

SPIEF

review

SAINT PETERSBURG INTERNATIONAL
ECONOMIC FORUM 2014

2014

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INTERNATIONAL **BANKING CONGRESS 2014**

New Realities for the **Banking Industry**

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by representatives from
the Bank of Russia*

*Banking regulation:
a tough path to
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*The payment landscape: cash
and non-cash settlements –
current practice and future
trends; features of national
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*Shadow banking system
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As is now traditional, Congress participants will include representatives from the Federation Council, State Duma, and the Government of the Russian Federation, as well as the Bank of Russia, international financial institutions, central (national) banks, foreign state banking and financial watchdogs, Russian and international banks, banking associations, auditors, consulting and IT companies, and academia.

More information on the programme and terms of participation can be found at www.ibcongress.ru





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ALEXEY ULYUKAEV

Minister
of economic
development
of the Russian
Federation

GLEB SHELKUNOV



T HE CURRENT STATE OF THE RUSSIAN ECONOMY (SLOWDOWN OF GROWTH, NEGATIVE TRENDS AT THE GLOBAL MARKETS, UKRAINIAN CRISIS FACTOR) RAISES INCREASINGLY COMPLEX AND MULTIFACETED TASKS FOR THE GOVERNMENT TO SOLVE THAN THOSE THAT THEY HAVE FACED IN RECENT YEARS. MINISTER OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION, MR. ALEXEY ULYUKAEV, SETS FORTH THE GENERAL VIEW OF THE SITUATION AND THE BASE PRINCIPLES ON WHICH THE GOVERNMENT INTENDS TO PRESERVE THE PACE OF POSITIVE ECONOMIC REFORMS AND PREVENT OBVIOUS LARGE RISKS.

«Development of the Russian Economy Will Depend on the Extent of Stimulation and Support of Economic Growth»

Many experts say that the development of the Russian economy is presently experiencing a period of stagnation. Do you agree with that opinion?

The situation in the Russian economy is difficult and high-risk, but it is premature to characterize it as stagnation. Stagnation means a lack of growth for several consecutive quarters. Yet, in 2013, there was not a single quarter without growth in comparison to the corresponding period of the previous year. Still, it is certainly not a reason for complacency.

Since early 2014, the rates of growth within the Russian economy have remained low. However, in February there was some recovery in the economic activity. In comparison with January of the current year, the dynamics of industrial production moved into a positive range. This move was in connection with a resumption of growth in processing industries and the on-going increase in extraction of minerals. There was an improvement in the dynamics of retail trading, housing construction, real wages and the real disposable revenues of people. As a result, the GDP growth in February was 0.8%, after 0.7% in January. For two months in 2014, GDP increased by 0.7%.

Negative influence on the economy is still exerted by weak investment demand. Investments decreased by 5% in the first two months of the year. However, the rate of decline is slowing down. In January 2014, when compared with January 2013, the rate of decline of investments in fixed capital amounted to 7%. In February, the rate slowed down to 3.5 percent.

In the first quarter of the current year, the outflow of capital, amounting to 50.6 billion USD, significantly accelerated. This was largely due to the increased uncertainty about

the further dynamics of the exchange rate and to outcomes in Ukraine. The Bank of Russia is pursuing a balanced policy preserving stability in the monetary and foreign exchange markets. If the situation is stabilized and there are no material sanctions from Western countries, the outflow of capital may quickly cease.

The Russian rouble has lost 8.4 percent since the beginning of the year, outpacing the dynamics of exchange rates in other developing countries. Naturally, the Russian rouble is now very underestimated and, in the case of normalization, it will strengthen. The weakening of the Russian rouble has an inflationary effect. The growth of prices in March, in annual terms, increased to 6.9%. By the end of the first six months, we expect that level to reach 7.5 percent. Still, in the second half of the year, there inevitably will be a slowdown of inflation, which by the end of the year will be reduced to 6%. This will occur as the result of a gradual reduction of the effect from the weakening of the Russian rouble and the high base of inflation for food in the second half of 2013.

The situation within the labour market early in 2014 remains quite favourable. The unemployment rate in February, for the third month in a row, was 5.6% of the economically active population.

Real disposable cash revenues of people in February went up by 1%. The growth of real wages in February accelerated up to 6% as compared with 5.2% in January 2014.

That being said, the current political situation and trends of socio-economic development early in 2014 unfortunately give no grounds for optimistic forecasts for the growth of our economy.

What challenges to Russia and the formulated goals of economic development are raised by the slowing econom-

ic growth? Is it possible under these conditions to implement large-scale projects? Or should we get prepared for inertial development over a certain period of time?

Indeed, one can hardly expect significant economic growth under the current conditions. Major domestic challenges for economic growth remain, including obstacles to the development of infrastructure sectors (electric power and transport), exhaustion of available technological experience in a number of high and medium-technology industries, increasing competition in both domestic and foreign markets with a significant reduction of competitive price advantages due to advanced growth of wages and energy costs, as well as the weak development of economic institutions regulating property rights protection.

Development of the Russian economy will depend on how successfully the measures to stimulate and sustain economic growth would be implemented. First of all, development depends on maintaining the stability of banks and credit in order to compensate for a possible lack of external financing. Large infrastructure projects are essential and they should commence as soon as possible. Such projects must be aimed at the development and updating of infrastructure (roads, airports, electric power, etc). But of course this is not enough. It is necessary to establish clear rules that encourage the growth of labour productivity and increase the contribution of total factoring productivity to the growth rates of the economy.

What impact on the Russian economy is happening as a result of the Ukrainian crisis and the affiliation of Crimea to Russia? Is there a way to minimize the negative consequences of those events? Do you see some hidden potential advantag-

es for the Russian economy from the advancement of that situation?

The situation in Ukraine contributes neither to the growth of business activity, nor to the development of trade and economic cooperation between our countries. More than 2/3 of Russian exports to Ukraine are composed of mineral products; therefore much will depend on volumes of gas supplies.

In January and February 2014, Russian supplies to Ukraine increased by 0.7% as compared with the same period in 2013. This amounted to 3.7 billion USD.

At the same time, imports from Ukraine went down by 30.6 % to 1.6 billion USD due to the reduction of supplies of machines, equipment, metals and foods, which together occupied 2/3 of Ukrainian exports to Russia.

Based on current and anticipated projects, we expect that most of them will be implemented, however, we may not speak about new projects at all.

Will it be possible, in your opinion, for the government this year to sustain the target inflation parameters? What will it depend on?

The impact of the Russian rouble's weakening is already affecting inflation. The March price growth for the annual period increased to 6.9%. By the middle of the year this fig-

The weakening of the rouble's exchange rate will have an impact on the dynamics of grain prices. There are risks of an increase in the global prices for grain and foods and a rise in the cost of imported goods due to the possible change of importing countries.

Which measures of the state policy can be used to stimulate the growth of the national economy? To what extent are the possible tools restricted in that case?

According to the forecasting we have made, between 2015-2017, even in the framework of the existing budget rules, we anticipate an increase in the maximum amount of expenditures set out in the budget law. It is largely due to the Russian rouble's weakening.

However, the additional revenues of the Federal budget will be sufficient only to cover the current problems. As a result, given the limited possibilities of the budget and unfavourable foreign political situation, a change of the current «budget rule» can be viewed as a measure of the acceleration of economic growth. The «budget rule» should take into account the outflow of capital and, with a large outflow one should increase the budget's expenditures by 1%. It will help to increase government investments and stimulate economic growth.

dependence on the processes occurring in the world is relatively high.

At the beginning of the year the tightening of the US monetary policy caused a weakening of the currencies in many developing economies. The Russian rouble also weakened against the background of the above processes.

In addition, there is a high dependence on the economic development of the euro region countries, they being our major trading partners. Acceleration of the Russian economy's growth in the second half of 2013 was mainly connected with the acceleration of exports based on the recovery of the global economy.

It should be noted that the slowdown of the Russian economy in 2013 - early in 2014 was mainly related not to foreign, but rather to domestic factors.

GDP growth in the first quarter of 2014 will not exceed 1.0 %, which is significantly below the potential of the Russian economy. In these circumstances, the steps to stimulate domestic demand will ensure a significant economic effect.

Are there any simple recipes for the removal of bureaucratic restrictive obstacles facing business? Which of them can be applied in the near future and what effect do you expect?

NEGATIVE INFLUENCE ON THE ECONOMY IS STILL

exerted by weak investment demand. Investments decreased by 5% in the first two months of the year. However, the rate of decline is slowing down. In January 2014, when compared with January 2013, the rate of decline of investments in fixed capital amounted to 7%. In February, the rate slowed down to 3.5 percent.

ure could exceed 7%. If there are no dramatic fluctuations in the exchange rate's dynamics before the end of the year, we might not face a further acceleration of inflation. Moreover, in the second half of the year, the price growth will slow down. Its impact will be softened by a lower growth of the national tariff for energy – 0.7 from the projected inflation for 2013 (4.2%) and of the electricity prices for other consumers.

