49% by 2040. Copper is an essential raw material for modern infrastructure, energy generation, and transmission, transportation, communications, industrial machinery, and electrical appliances. Demand growth from power infrastructure development drives the global demand of copper. The adoption of electric and hybrid vehicles and their associated charging infrastructure will need significantly more copper than the existing internal combustion fleet. Also, solar and wind power require higher amounts of copper per unit of energy produced than fossil fuel based power generation.

Kazakhstan is the seventh largest producer of copper in the world. 92% of the copper is exported to foreign countries. Kazakhstan has huge reserves of copper ore, concentrated in East Kazakhstan and Karaganda. The main industrial types of ores are cuprous sandstones (71%) and porphyry copper (24%). The largest ore deposit of copper sandstones is Zhezkazgan.

KAZ Minerals is one of the largest copper producers in Kazakhstan and one of the largest globally. The company operates the Bozshakol open pit mine in the Pavlodar region of Kazakhstan, the Aktogay open pit mine and three underground mines in the East Region of Kazakhstan, and the Bozymchak open pit mine in Kyrgyzstan.
State regulation: Kazakhstan

- The new Code on Subsoil and Subsoil Use (SSU Code) entered into force in 2018 in Kazakhstan with key reforms, many of which have the potential to be successful in improving the investment climate.
- The new SSU Code contains a number of improvements in the framework for solid minerals, including in the areas of licensing, environmental assessment, and availability of geological data.
- The new Code is formulated on the basis of Western Australia’s model. It aligns its mining policy framework with international models.
- New SSU Code has positive impact on the country’s investment attractiveness, providing further opportunities for foreign funding of mining projects in Kazakhstan.
- Privatization is a key development strategy for Kazakhstan. The second wave of the privatization of Kazakhstan’s state-owned companies is ongoing; Samruk-Kazyna, as the operator of many state assets is an active participant in this process.
- Among mining companies, two are in the list for privatization: Kazatomprom (Kazakhstan’s national producer of uranium and nuclear fuel components) and Tau-Ken Samruk (exploration and development of lead, zinc, gold, silver, copper, tungsten).
## Main Players: Kazakhstan (1)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tau-Ken Samruk</td>
<td>Lead, zinc, gold, silver, copper, tungsten, iron ore.</td>
<td>State-owned company under the Sovereign Wealth Fund “Samruk Kazyna” (100% of shares). Exploration and development of minerals. Operation and management of two plants (gold refinery, metallic silicon production) 30% share in the largest zinc producer in Kazakhstan – Kazzinc. Co-shareholder with Glencore.</td>
</tr>
<tr>
<td>Kazatomprom</td>
<td>Uranium, rare metals</td>
<td>State-owned company under the Sovereign Wealth Fund “Samruk Kazyna” (100% of shares). Kazakhstan’s national producer of uranium and nuclear fuel components. The world’s leading uranium producer accounting for over 21% of global uranium production. The largest uranium supplier in China, France, and the USA.</td>
</tr>
<tr>
<td>Eurasian Resources Group (HQ in Luxemburg)</td>
<td>Ferroalloys, iron ore, aluminium, copper, cobalt, coal</td>
<td>Private company. The dominant foreign miner in Kazakhstan. Company announced the launch of a “Smart mine” project at the Kacharsky iron ore mine, which will use monitoring and artificial intelligence in iron ore production facilities. The project foresees a USD 10 mn investment.</td>
</tr>
<tr>
<td>ArcelorMittal (HQ in Luxemburg)</td>
<td>Iron ore, coal</td>
<td><strong>ArcelorMittal</strong> has iron ore and coal mines in Kazakhstan. ArcelorMittal is a steel and mining company, producing semi- and finished steel products.</td>
</tr>
</tbody>
</table>
Main Players: Kazakhstan (2)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhmys (trading as KAZ Minerals) (HQ in Kazakhstan)</td>
<td>Copper, zinc, silver and gold.</td>
<td>Kazakhmys (trading as KAZ Minerals) - private company. It conducts operations from mining ore to producing finished metal. It is also involved in the mining of coal for power generation, which is used at the company’s mining sites. KAZ operates three open pit mines, three underground mines, and six concentrators. It carries out the exploration, evaluation, development, mining, and processing of the company’s mineral resources and conducts the sales of metal products. KAZ Minerals operates the Bozshakol and Aktogay open pit copper mines in Pavlodar and the East Region of Kazakhstan, three underground mines in the East Region of Kazakhstan, and the Bozymchak copper-gold mine in Kyrgyzstan.</td>
</tr>
<tr>
<td>Kazzinc (HQ in Kazakhstan)</td>
<td>Zinc and lead</td>
<td>Private company (69.61% of shares held by Glencore International AG, HQ in Switzerland).</td>
</tr>
<tr>
<td>Glencore Plc</td>
<td>Zinc, lead, copper, gold</td>
<td>One of the largest diversified natural resource companies in the world, operating in 50 countries. The company’s major producing assets include Kazzinc, an integrated zinc, lead, copper, and gold production facility in Kazakhstan.</td>
</tr>
</tbody>
</table>
Key Points: Ukraine (1)

- Mining activities in Ukraine are currently almost exclusively focused on the extraction of coal and iron ore.
- There are more than **20,000 deposits** in Ukraine, of which 8,700 are of industrial importance.
- In total **117 different minerals** can be found, of which 99 are mines, incl. energy resources (natural gas, coal, oil).
- The country holds the 7th largest coal (>100bn tons) and iron ore reserves (>30bn tons) in the world.
- Ukraine has large reserves of **manganese ores** (42.8%), **titanium** (20%), **iron ore** (15%), **coal** (7.5%)
- The country also holds significant **uranium** and the world's largest **manganese reserves** (>2bn tons), which are currently not mined and could provide substantial income in the future.
- Ukraine has significant reserves of titanium-zirconium ores, graphite, kaolin, potassium salts, sulfur, refractory clay, granite, and facing stone.
- Explored stocks utilization rate: from 40% to 100%.
- Market value of all deposits in Ukraine: USD 7.5 trillion.
- **The mining industry** accounts for almost **10% of Ukraine's GDP**. The volume of minerals and metals export is 39.6% of total commodities export.
- The absolute leaders of the industry's exports are iron ores and concentrates, which accounted for 6% of Ukraine's total exports in 2018.
Key Points: Ukraine (2)

- The country’s largest **coal and iron ore reserves and mines are located in Eastern Ukraine**, an area that is currently experiencing political and military conflict, which has resulted in the loss of access to up to 66% of Ukraine’s metallurgical coal needed to make steel and 75% of the country’s former coal output.

- An official blockade of all transport links imposed by the Ukrainian government on the rebel-held eastern regions on March 2017, where coal mines and steel mills are located, remains in place as of June 2019. The key challenge remains that up to 66% of Ukraine’s metallurgical coal needed to make steel lies in the separatist-controlled Donetsk and Lugansk provinces. Nevertheless the decline in mining output over 2018 was not as significant as the decline experienced in 2017 as alternative supply chains were established. For example, coking coal production by Metinvest actually rose to 5.26 mn tons in 2018, up from 4.73 mn tons in 2017.

- Ukraine’s major **export destination** of coal and iron ore is **Western Europe**, where current demand is sluggish. Allegedly coal currently extracted in the separatist controlled areas of Eastern Ukraine is shipped to Russia and resold to Ukraine as part of a continuous cooperation that imports Russian coal to Ukraine in order to secure the energy supply in the 14 thermal power plants operating in the country.

- Current **levels of production** of coal hover around **34mn tons** (2018) with an expected increase of 1-1.5% annually and around **60mn tons of iron ore** with a similar expected annual growth rate.
Map of Resources: Ukraine

- Lead
- Uranium
- Gold
- Copper
- Aluminum
- Coal
- Diamonds
- Nickel
- Platinum
- Iron Ore
The country’s fractured political climate and poor business environment represent a large barrier to new investment in iron ore mining.

Exploitation of undeveloped resources has slowed down due to ongoing struggles with the supply chain for developed and operating facilities.

**Ferrexpo** (Switzerland based) still has not started development of 7 iron ore sites (total of 13.1 bn tons).

**Coal production** has settled at a steady level of ca. 34 mn tons/year and is likely to remain in this area, despite the loss of the Eastern Ukrainian coal areas in the Donetsk and Lugansk provinces.

General infrastructure is often outdated and lacks investment. Work hazards and work-related accidents indicate high potential for foreign suppliers.
In January - June 2019, 15.3 mn tons of coal were produced by state and private enterprises. State run mines accounted for 12% of total output and private-run mines for the remainder.

The largest contributor to coal production is the DTEK Pavlohradvuhillya of Dnipropetrovsk region (9.4 mn tons), followed by the Donetsk region (5 mn tons).

Prior to the onset of the recent domestic conflict, coal accounted for about 36% of Ukraine's energy consumption, putting it narrowly ahead of natural gas in the country's energy mix. Traditionally this fuel has been sourced domestically from the country's mines (with nearly all Ukraine's 14 thermal power plants operating on coal), and also imported, mainly from Russia, which in 2013 accounted for 72% of Ukraine's total coal imports.