In the meantime, as the domestic economic situation gets worse and the burden on the budget intensifies, there is increased risk of deterioration of the inflation background.

An additional source of growth stimulation for the national economy can be the National Welfare Fund. Different ways of applying the Fund's resources, including as a source of increased lending, are currently being discussed.

How much are processes in the Russian economy and the slowdown of growth dependent on global economic trends? To what extent, in that case, are the measures of domestic stimulation efficient?

The Russian economy is quite deeply integrated into the global economic system, so

If we are concerned with the topic of «recipes» they are relatively simple and are associated with removal of restrictions whose redundancies are agreed upon, or by bringing the law enforcement practices into compliance with standards of the law where such standards are in line with public interests. The key issue in terms of simply achieving the desired result, particularly the improvement of the business climate and promotion of business-making, is the process of proving that a particular burden is redundant, and of finding an acceptable solution together with all concerned parties involved.

More simple measures include various kinds of «typical» and easily «replicable» solutions for the elimination of the bureaucratic procedures and administrative restrictions, which, while existing in the law, are not essential for any group of interests. It means transforming diverse documents into electronic form and creating the conditions for interaction between business and the government through a flow of electronic documents. It also means the revision of the set of documents needed in order to obtain public services, except for the requirements for the documents that are already at the disposal of the authorities or the content of which does not affect the decision-making on the provision of the service or refusing it. The latter, for example, in some cases includes the statutory documents that one needs to print out and then, as a rule, have



DMITRY LEKAEV

————— **THE SITUATION IN UKRAINE CONTRIBUTES NEITHER** to the growth of business activity, nor to the development of trade and economic cooperation between our countries. More than 2/3 of Russian exports to Ukraine are composed of mineral products; therefore much will depend on volumes of gas supplies. In January and February 2014, Russian supplies to Ukraine increased by 0.7% as compared with the same period in 2013. This amounted to 3.7 billion USD.

them notarized, and then delivered to the authority, when, in fact, in most cases no one will ever open them.

More complicated measures include comprehensive steps to improve or radically transform institutions, change the business and administrative process within governmental authorities, and eliminating requirements that are a major source of «administrative fees.»

Certain hopes are associated with the introduction of a model for the assessment of administrative costs. On its basis, we are planning to build an approach towards the management of business costs that are associated with fulfilling regulatory-legal requirements. The objective for ourselves and other Federal Executive Authorities will be to design or modify administrative procedures based on the idea of not increasing the burden on business. For example, a Federal Law adopted has abolished the obligation of business entities to provide the Pension Fund and the Social In-

urance Fund with notices of opening, closing and changing of settlement accounts. Similar amendments into the Tax Code of the Russian Federation related to notification of the tax authorities are being considered now in the State Duma. According to our calculations, a monetized evaluation of costs for complying with this requirement in the entirety of the country approaches one billion roubles a year! Of course, it is an abstract value, and the actual savings from those relief measures will be lower because it will not cause a change of the business processes for all categories of economic entities. Still, it is obvious that for small and micro-enterprises, where often one and the same person has to take care of business and to ensure the management of records, removal of that duty will ensure a strong positive effect.

What impact could the imposed sanctions bring onto the economic situation in Rus-

sia? Do you expect an actual reduction of economic cooperation? Or will it mean decreasing availability for Russian economic players in relation to the access of loans from transnational banks?

The present actions of the USA, Canada and the EU towards Russia are unilateral restrictive measures. Russia retains the right to challenge their legality in court.

Moreover, any unilateral measures of those countries can lead to a response from our state. One thing is clear, that all those actions eventually harm the world economy and destabilize the financial and economic situation at the national, regional and international levels. They have a negative effect on all the participants of global economic relationships. Unilateral restrictive measures can have the most unpredictable opposite effect for the initiating countries. Therefore, we ought to take a responsible attitude towards certain political and economic steps in this area.

Photo facts

SPIEF REVIEW HAS CHOSEN 10 MOST SIGNIFICANT EVENTS FROM DIFFERENT SPHERES IN RUSSIAN ECONOMY HAPPENED LAST 12 MONTHS



REUTERS

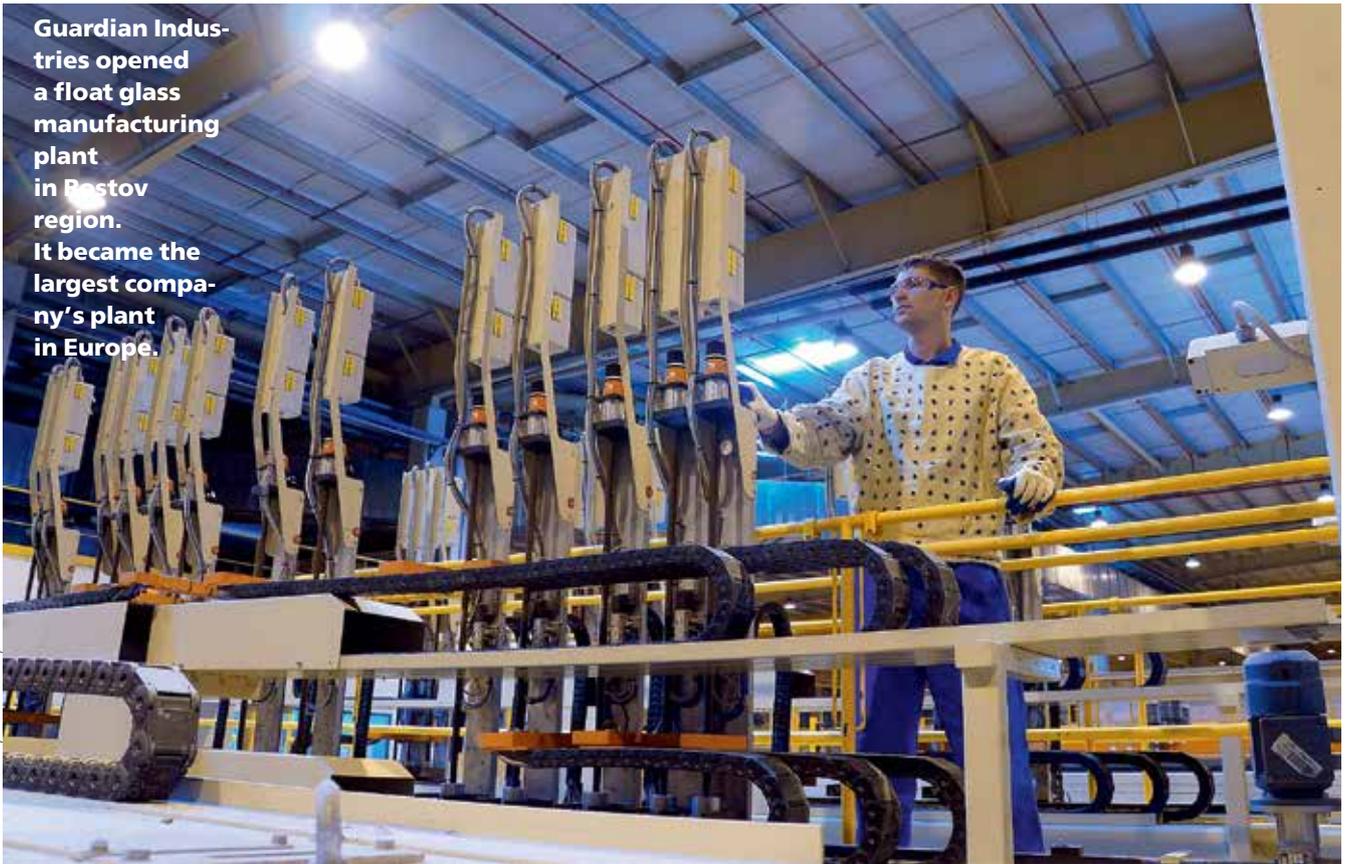
Rosneft completed acquisition of TNK-BP. Photo: Robert Dudley, CEO of BP and Igor Sechin, Rosneft President and CEO



REUTERS

RZD announced the start of Baikal-Amur Main Line redeveloping programme

Guardian Industries opened a float glass manufacturing plant in Rostov region. It became the largest company's plant in Europe.



VICTOR POGONEV / INTERPRESS / FOTO ITAR-TASS

AvtoVAZ started the production of automobile engines with his major stakeholder Renault-Nissan. The new engines will power new model — Lada Largus.