While Russian coal imports have remained largely constant despite the recent hostilities, the country's domestic coal supply has been severely disrupted, considering that half of the plants are equipped to use coal from the country's Donbas region, which is only scarcely available due to separatist occupation. The region accounts for almost 75% of the country's total coal output. Although the Ukrainian government still controls 35 coal-producing mines in the region, most of them are non-operational as a result of flooding or exhaustion. Overall, nearly 30% of the country's coal mines are inactive.
Industry Forecast: Ukraine (3)

IRON ORE

- Ukraine’s iron ore industry will continue to witness subdued output in the coming years as there is no end in sight to the current conflict with Russia and the Donbas blockade, with continuous potential for flare-ups in tensions that could pose further disruptions.
- Up to 80% of domestic iron ore production - the other key raw ingredient in steel - is located in government-controlled areas.
- The country’s largest steel producer, Metinvest, continues to struggle, witnessing a slight decline in iron ore production from 27.46 mn tons in 2017 to 27.35 mn tons in 2018 and a decline in steel production from 7.36 mn tons in 2017 to 7.32 mn tons in 2018.
- Nevertheless the decline in output over 2018 was not as significant as the decline experienced in 2017 as alternative supply chains were established.
State Regulation: Ukraine

- Principally, mineral resources are owned by the people of Ukraine. As a regulatory body empowered by the people of Ukraine, the state (State Geological Service) issues permits for extracting subsoil resources and the subsequent use (sale) of the materials. Oftentimes subsoil extraction permits go hand in hand with obtaining land-usage concessions.

- Latest Developments:
  - Law of Ukraine No 2545-VIII on Ensuring of Transparency in Extractive Industries increased compliance with EU legislation regarding transparency of information, financial reporting, etc.
  - Resolution of the Cabinet of Ministers of Ukraine (CMU) No. 333 on Amendment of Procedures Approved by the Resolutions of CMU No 594 and 615 introduced significant changes to the procedure related to auctioning, issuing, renewing, and amending special permits for subsoil use for oil & gas extraction.

- In 2019, around 70 mineral deposit sites have been opened for international investors for concession tenders (4 planned throughout the year). The next licensing round is to be held Oct. 30th.

Source: Thomson Reuters (Link)
### Main Players: Ukraine

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>ArcelorMittal Kryvyi Rih</td>
<td>Iron ore</td>
<td>Vertically integrated company stretching from mining iron ore to steel production. Main types of products are sinter ore with an iron content of at least 53.5% and an off-grade ore mass fraction (blast furnace) with an iron content of at least 34%. Capacity of mining and processing production: 24.2 mn tons of crude ore and 9.8 mn tons of concentrate</td>
</tr>
<tr>
<td>Metinvest Group</td>
<td>Iron ore, Coal</td>
<td>Vertically integrated conglomerate stretching from mining iron ore and coal to steel production. Operates business such as: PJSC SEVGOK, PRJSC INGULETS (annual sales volume: 14 mn tons of iron ore concentrate), and PJSC TsGOK (annual sales volume: 6.6 mn tons of iron ore concentrate + 2.3 mn tons of pellets) in Dnipropetrovsk Oblast.</td>
</tr>
<tr>
<td>FERREXPO</td>
<td>Iron ore</td>
<td>Iron ore pellet producer with annual production of 10.6 mn tons of pellets</td>
</tr>
</tbody>
</table>
Key Points: Uzbekistan

- Uzbekistan is one of the world’s largest producers of gold (8th in the world) and uranium (7th). The country also produces copper, silver, coal, phosphate, molybdenum, potassium, tungsten, lead, zinc, and other minerals. The country has an abundance of natural gas, used both for domestic consumption and export, and oil used for domestic consumption.

- To this day, 40 deposits with uranium reserves which are located within 27 deposits, have been explored in the country. Explored and estimated uranium reserves amount to 185,800 tons. The country does not have its own atomic industry, hence all low-enriched uranium produced is exported.

- The mineral resource base in Uzbekistan is one of the main items of FX earnings in the country’s economy. Today, this base is made up of more than 1,800 deposits and about 1,644 prospective manifestations of minerals, 118 types of mineral raw materials, of which 65 are developed. The mineral resources of Uzbekistan are estimated to be worth about USD 11 trillion.

- The volume of products produced by mining and quarrying enterprises in January-July 2019 amounted to UZS 22.7 trillion, or USD 2.4 bn.

- Compared with the same period last year, there is an increase in natural gas production by 1% and gravel - by 31%, while there is a decrease in coal production by 4%, oil - by 7%, gas condensate - by 2.4%, crushed stone - by 4.5%.

Sources: Law Business Research Ltd, Buyuk Kelajak (Uzbekistan 2035)
Map of Resources: Uzbekistan

- Lead
- Uranium
- Gold
- Copper
- Aluminum
- Coal
- Diamonds
- Nickel
- Platinum
- Iron Ore
Gold production

- Uzbekistan’s gold reserves rank 4th in the world, and in terms of production, the country ranks 9th. In 2018, 88 tons of gold were mined.
- Currently 41 gold deposits are discovered, nine of which are being developed. Gold is mined in the river basin Zaravshan and Kyzylkum.
- The size of proven gold reserves in Uzbekistan is about 2,100 tons. Total reserves are about 3,350 tons.
- Gold mining in the country is concentrated in 2 production plants – Navoi and Almalyk mining and metallurgical plants (NMMP and AMMP).
- Gold production at the State Enterprise Navoi Mining and Metallurgical Combine (NMMP) in recent years amounted to more than 60 tons with a total production around 90 tons. The NMMP industrial complex unites five metallurgical plants in Navoi (ГМЗ-1), Zarafshan (ГМЗ-2), Uchkuduk (ГМЗ-3) and Zarmitan (ГМЗ-4), Marjanbuk gold recovery plant (MGRP) in the village of Marjanbuk Samarkand.

Source: Invest in Uzbekistan
COAL

- Uzbekistan explored coal reserves amount to 1.832 mn tons, including: brown – 1.786 mn tons, stone – 46 mn tons. Estimated resources amount to 323 mn tons of coal.
- Coal mining in Uzbekistan is conducted at three fields: Angren (lignite coal), Shargun, and Baisun (bituminous + anthracite coal).
- Joint-stock company “Uzbekcoal” is the only enterprise representing the coal mining industry in the country.
- The main activities are exploration, mining, supply, storage, processing, and sale of coal products and a number of related minerals.
- According to official statistics, Uzbekistan increased coal production by 4.4% in 2017, to 4 mn tons.
- The main consumer of coal fuel is the electric power sector, which accounts for over 85% of total coal consumption and resembles a 20% share in the electricity production of the country.

Source: Invest in Uzbekistan
According to the IAEA, Uzbekistan is in seventh place in the world by uranium reserves (4% of world uranium reserves) and fifth by its production. Currently about 40 deposits in 27 areas have been explored.

The explored and estimated uranium reserves amount to 185,800 tons, of which 138,800 tons are uranium of sandstone-type, 47,000 tons are black-shale type.

The monopoly uranium producer in the Republic is the Navoi Mining and Metallurgical Combine (NGMK). The plant plans to increase uranium production to more than 3,000 tons/yr by 2020, returning to the levels of early 1990's production.

Uzbekistan does not have its own nuclear industry and all produced low-enriched uranium is exported.

By the decree of the President Shavkat Mirziyoyev dated July 19, 2018 "On measures for the development of nuclear energy in the country, the Agency for the development of nuclear energy "Uzatom" was established under the Cabinet of Ministries.

According to the agreement with the State Corporation "Rosatom" in Uzbekistan, it is planned to build a nuclear power plant in the country by 2028. The complex will be comprised of two power units with a capacity of 1200MW each.

Currently 67% of the country's electric energy is generated using gas, 12% - hydro-electric power stations, 20% - coal, 1% - oil. By 2030, the planned nuclear power plant will account for 15% of the produced energy, gas - 54%, hydroelectric power - 14%, coal - 11%, oil - 3%, renewable sources - 3%.

Source: United Nations Economic Commission for Europe
Industry Forecast: Uzbekistan (4)

COPPER and SILVER

The Almalyk mining-metallurgical plant is the only copper producer in Uzbekistan and one of the largest producers of non-ferrous metals in the Central Asian region.

AMMP accounts for about 90% of silver production and 20 percent of gold in Uzbekistan.

The plant consists of two mining enterprises, two concentration plants, and two metallurgical plants with their own infrastructure. The total volume of production is estimated at more than USD 300 mn annually.

The plant has the right to develop copper-molybdenum and lead-zinc ore deposits in the area of the city Almalyk (Tashkent region). AMMP’s raw material base is the Kalmakyr and Sary-Cheku porphyry copper ore deposits (Tashkent region) and the Uch-Kulach lead-zinc-barite ore deposit (Jizzakh region).