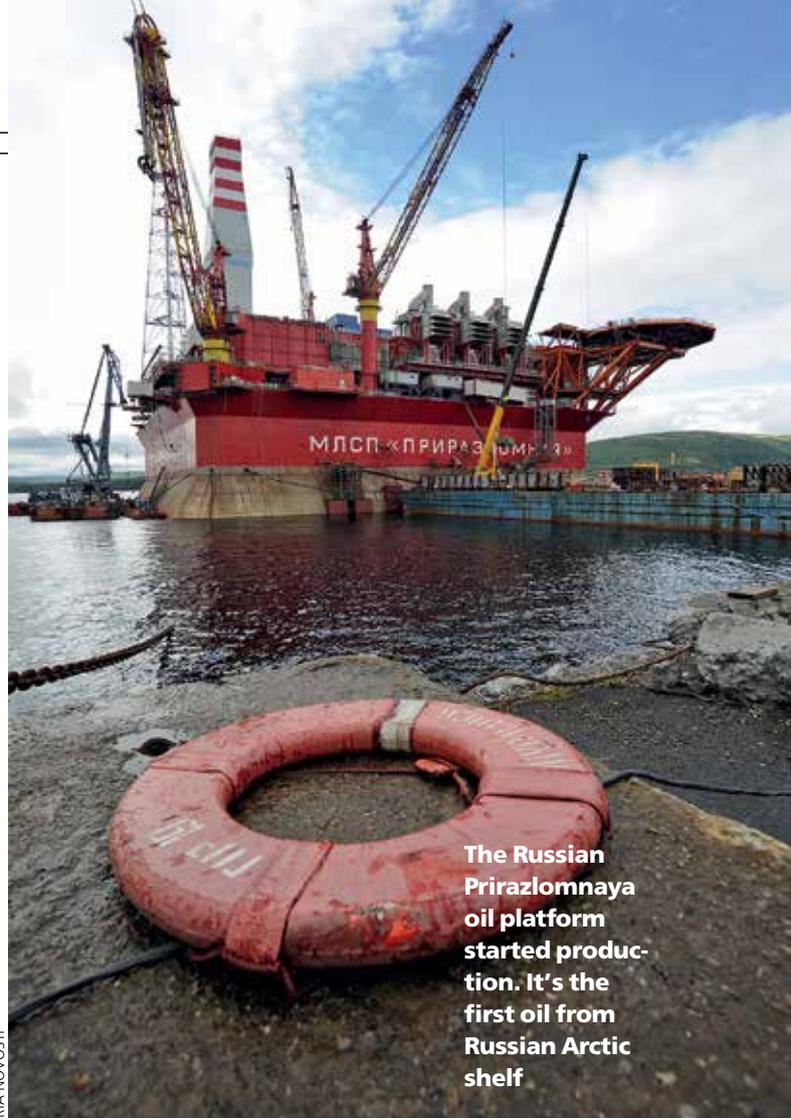
VALERY SHARIFULIN / FOTO ITAR-TASS

LTE standard was launched in Russia by telecommunications operators



RIA NOVOSTI

RIA NOVOSTI



The Russian Prirazlomnaya oil platform started production. It's the first oil from Russian Arctic shelf

PETR KASSIN



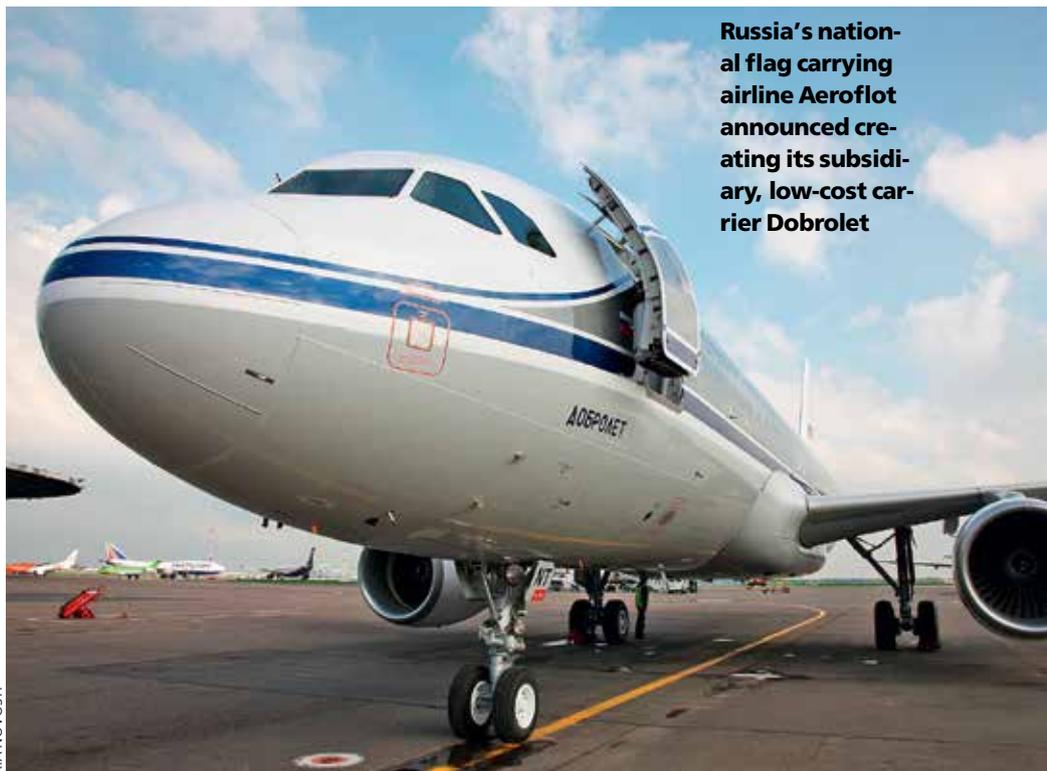
The Bank of Russia approved the graphic symbol of the rouble. Photo: Elvira Nabiullina, Governor of the Bank of Russia in the centre.



DMITRY DUZHANIN

New anti-piracy law which should defend content-makers in Internet was introduced in Russia. Photo: one of the authors — deputy speaker of the State Duma Sergei Zheleznyak

RIA NOVOSTI



Russia's national flag carrying airline Aeroflot announced creating its subsidiary, low-cost carrier Dobrolet

DMITRY AZAROV



Russia hosted XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi

Sustainable growth by investing



DMITRY DUKHANNIN

KIRILL DMITRIEV

CEO of the Russian Direct Investment Fund (RDIF)

Breakthrough in attraction of direct foreign investments

The indicators of investments into the Russian economy for the recent years have traditionally remained in the positive. But in 2013 there was truly a milestone breakthrough: the RF moved from ninth to third place by the volume of foreign investment attraction according to UNCTAD. The total volume of investments from abroad reached 94 billion dollars. In fact, Russia is now one of the three main investment grounds in the world alongside the U.S.A and China. It was unexpected news for many potential partners who have not yet delved comprehensively into the statistical details.

Russia will need to retain and, as expected in the future, to improve this indicator in the new environment, taking into account the current course for geographic diversification of the main trade-economic partners. However, already existing partnership links can seriously

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM (SPIEF), AS BEFORE, REMAINS THE LARGEST PLATFORM FOR DISCUSSIONS ON THE MOST PROMISING SECTORS OF DOMESTIC ECONOMY AND WAYS TO INCREASE THE EFFECTIVENESS OF RUSSIAN BUSINESS. IT IS NAMELY HERE WHERE THE MAIN DISCUSSIONS WITH INTERNATIONAL PARTNERS ARE HELD CONCERNING THE MOST APPEALING INVESTMENT PROJECTS AND ACHIEVEMENTS OF RUSSIA IN THE DOMESTIC AND INTERNATIONAL MARKETS. IN THE FRAME OF SPIEF 2014, WE SHALL HOLD TRADITIONAL MEETINGS WITH THE REPRESENTATIVES OF THE LEADING SOVEREIGN AND PRIVATE INVESTMENT FUNDS, MANY OF WHICH ARE PART OF THE INTERNATIONAL ADVISORY BOARD OF THE RUSSIAN DIRECT INVESTMENT FUND (RDIF), AND WE ALSO SHALL ORGANIZE THE DISCUSSION SESSIONS TO DISCUSS THE MOST PRESSING ISSUES IN THE FRAME OF THE PRESENT-DAY AGENDA.

facilitate this task. Since its creation, the Fund has been attracting the most reputable investors, whose presence in the country helps to evoke interest of other market participants. More than 70% of investors, having had investment experience in Russia, are satisfied with the results of their work in this country. In addition, 82% of investors are confident in the economic attractiveness of the Russian Federation, which is based, in particular, on the presence of a large domestic market, the eighth in the world, on the developing financial sector, and on the growing level of citizens' savings and personal income. We should not forget that Russia has recently joined the WTO, and it also became an important factor in its increasing appeal.

By now there are many examples of successful business conducted by foreign companies in Russia, and one of our goals is to recount these experiences as comprehensively as possible to the international partners. For example: the "Metro" company has built a business in Russia with the turnover of 4 billion

dollars just in a few years. In terms of sales volume per square meter, the RF is steadily on the list of leaders among other markets of the company.

The list of advantages should also include a whole number of optimization opportunities in the area of taxation. The property tax is now no more than 2.2% of its residual value, while some of the assets can completely be excluded from the taxable base. In some separately-taken zones there are special VAT rates and special customs regimes, and the profits tax can be reduced from 20% to 0%. Furthermore, in the frame of infrastructure projects the Russian authorities offer some very interesting forms of support, which cannot be found in many other countries.

Eastern prospects – growth path

Several partnerships, fundamentally important for RDIF and for Russia as a whole, were concluded namely on the grounds of the St. Pe-

BY NOW THERE ARE MANY EXAMPLES

of successful business conducted by foreign companies in Russia, and one of our goals is to recount these experiences as comprehensively as possible to the international partners. For example: the “Metro” company has built a business in Russia with the turnover of 4 billion dollars just in a few years.

tersburg Economic Forum. Last year, RDIF signed a contract with the “Mubadala” Sovereign Fund of the United Arab Emirates for the establishment of a Fund in the amount of 2 billion dollars for investment in Russian assets on a parity basis. A year earlier, an automatic mechanism of co-investment with the Kuwait Sovereign Fund was launched.

At this time we also see a strong interest from the leading funds and the investment companies of the world. In particular, a meeting with the RF President Vladimir Putin, scheduled for SPIEF, will be attended by international investors with \$3 trillion worth assets under their control.

Among the already established joint structures is the Russian-Chinese Investment Fund with a volume of \$2 billion as well as mutual funds and platforms with Japan, Korea, France, Italy, Abu Dhabi and the already mentioned UAE. The volume of foreign investments in these partnerships already exceeds \$10 billion. The multibillion investments, attracted through the offices of RDIF, are designed to be long term and presuppose a fairly high profitability. That is, they are still appealing in terms of reliability and return on investments.

Some individual companies and funds, as in Europe for example, in the current situation often prefer a speculative, short-term model of investments. However, the Asian and Middle Eastern investors pursue much more long-term objectives. Approximately 90% of attracted monetary resources, with the involvement of RDIF, are related namely to Asia and the Middle East, which creates additional financial strength for the Russian investment area.

Cooperation with investors from the Asian-Pacific Region has special significance today because our nearest eastern neighbors, due to natural reasons, have always been interested in investments in the Far East, which is a priority development area for the Russian state and RDIF. Last year, together with its partners, the Fund invested 24 billion rubles in the Far East Region. In 2014, the volume of investments is expected to reach 40 billion

rubles. In the longer term, the investments can be much more extensive, tenfold larger. China alone plans to invest about \$20 billion into the development of state projects in this country. Many of the initiatives will be linked with the cross-border areas.

Profitability in the range

The RFP Group, the largest timber company of the Far East, and the Russian diamond mining company “ALROSA” are on the list of our common investment initiatives with China in the Region. Quickly approaching is an unprecedented project by scope called “inter alia”, which has great symbolic significance for us as well. In the framework of the Russian-Chinese Investment Fund, there is a plan to build a railway bridge crossing over the Amur River, which will be the first bridge in history built across the Russian-Chinese state border. This is literally an “investment” bridge that will connect the Jewish Autonomous Okrug (District) with the province of Heilongjiang. The creation of this object will help to increase the competitiveness of the Russian producers and exporters by reducing the distance from them to the final consumer by nearly 700 km when compared to existing routes.

This project demonstrates how closely and profitably the different lines of investments in the Russian economy can be inter-linked. Apart from the infrastructure, the shortage of which is evident in Russia, promising niches of distinguish regional development exist, which will be promoted by the construction of said bridge.

The Far East is a priority, but certainly not the only promising investment territory. RDIF contributed greatly to the launch of the Center for attracting investments into the Russian regions that is intended to replicate the successful experience of such leading areas as Tatarstan and the Kaluga region.

Regardless of the concrete territory, the rising middle class in the country automatically makes profitable the investments in all

areas related with consumption. According to Sberbank CIB, in 2020 Russia will become the largest consumer market in Europe. Both the population and the industry of the Russian Federation require increases in the volume of high-quality domestic products. Thus, import-substituting productions also have huge potential in Russia, and with involvement of foreign investors they will be able to work not only for the domestic demand, but also successfully export goods and services. By the way, this is already practiced by the “Voltyre-Prom” company. “Voltyre-Prom” is a producer of agricultural tires, in which, together with “Titan International” and “One Equity Partners,” we have invested.

At the same time, Russian companies require a sharp increase in their efficiency: in many industries the potential is 30-40%. Our experience shows that the transfer of individual types of activities to outsourcing provides two to three fold rise of efficiency in this area. That is why RDIF has already invested in such companies as “Maykor” and “Cotton Way.”

By investing in this area, the Fund together with partners promotes the development of private business initiatives, which tend to be much more competitive vs. larger business entities with state participation.

At the same time, in our opinion, the investment process should involve not only external but also domestic investors, the forming of which is one of the priority tasks at this stage of economic development of Russia. Pension and insurance funds all over the world generate the flow of funds, which are successfully invested into infrastructure. A consortia that can unite the monetary resources of the sovereign, pension and foreign funds, has the highest level of reliability. On the one hand, the foreign investor is sure that the rules of the game won't change unexpectedly. On the other hand - the pension fund knows for sure that the project has undergone approval from the highest quality international experts. We are talking about profitable projects with attractive rates of return, which at present can make from 8 to 20-30% of annual returns.

What will happen to the Russian economy in 2014?

VLADIMIR YAKUNIN

**President,
OJSC Russian Railways**



GLEB SHEKUNOV

The world economy is currently experiencing difficult times. One can now state that the second wave of the receding crisis has hit the financial and industrial markets once again. In this sense, the dynamics of the railways' operation is the best indicator of the state of the industry. Starting from mid-2013, from month to month we have noted a waning of the delivery of cargo for shipment that has now turned into a rather tangible decrease. As a result, the year 2013 saw the loading decreased by 2.8 % with the expected growth being 2.5%. Based on the forecast of the Ministry of Economic Development regarding the 2.5% growth of the Russian economy in 2014, we've planned to increase passenger transportation by 1.8% and to raise the cargo transportation up to 1%. At the same time, from the beginning of 2014 we have seen a decrease of 0.4% in the loading of cargo when compared against the same

period last year. The rate is 12% lower as compared to the pre-crisis level of 2008. Even now, the growth of the economy is estimated at 1%. Regardless of the impact of negative factors, the Russian Railways OJSC has achieved its performance targets for cargo and passenger transportations, due to a decrease in expenditure by 98 billion rubles in 2013, and by 84.9 billion rubles in 2014. Moreover, the company's investment program was maintained at the previously agreed upon level. I'm sure there's no use providing evidence to the economic maxim that investments in infrastructure, including transport, are the best support for the industry during the crisis period. Moreover, I'd like to underline the following very significant fact. According to the data from a study undertaken by the leading scientific organizations in the field of strategic planning, following a multiplicative demand, each ruble of investments in projects revolving around railway infrastructure yields about 1.46 rubles to the GDP of the country. That's why in 2014 we expect to see the start of some major infrastructural projects. We're talking about the previous governmental decisions regarding the development of the Baikal-Amur Mainline and Transsiberian Railway, and the construction of new railways in the southern part of the country. We also expect the government to adopt the long-awaited decisions to commence a project to construct Russian high-speed mainlines.

VITALY SAVELIEV

General Manager, Aeroflot

Russia is currently one of the largest economies in the world and will remain such in the foreseeable future. This year we'd like to see structural transformations that will enable us to strengthen global competitiveness. This goal may be achieved by devel-



GLEB SHEKUNOV

oping advanced non-resource industry, including civil aviation. It's necessary to further improve the regulatory part of legislation that concerns Russian air transportation, to bring it in line with international standards. Only in this case can we expect the air transport industry to fully realize its economic potential.

SERGEY KOGOGIN

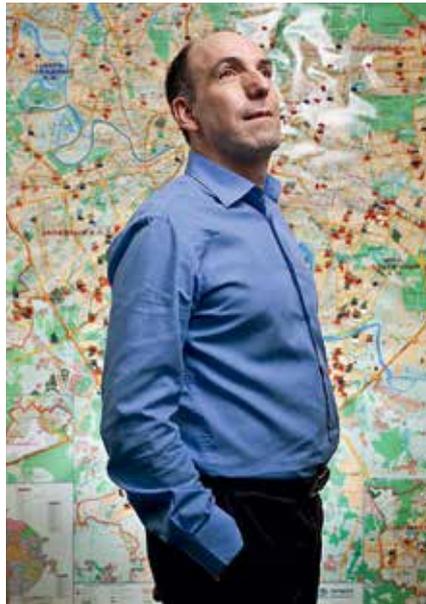
General Manager, KAMAZ

According to our forecast, this year the market will continue shrinking, but KAMAZ expects to maintain its volume of sales at the same level of 2013. At the same time, the company is developing a new two-years program of cost optimization. We intend to increase our exports, while taking into account the current US dollar/ ruble exchange rate. Our export deals are long-term. In order to attain a significant increase in supplies, our specialists will require a period of about 3 months to study export contracts. However, devaluation of the tenge in Kazakhstan adds to the mis-

THE DIFFERENCE IN SITUATION

between 2008 and 2014 lies in the fact that Russia has now joined the WTO. As a result, the list of governmental support measures is limited. In addition, certain organizations, like the Ministry of Defense, have different demands.

balance, and the situation in the Ukraine should not be disregarded either. In such critical situation, it's necessary to introduce a tested set of measures that have previously been applied. In light automobile industry, there is a governmental program of automobile utilization and favorable credit facilities. In the sphere of commercial transport, there is a need to support the municipalities' programs for updating their fleet of buses and municipal engineering. We have a sober approach to the real opportunities of the State. The difference in situation between 2008 and 2014 lies in the fact that Russia has now joined the WTO. As a result, the list of governmental support measures is limited. In addition, certain organizations, like the Ministry of Defense, have different demands. Today we're speaking about such market measures as the support of automobiles using gas motor fuel. This is probably fair because KAMAZ has been investing in this program for 10 years now, and we know that in general this is beneficial for the country and for the environment. If all the promises given by the government are kept, one can expect serious support already this year.