Source: Invest in Uzbekistan
State Regulation: Uzbekistan (1)

The activities of mining and metals companies in the Republic of Kazakhstan are governed by the following legislative acts:


In recent years, a number of regulatory acts have been adopted in Uzbekistan to expand investment cooperation in the mining and geological sector:

- Resolution No. 328 of the Government of the Republic of Uzbekistan which approved the lists of prospective areas of strategically important solid minerals
- Decree No. PP-3479 of the President of the Republic of Uzbekistan “On Measures for the Stable Supply of In-Demand Types of Products and Raw Materials to Sectors of the National Economy”
- Decree No. PP-3578 of the President of the Republic of Uzbekistan “On Measures to Improve the Activities of the State Committee of the Republic of Uzbekistan for Geology and Mineral Resources”

The effective tax rate ranges from 113% - 416%, depending on the material mined. It consists of:

- State target fund 3.5%
- Extraction tax 4% - 10.4%
- Profit tax 14%
- Excess profit tax 50%
- Payments to Uzbekistan Reconstruction and Development Fund (UFRD)
- Other taxes + charges

Source: Buyuk Kelajak (Uzbekistan 2035)
State Regulation: Uzbekistan (2)

- Planned overhaul of the tax system targeting companies in the mining sector to reduce tax evasion by state owned corporations by understating of profits, resulting in underpayments to the UFRD and excess profit taxes.
- Privatization of state owned assets to increase competition and make market entry of private corporations more attractive.
- Investments in infrastructure + creation of industrial clusters uniting manufacturers of primary metals and products from subsequent processing stages.
- Develop a leasing system for production equipment, including mining and smelting equipment.
- Implement professional operating standards aimed at reducing the accident rate, increasing safety, and improving working conditions at the enterprises of the industry.
- The plan for the upgrade and technical renovation of the processing equipment fleet includes a decrease in the amount of obsolete equipment (from 49% to 13%) and increase in the overall amount of equipment in use.

Source: Buyuk Kelajak (Uzbekistan 2035)
## Main Players: Uzbekistan (1)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Specialty</th>
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<tbody>
<tr>
<td>Navoiy MMC SC</td>
<td>Gold, Silver</td>
<td>Navoiy MMC (NMMC) is one of the largest gold producers in Central Asia and is fully owned by the state.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The main gold mining base of the enterprise is the Muruntau field (Central Kyzylkum), which has been mined since 1967.</td>
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<td></td>
<td></td>
<td>• The NMMC production complex currently unites four metals plants in: Navoi -1 (MMC-1), Zarafshan -4 (MMC-2 and others), Uchquduq -1 (MMC-3), Zarmitan -1 (MMC-4) and Marzhanbulake -1</td>
</tr>
<tr>
<td>Almalyk MMC JSC</td>
<td>Gold, Copper, Zinc, Lead, Tungsten</td>
<td>Almalyk MMC (AMMC) is the only copper producer in Uzbekistan. The state holds a 98% interest in the combine, which is controlled by SFI Management Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The enterprise produces refined copper, zinc, lead, and molybdenum concentrates, and other products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AMMC accounts for about 90% of silver production and 20% of gold production in the country</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Since 2015, the assets of Uzbek Combine of High-Melting and Heat-Resistant Metals JSC (UzCHHM, Chirchiq, Tashkent Region) have been fully transferred to AMMC. As a result, the combine is also the monopoly producer of tungsten</td>
</tr>
<tr>
<td>Company name</td>
<td>Specialty</td>
<td>Comment</td>
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</tr>
<tr>
<td>Uzvtortsvetmet JSC</td>
<td>Aluminum, Other non-ferrous metals</td>
<td>Uzvtortsvetmet JSC is the sole entity in the Republic of Uzbekistan managing ferrous metals scrap and waste. The state holds a 51% interest in the company, which is controlled by SFI Management Group. The entity produces secondary aluminum, copper-based nonferrous alloys, lead alloys, nonferrous scrap metals and waste, and other products.</td>
</tr>
<tr>
<td>Uzmetcombine JSC</td>
<td>Ferrous metals</td>
<td>The leading ferrous metallurgical enterprise in Uzbekistan. Controlled by SFI Management Group, with a 74% held by the state. Only 36% of Uzbekistan's current total demand for rolled ferrous metals is satisfied by the processing of ferrous metals scrap and waste at Uzmetcombine JSC in Bekabad. The remainder (63%) is imported from CIS countries, primarily Russia, Kazakhstan and Ukraine.</td>
</tr>
</tbody>
</table>
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