SERGEY ZEMKOV

Magaging Director, "Kaspersky Laboratories" in Russia, the ranscaucasian States and Middle Asia

Looking at the present foreign policy environment, our economy can hardly hope to grow either this year or next. There is no secret that the Russian market has a large share of public order, and currently our economy, in particular the IT- market, is strongly influenced by budget cuts across public companies. Add to this the fact that many commercial companies have started to work on cost optimization, and there is little wonder that for more than six months we have been observing a reduction of budget items. This economic slowdown will continue. The trend will be most painfully experienced by Russian small and medium sized businesses. However, big business and strategic governmental IT- projects will be important to customers both in the IT- market and the information security market. The governmental support of domestic vendors in the field of information technology may be an additional positive factor.

STEPHAN DUCHARME

CEO, X5 Retail Group (trading networks Pyaterochka, Perekrestok, Caroussel)

For me, the year of 2014 is very important because it promises dynamic and vivid growth for Russian food retailers. The consumer demand has remained stable for 3 months in a row, regardless of macroeconomic and geopolitical processes. This year, X5 Retail Group will continue to develop its four retail networks, focusing on the demands and expectations of our customers. Whether it is a "New Pyaterochka" with its "lowest prices closest to you," or Perekrestok with its focus on "fresh" products and a quality service, or Caroussel with the widest offer for the entire family, or «Express Retail" with stores in convenient locations, we can meet any consumer expectation in any scenario of the market development. That's why it is very important how all our four networks will operate this year.



GLEB SHELKUNOV



RIA NOVOSTI

ANDREY KOSTIN

President
and Chairman
of the
Management
Board
of VTB Bank



«Russia remains highly attractive for serious global investors»

RUSSIA IS CURRENTLY GOING THROUGH A TESTING TIME IN ITS EXTERNAL ECONOMIC RELATIONS. HOWEVER, FOR LARGE INVESTORS RUSSIAN ASSETS REMAIN VERY ATTRACTIVE. SPIEF REVIEW MAGAZINE SPOKE WITH ANDREY KOSTIN, PRESIDENT AND CHAIRMAN OF THE MANAGEMENT BOARD OF VTB BANK, ABOUT WHY THEIR INTEREST IN BUSINESS IN RUSSIA HAS NOT DISAPPEARED.

W

hat is your perspective on Russia's current investment potential?

Russia's economic, financial, and investment relations with other countries have been artificially politicised over recent months. That said, I believe that, in the long run, this will not have any significant impact on the major players' attitudes. Russia will continue to offer real opportunities and siz-

able advantages as an investment destination.

Russia remains a top 10 global economy with almost 150 million consumers. Our country continues to show encouraging macroeconomic indicators in comparison with other emerging markets.

Equally important is the fact that improving Russia's investment and business environment has consistently been a key government priority in the recent years. Comprehensive, transparent initiatives are being implemented in a number of economic sectors, and this work is already bearing fruit.

We are seeing tangible progress in executing the various roadmaps in this area. The first steps towards institutionalising efforts to attract private investment to Russian regions have already been taken, and initiatives aimed at introducing business-friendly regulations have been launched.

Russia's investment climate is not as bad as it may sometimes seem, even to us. For example, Russia is po-

sitioned ahead of China, Brazil and India in the World Bank's latest Doing Business ranking.

Russian assets remain highly attractive for serious global investors. In the last year alone we saw Rosneft and BP enter into a historic deal, and three major sovereign wealth funds bought shares in VTB.

VTB Group's companies collaborate with a wide spectrum of foreign partners on a daily basis. Most have intimated to us that they intend to continue and expand their Russian operations despite certain negative geopolitical developments, which I am sure will be short lived.

Obviously, individual companies' positive attitude should not lead us to be complacent. Russia must keep up its efforts to improve its investment and business climate, and its business community stands ready to support government policy in this respect.

What, in your opinion, is currently the main obstacle for foreign investors in Russia? How can this issue be addressed?

A couple of months ago I would have said institutional shortcomings were the main obstacle. However, there has been palpable, if slow, progress addressing that issue. Both the business community and the government are aware of the need to move forward. In fact, major foreign investors in Russia understand that improving institutions is a complex, evolutionary process, and are not inclined to over dramatise the situation.

However, even those issues have been dwarfed by recent challenges: the irresponsible hysteria unleashed by European and US politicians and media regarding Russia's position on the internal political crisis in Ukraine.

Foreign audiences are being flooded with barefaced lies and insinuations. Facts are being distorted or hid-

den. Half-truths and labels are being employed. An information war is being waged against Russia, and any attempt to provide full and reliable information on the developments in and around Ukraine is unofficially subject to strict censorship.

As someone who remembers what life was like under the Soviet Union, I can honestly say that Soviet propaganda masterminds pale in comparison to those who are trying to teach us “unbiased and impartial journalism.” I am particularly struck by the reluctance of otherwise reputable and respectable publications and TV channels to even try to understand what’s happening and to reflect the views of the different parties involved.

Journalists are cynically stripped of the right to express their own opinions. A recent incident when a long-time employee of a well-known US-financed radio station was suspended for voicing a pro-Russian position is a glaring example of these double standards.

Besides negative coverage that takes its cues from official sources, we have also seen numerous efforts and even strong pressure from the White House and others to prevent leaders of US and European business from participating in the 2014 St. Petersburg International Economic Forum. It is regrettable that a purely business issue has become so strongly polit-

investors, today these barriers are being consciously created by the other side. Here I mean, of course, the sanctions against Russia – both those announced already and any more in the pipeline. Many of them simply fly in the face of common sense.

The past twenty years has seen Russia successfully integrate into the global economy. In 2013, Russia was the world’s sixth and Europe’s second largest economy in terms of GDP.

Businesspeople are well aware that, in an economically interdependent world, sanctions hurt both parties, and are therefore counterproductive. Major Western corporations, above all European businesses, are pragmatic. Any deterioration in trade and investment cooperation with Russia, let alone the possible suspension of Russian operations due to political whims or arrogance, would not be in their interests.

I hope that, on sanctions, common sense and economic pragmatism will ultimately prevail.

Developed economies seem to be picking up steam, while emerging markets are slowing down. That said, economic growth tends to follow a cyclical pattern. When is the Russian economy expected to recover from the recession and what sectors could foster development?

RUSSIA’S INVESTMENT CLIMATE IS NOT AS

bad as it may sometimes seem, even to us. For example, Russia is positioned ahead of China, Brazil and India in the World Bank’s latest Doing Business ranking. Russian assets remain highly attractive for serious global investors. In the last year alone we saw Rosneft and BP enter into a historic deal, and three major sovereign wealth funds bought shares in VTB.

icized. Of course, this environment puts pressure on potential investors, gives them a distorted or false perception of the reality on the ground, undermines existing business contacts between Russian companies and their foreign partners and drives down the value of Russian assets.

The Western media’s approach to covering developments in Ukraine give us further reasons to ponder the extent to which journalists and media outlets are, or should be, responsible for forming the spirit of trust and mutual respect without which serious, long-term business and mutual investment is impossible.

That will be one of the issues up for discussion at the 2014 St. Petersburg International Economic Forum.

Another paradox of the current situation is that where we once heard about “domestic” barriers to international

It is true that major developed economies have showed themselves to be more resilient to the crisis than emerging economies, and are now showing quite good signs of recovery.

Moreover, EU countries and the US are strengthening and upgrading their manufacturing base and are building capacity for a new industrial advance. Manufacturers are “reshoring” production – bringing it back home from developing countries. Additionally, in parallel we see the painful but vital process of eliminating the global economic imbalances that developed during the preceding period.

Experts who argue that the global economy is gradually moving to a new technological era, in which innovation is increasingly important across the board, may indeed be right.

It is vital that Russia finds its niche in this nascent, global, division of labour. We must identify the most promising economic sectors, taking existing competitive advantages into account, and focus on developing them by attracting, among other things, foreign investment. These projects don't have to be developed from the ground up. We can start by looking afresh at the opportunities we already have.

Russia is often criticised for its "dependence on raw materials." Yet, this picture would look very different if we were to maximise oil and gas output from existing deposits, build high-tech facilities for higher value-added production and make commodities-based industries more competitive, thus improving investment appeal.

In what sectors could Public Private Partnerships bring about sustainable growth? What are the advantages of Public Private Partnerships for the economy?

for three out of the six major PPP projects that are currently active in Russia, and VTB and its partner-companies were awarded contracts in all three cases. Last month, a VTB Capital-led consortium won a tender to build a bridge across the Lena River near Yakutsk. This will be another PPP project.

VTB has extensive experience in structuring, preparing and delivering PPP projects. We are seeing increased interest from Russia's regions and investors in PPP and note that they are open to involving new partners, including those from abroad.

What are, in your opinion, the most attractive economic sectors for investors in this day and age?

I have already partially answered this question. It is primarily the commodities sector. Telecommunications, retail and financial services are also worth mentioning. I believe that the agro-industrial complex, construction material production, transport and logistics will also play a bigger role in the future.

————— **IN FACT, THE ROUBLE HAS LONG BEEN**
a convertible currency, so exchange rate fluctuations are down to market factors. For the banking and financial sector, a weaker national currency is a drawback, since it reduces demand for loans among consumers and in the real economy. A sharp increase in the rouble rate is also undesirable, since it makes Russian goods and services less competitive.

First of all, PPP projects are about developing transport, logistics and other infrastructure. If global experience is any guide, Public Private Partnerships are very effective in implementing major infrastructure projects.

Investing in this sector is a global, long-term trend. Some forecasts say that investments in expanding or creating new infrastructure over the next 15 years (to 2030) will outstrip the total cost of the world's existing infrastructure.

For Russia, infrastructure development is also an important driver in adopting a new growth model.

But that's not the only impact that PPP has. It also eases budget strain at all levels, cutting costs by offering contractors an incentive to be more responsible for their output and deliver higher quality construction work. After all, if the facilities built start to see their operational characteristics erode even before the government pays the contractor (which could take decades) the investor loses money.

Russia is taking its first steps in PPP, and VTB dominates this new and promising market. We submitted bids

Do you expect the US dollar and the Euro to keep growing against the rouble? Does Russia need a floating exchange rate? Will this help draw more investors into the country?

In fact, the rouble has long been a convertible currency, so exchange rate fluctuations are down to market factors.

For the banking and financial sector, a weaker national currency is a drawback, since it reduces demand for loans among consumers and in the real economy. A sharp increase in the rouble rate is also undesirable, since it makes Russian goods and services less competitive.

Unlike speculators, serious investors are chiefly interested in macroeconomic stability, which implies a stable exchange rate for the national currency.

The macroeconomic situation in Russia is stable. The Central Bank is keeping a lid on inflation by implementing a well thought-out monetary policy. As a representative of the financial sector, I don't see any reason for concern, let alone panic, about the rouble's exchange rate in 2014.

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NESHECONOMBANK IS ONE OF THE MAIN TOOLS TO SUPPORT THE PROMISING DIRECTIONS OF ECONOMIC DEVELOPMENT IN RUSSIA. ITS PRESENCE CAN BE SEEN IN ALMOST ALL AREAS WHERE THE STATE HAS DEFINED INDUSTRIAL OR INFRASTRUCTURAL TASKS FOR ITSELF AND WHERE FINDING SOLUTIONS TO THOSE TASKS HAS BEEN DEEMED NECESSARY. VLADIMIR DMITRIEV, CHAIRMAN OF VNESHECONOMBANK, TELLS ABOUT HIS OWN VISION OF ROLE THAT DEVELOPMENT INSTITUTES IN RUSSIA AND THE RESULTS HE WOULD LIKE TO SEE IN THE VEB POLICY BEING CONDUCTED.

**VLADIMIR
DMITRIEV**

Chairman of
Vnesheconombank



RIA NOVOSTI

«Creating an Environment of Development»

What is the role of targeted support of infrastructure projects conducted by the VEB in your opinion? Is it possible to estimate their approximate contribution to the GDP of the country and support of economic growth?

For a start I could note that by 2015 the total volume of support for the Russian economy on the part of the VEB would be 2 trillion Roubles, i.e. 2.4% of GDP.

As for infrastructure projects, their realization belongs to the investment priority of Vnesheconombank. The infrastructure project share in its credit portfolio is almost 37% at the moment. Vnesheconombank is involved with the execution of construction projects for international air-terminal complexes, technology parks, projects in the field of power economy and tourism infrastructure. We take part in the construction financing of auto and rail roads, airports, transport and logistics terminals and other transport infrastructure. During six years of the bank's activity, we have participated in the financing of 85 infrastructure projects worth 1.3 trillion roubles, with Vnesheconombank's participation volume of 690.2 billion roubles having been approved and 396.5 billion roubles have been financed.

What features do such investments have?

Most branches of the Russian economy have investment possibilities. Each has its own advantages and limitations, but infrastructure has a specific place. On the one hand, there are huge demands in investments, but on the other hand there is an inexhaustible potential for the development of territories, related branches, increase of employment and budget receipts. Therefore, with a good infrastructure project there is a long-term source of stable income, protected against inflation.

In our view, significant investments in infrastructure projects could be executed within comprehensive territory development projects. The main objective, while structuring such a project, is balancing the payments for infrastructure availability with the incomes received from economic development. It is necessary to coordinate implementation of infrastructure and industrial investment endeavors in the format of comprehensive territory development projects. To expand infrastructure project financing sources, complex measures aimed at legislation improvement and close cooperation with investments, both domestic and foreign ones, has been implemented. So, the Direct Investment Russian fund (a group of the VEB) actively forms a legal base in the country for a mechanism of project financing and concessional legislation improvement.

What contribution to economic growth in the country does the support of export industries, as executed by the VEB, make?

The VEB is defined as coordinator of activity for the integrated support of export of Russian goods, works and services including the review and processing of applicants to receive support in one-window-mode. It's about creating a national system of support for Russian industrial exports. Starting in the second half of 2013, Vnesheconombank was able to significantly increase export financial support volumes. So, in the period from the beginning of 2013 to March of the current year, Vnesheconombank has grown export financing volume by more than 3 fold, which on March 1st of this year including an increase of its credit portfolio volume of approximately 160 billion roubles, including increasing the loan portfolio by more than 8.5 times and the guarantee portfolio increased by almost three

times. Financial support from Vnesheconombank allowed for the support of the export contracts of 32 Russian enterprises with a total volume of 728.3 billion roubles.

At the present time, the bank is considering some dozen large and medium-sized export projects with an expected volume of bank participation to the total sum of more than 300 billion roubles (8 billion USA dollars).

One of the important directions of VEB activity is in the dynamically growing export financing segment that has become the support of Russian aviation constructors. The VEB is the leading finance partner within projects for export of the Sukhoi Super Jet 100 Russian airplane. In December 2013, the VEB signed a range of credit agreements for financing the supply of this type of airplane to Mexico and Indonesia.

Along with the financing of home aviation, and rocket and space industry production export, Vnesheconombank also supports export contracts for the energy industry, machine engineering, military-industrial complex etc.

An increase of export financing support volume is also occurring with EXAR JSC (a group of the VEB). In 2013, the EXAR JSC presented insurance coverage in the amount of approximately 32 billion roubles. Last year the agency designed its first insurance product aimed for SME export activity development.

Are there some priority directions in this case?

If it comes to the scope of Vnesheconombank projects, we are talking about the following regions: CIS countries, South-East Asia, Latin America, North and Central America, Central and Eastern Europe. At the present moment Russian export projects in 42 countries all over the world

have received support by means of credits and warranties made by Vnesheconombank and by the means of insurance support from the EXAR JSC.

Can we talk about some stated desired results?

We have no plans to be satisfied with our already achieved results and we have made further ambitious plans for ourselves. First of all, we wish to increase the number of supported export manufacturers and credit deals. It would allow for the expansion of Russian export geography, simplify procedures of reception and reduce the terms for financing for export support from within the VEB group as a result of the optimization of internal procedures for export financing transaction support; to design new products of export financing transaction support with regards to Russian export demands.

How does the VEB see its role in efforts like the support of Far East development?

How is the economic efficiency of projects essentially calculated when some of these projects also have geopolitical objectives?

The Far East and Baikal Region is one of the priorities of the investment policy of the Vnesheconombank Group. The key objective of Vnesheconombank is the realization of complex development projects that stimulate economic growth of this territory to the fullest extent. The VEB concluded an agreement for the long-term cooperation with Khabarovsk and Primorsk Territories, Amursk, Sahalin and Irkutsk regions, and the Saha Republic (Yakutia). In such regional programs, subsidiaries of Vnesheconombank are integrated. These include design, leasing and investment companies, and Export Insurance Agencies.

All of the Far East investment projects that have any scale or importance have been implemented by Vnesheconombank except some single projects for the exploitation of polymetallic ore reservoirs and Gazprom projects. As of the 1st of February 2014, the total cost of projects that have been implemented, are being implemented at the moment and are planned to be implemented involving Vnesheconombank in the territory of the Far Eastern Federal District and Baikal region is 641.1 billion roubles. Vnesheconombank's participation is 466.6 billion roubles. As a result, more than 21,000 jobs have been created in the region. Vnesheconombank is considering 5 projects in the total amount of 300.4 billion roubles

with proposed participation of Vnesheconombank in the amount of 285.9 billion roubles. Using studies of investment projects, testing their financial models and business plans, Vnesheconombank is going to organize pipeline projects as growth drivers. In fact, as of today, one of the main problems of infrastructure project implementation in the Far East is not a deficit of institutional structures or lack of investment infrastructure, correspondent mechanisms, channels and instruments, but rather the absence of detailed work, and economically sound and structured projects to meet the demands of complex development of this region in full. The VEB has established the Far East and Baikal Region Development Fund that together with its already existing representative bank office in Khabarovsk and its branch in Vladivostok, has created the required institutional base that allows the VEB to organize the investment project collection and filtration system, in order to select the best investments to stimulate the development of the Far East and Eastern Siberia.

In your opinion, what is the possible efficiency of such investments?

In my opinion, some exceptional opportunities have opened for the dynamic growth of Eastern Siberia and the Far East. It's connected with the gradual drifting of the world economic activity centre towards the East. Asian states are becoming the driving force of development. Eastern Siberia and the Far East are territorially close to such fast developing countries as China, India, Indonesia, Philippines, South Korea and Vietnam. Their growing demand and the rich resource potential of the Russian territories lead both parts straight to the necessity of a strategic partnership.

Among the most important projects, I would like to include the construction of a passenger terminal in the Vladivostok International Airport for the APEC-2012 summit, two projects for the woodworking industry in Amursk and the Vaninskii region of the Khabarovsk Territory, organization of automotive production and the manufacturing of auto components in the Primorsky Territory, and finally, the reconstruction and modernization of the Khabarovsk petroleum refinery.

In the context of a slowdown in economic growth, many people see targeted support of perspective projects and produc-

tion through the development institutes as one of the important means of economic stimulation. To which extent is such policy is effective?

Yes, indeed, all state institutions have to react adequately to the unfavorable dynamics of the main macroeconomics indexes of development for the country. For the development bank, the slowdown of economic growth is a key signal. Real decreases in production at some branches, a decrease of investments of fixed capital — all these factors make us give thought to additional measures of external economic security and structures that could be used in order to support efforts of the state in its countermeasures regarding such negative trends. As the development bank in key ground-breaking directions, we have to perform a more important role. The economy of Russia desperately needs long-term money whose sources actually are represented only by institutes of development. Among the relevant, ground-breaking sections we have IT-technologies, supercomputers, nuclear energetics, telecommunications, and space. Another important direction where external economic security plays a key role is in supporting Russian industrial exports.

A lack of borrowed assets is especially tangible within innovative and infrastructure projects because of the long term nature of their pay-back period. The capabilities of commercial banks are reasonably limited. On average only 2-3% of all Russian bank loans granted to corporations is used to fund investment activity. There are also considerable imbalances in branch loan structure, i.e. trade receives more credits than all the process industries. As a result, the Russian industrial companies are in a disadvantaged position in comparison with their competitors in countries where financing is given for more long-lasting terms and at lower rates.

What examples of such support are effective, in your opinion? What are the criteria?

Our main goal is to increase the competitive ability of the national economy and support its upgrading based on innovations. In order to get results in this area, first of all, it's necessary to create an environment for development.

Currently labor productivity in Russia shows 2-3% growth per year and that is a very big problem. We are more than two times lower when compared to other developed economies. At the same time, there is

number of regions where labor productivity considerably exceeds the average Russian labor productivity. Kaluga region leads this list, showing a rate of 13%. As you can imagine, it's not a region living at the expense of raw materials. Results are reached due to its fruitful business climate, conditions for investments involvement, and the opening of new productions. And our bank, to be specific the External Economic Security group, contributes to the creation of such an environment. For example, since 2008 the External Economic Security group has financed projects for the development of the infrastructure of the Kaluga region industrial parks. The total scope of Vnesheconombank's participation in financing the project constitutes 11.2 billion roubles. The task is to create conditions for the placement, by investors, of new productions in the Kaluga region industrial

of the project's initiator and borrower, Rosneftbunker, to Vnesheconombank have been fully paid. Shipment of oil products are being made from this terminal. This project is a spectacular example of the fruitful cooperation of state and business within the realization of larger infrastructural projects. Another example is the first automobile integrated plant in the Far East. The project was created almost in the middle of nowhere. It was decided that we would support the initiative of the SOLLERS Company regarding the realization of automobile production in the Far East. As a result, today in Vladivostok two automobile plants have been created as joint ventures with participation from the SOLLERS Company as well as with the largest Japanese automobile producers; at these plants a line of Japanese and Korean automobiles of different marks, models, types

Problems of industrial capacity creation are relevant and critical. Therefore there is question: what is the purpose of the Industry Support Fund that is being created?

The Industry Support Fund is a joint initiative of the Ministry of Industry and the External Economic Security group. The estimated volume constitutes 30-50 billion roubles. Obviously, expensive credit undermines the competitive ability of industry and the economy in general, and the currently existing support measures in the country do not reach all people in need. Thus, medium-sized enterprises do not receive state support. Currently, the average credit given to Russian industrial enterprises costs on average 11.5-12 % per year, and this rate is for large companies. Small companies receive credit at much higher interest rates. Meanwhile, the average in-

ONE OF THE IMPORTANT DIRECTIONS

of VEB activity is in the dynamically growing export financing segment that has become the support of Russian aviation constructors. The VEB is the leading finance partner within projects for export of the Sukhoi Super Jet 100 Russian airplane. In December 2013, the VEB signed a range of credit agreements for financing the supply of this type of airplane to Mexico and Indonesia.

parks. This includes the engineering preparation of industrial grounds equipped with all the necessary infrastructure, industrial and storage complexes construction and multi-modal logistic centers. Currently the result is as follows: 29 new production enterprises work in industrial parks, 16,000 new jobs have been created. The total amount of investments to the economy of this region constitutes 143 billion roubles. I will give two more examples.

The terminal for handling of oil products in the commercial seaport 'Ust-Luga' is one of the largest infrastructural projects of the Development Bank. This terminal is the largest in Russia and through it up to 30 million tons of oil-products are exported every year. In September 2013, participation of Vnesheconombank in the financing of this project was completed. Payment obligations

and packages is made, including Mazda, Toyota, SsangYong. Evidently, the development of the plants helped revive related business enterprises, from automobile showrooms to servicing station, and provided work places for residents of the region. Part of the production is sold in the European territory of Russia. Currently Vnesheconombank has more than a hundred investment projects for expert assessment, with a total cost of almost two billion roubles and a planned scope of participation of Vnesheconombank of about 1.5 billion roubles. About one third of these projects by estimated costs and volume of Vnesheconombank's funding, are infrastructural in nature. Another 58.5% of the projects are directed towards the improving of efficiency of use of natural resources, environment protection and the improvement of the environment.

interest rate in Canada is about 2%. In the EU it is 1.45-2.5 %, depending on the term of credit, and it is less than 6% in China. Currently rates on credit to medium-sized enterprises can reach 20%. The value of credit is particularly important for machine tools, aircraft and automobile industries, planning their upgrading. In order to use the potential for growth within Russian industry we need new tools and measures of state support, that are aimed, first of all, at the development of processing industries, and not extractive ones. That is why currently Russian plants obviously lose out to their competitors from other countries.

The basic idea behind creating the Fund is that since the financial sector cannot sharply reduce the interest on credit, it becomes necessary to supplement funding by direct budget financing for economical-

ly viable projects with returns that would allow access to long-term and cheap credit. In fact, the Fund will represent a special credit program of the External Economic Security group and Ministry of Industry and Trade. The External Economic Security group will consider applications and expert assessments of projects, as well as attracting additional financial resources and bringing them to the recipient. The creation of the Fund will allow businesses to obtain long-term financing at competitive rates, i.e. at a rate of not more than 5% per year in comparison with current

these banks reach up to 15-20% of the annual GDP of the respective countries. The credit portfolio of these institutes is equivalent to 25% (China Development Bank), and up to 94% (German KfW) of national annual volume of investment into fixed assets. The strategy of national development institutes is based on the fact that there are significant systems risks in the global economy, and that global economic growth is weak and unstable. The experience of China related to the financing of development projects is to be especially noticed, including major infrastructure projects and the creation of innovation

mechanisms, and the investment capability. Italian Cassa Depositi e Prestiti is another old European development institute taking a leading position. CDP not only controls considerable part of the savings of Italian citizens, but it also is a leader in financing investment of Italian state-owned companies. CDP is a key institution of support to the national economy and a catalyst of making investments to the infrastructure.

The Brazilian development bank BNDES is the tool of the federal government of Brazil which is responsible for the implementation of industrial and infrastructure pol-

AMONG THE MOST IMPORTANT PROJECTS,

I would like to include the construction of a passenger terminal in the Vladivostok International Airport for the APEC-2012 summit, two projects for the woodworking industry in Amursk and the Vaninskii region of the Khabarovsk Territory, organization of automotive production and the manufacturing of auto components in the Primorsky Territory, and finally, the reconstruction and modernization of the Khabarovsk petroleum refinery.

12% at the average. The new fund shall compensate this difference. Thus, actually, it is about ensuring the conditions so that rates can be comparable to competing countries. As a result, there is significant relief for the launch of new production and the creation of jobs. Both public and private enterprises (and not only Russian, but also foreign enterprises working in Russia) will be able to apply for credits from the Fund. The money will be used only for modernize and upgrade technology funds, as well as for the execution of projects within government programs.

What are the features of some problems with foreign development institutes? Do the objective and methods of such institutions in Russia differ from the practices of other countries, and why?

As well as foreign development banks, we finance the modernization of the economy that is involved in priority projects of national importance. The most successful examples are shown by the development banks in China, Brazil and Germany. The assets of

parks. China's economy has a decisive influence on the global economic situation. China pursues an active investment policy within the country as well as abroad.

The European experience of long-term investments is one of the most successful in the world. Some of the oldest institutions of development in Europe are French Caisse des Dépôts, Italian Cassa Depositi e Prestiti, German KfW, and European Investment Bank. Despite their 'considerable' age, CDC and CDP were founded in the XIX century, they have been and still remain dynamic leaders. They continue to set a vector of development not only in their own countries or within the EU, but also at the global level. They are pioneers in areas that have become global trends, such as 'green' growth, renewable energy, and energy efficiency.

French Caisse des Dépôts is probably the oldest institute of development in the world. It can be said that the first credit for local development (local development credit) was made by the CDC in 1822. The experience of our French colleagues in financing of development projects is unique both in financing

icy. BNDES is the main financial institute in Brazil that provides long-term financing. Japan has a well-developed system of institutes focused on the implementation of the goals of development within the country and abroad. Its important components are the Japanese International Cooperation Agency (JICA) and the Japanese Bank for International Cooperation (JBIC). The activity of both institutes, although they are built on different principles and use different tools, can be seen all over the world. I would like to emphasize that under conditions of instability within the world economy and the need for reform of international financial institutions, different formats of multilateral cooperation of development institutes become more and more important. IDFC can be a good example of this. It is an influential association of leading regional and national development banks. The members of this club have considerable amounts of financial resources. In addition to financial leverage, they can work together to promote their interests at the international level and contribute to global development processes.

New standards for the modernization of the region's economy

Alтай Krai is located in the south-east of Western Siberia — the geographical centre of Russia. Our neighbours are such big cities as Novosibirsk, Omsk, Krasnoyarsk, Kemerovo, Novokuznetsk and the capital of the Republic of Kazakhstan — Astana.

Altai Krai is one of the largest agro-industrial, tourist, cultural and scientific centres of Siberia. Setting a firm course for the modernization of its economy, it is today one of the regions with a stable political, economic and financial situation, demonstrating a steady growth rate corresponding to average indicators or exceeding them. The result of our work is reflected in the territory's investment attractiveness and, despite the difficult economic conditions of the past year, the volume of investment in capital assets amounted to almost 93 billion rubles, an increase comparable to the 2012 level — 4.2%.

Attracting investments to the region today is one of the most important tasks of the territory's Administration. To modernize the economy, we have formed new investment management standards, developed and approved the Altai Krai law on participation in public-private partnerships and established a state support system for investors, including the extensive use of public-private partnerships in the implementation of major investment projects. Continuing to develop the incentive scheme for investors, the region also approved a new edition of the law "On Investment Activity in Altai Krai", which provides for additional support measures and insurance for investment risks.

In order to present information to investors more effectively, we also created a specialized Internet portal, which in simple terms presents different materials on various aspects of regional and municipal economic and social developments, investment platforms and state support for investments. Our region is one of the first four Russian regions to introduce performance standards for different bodies in order to ensure a favourable investment climate; in 2014, our region was selected as a pilot area to evaluate the National Rating for Investment Attractiveness of Constituent Subjects of the Russian Federation.

Altai Krai is one of the few Russian regions to concentrate on its territory all the required conditions for the active development of innovative activities; it is one of the five regions of the Siberian Federal District with



Governor of Altai Krai
Alexander Bogdanovich Karlin

the highest number of scientific and research organizations and researchers, while the city of Biysk has been awarded the status of a tech city of the Russian Federation. In this respect, a significant event in terms of recognition of this region as one of the leading innovation-active areas of Russia was Altai Krai's entry in the Association of Innovative Regions of Russia. The status and intellectual resources of the Association offer significant prospects for advocating regional interests and representing regional innovation projects at the federal level, as well as before organizations operating in the country and abroad.

We associate the development of the region and its progressive movement with the implementation of major investment projects in key regional sectors: agriculture, food processing industry, construction industry, mechanical engineering, energy and tourism.

For example, in the agricultural sector we should note the construction of a large livestock complex for 50 thousand heads of cattle (third stage) — Zapadnoe LLC — and the second stage of a pig-breeding complex for 300 thousand heads — Altaymyasoprom LLC. At the pre-investment stage, we see the construction project for the largest feeding complex east of the Urals — Altaiskoe Myaso LLC — for 20 thousand heads of cattle breeding stock and the dairy complex — Kholod LLC — for 2,200 heads of cattle. It should be noted that twelve large new-generation livestock complexes with

completely new technological solutions have appeared in the region in the past eight years.

In the food industry sector, the Altai Buket Company has constructed factory facilities for the production of functional foods and natural cosmetics, while a plant for the production of solid medical doses is being built within the pharmaceutical complex — Evalar CJSC.

Our industrial enterprises are aimed at attracting advanced technologies to the region and strengthening the position of our companies in foreign markets. Large industrial enterprises, such as the Barnaulskiy Dairy Plant CJSC, Rikon LLC, Troitskiy Maslosyrodel LLC (Creamery), Rubtsovskiy Dairy Plant (subsidiary of Wimm-Bill-Dann) continue to implement projects for the production of new technological lines and increasing the range of products, which were initiated in 2013.

We continue to implement a number of investment projects in mechanical engineering, metallurgy, manufacture of rubber and plastic products: modernization of OTR tyre manufacturing, technological modernization of the plant specializing in precision tool manufacturing by means of the latest technological equipment and modernization of foundry production.

Tourism represents a special sector of the economy that has been steadily gaining momentum. For the third consecutive year, our region has placed first in the category — "The best spot for travelling in Russia" — the most prestigious national award in the field of travel "My Planet". The investment project — Belokurikha-2 — received the top award as the "Best Health Resort Project".

The most popular area is the special economic tourist-recreational zone called Biryuzovaya Katun (Turquoise Katun). Investment companies have built a large number of modern complexes, ski trails, water parks and other facilities that will allow our guests to spend varied and interesting holidays. In addition, the region has 25 tourist routes, most of which are part of the Small and Big Golden Ring of Altai.

Today we can say with certainty that favourable conditions for investment development have been created in Altai Krai. To ensure continued growth, investment priority will be given to investors who will bring advanced technology, high performance standards and good working conditions to the region. Thus, we will continue to focus our efforts on this work and support investors in priority areas of our regional economy.

Tomsk Polytechnic University: Focus on Resource Efficiency

One of the oldest technical universities in Russia creates an interdisciplinary network centre specializing in resource-efficient technologies under its auspices.

National Research Tomsk Polytechnic University (TPU) is one of 14 Russian higher educational establishments that are the subjects of a resolution of the government of the Russian Federation to receive state support for attaining inclusion among the top 100 of the world's universities by 2020. In October 2013, the university successfully defended a «road map» — a plan for the implementation of a program for the competitive growth of TPU among the leading world research and educational centres. The first tranche of a government subsidy, equal to 592.4 mln rubles (approximately 17 mln US dollars) was received.

The strategic goal specified in the program of competitive growth is the development of TPU as a research university, one of the world leaders in resource-efficient technologies, solving humanity's global problems on the way to sustainable development. The creation and development of an interdisciplinary network centre specializing in resource-efficient technologies will contribute to the achievement of this goal.

Resource efficiency is currently becoming one of the most important factors of sustainable economic growth in the world. Humanity, by focusing on the unlimited growth of consumption, increasingly faces resource limitations. According to the data of analysts at the McKinsey Global Institute (MGI) provided in



Professor **Petr Chubik**, rector of TPU: «All higher educational establishments among the top 14 will have to prove their right and ability to achieve the required results in a competitive environment, so that the best may join the top 100 leading world universities. We would like for Tomsk Polytechnic University to be among them. TPU is eager to win. We must use the chance provided to the university to the fullest extent".

the report, «Revolution in Resource Efficiency: Ways to Satisfy the World Demand for Energy Products, Industrial Materials, Food and Water», for the last 25 years the same amount of the Earth's energy resources has been used as during the entire previous history of humanity. The authors of the report demonstrate the necessity of reconsidering the approach to resource utilization, in order to not lag behind the increasing demand for such resources. Taking into account that approximately three billion people in the coming 20 years will join the existing two billion person army of consumers from the middle class, McKinsey calls for a revolution in resource efficiency.

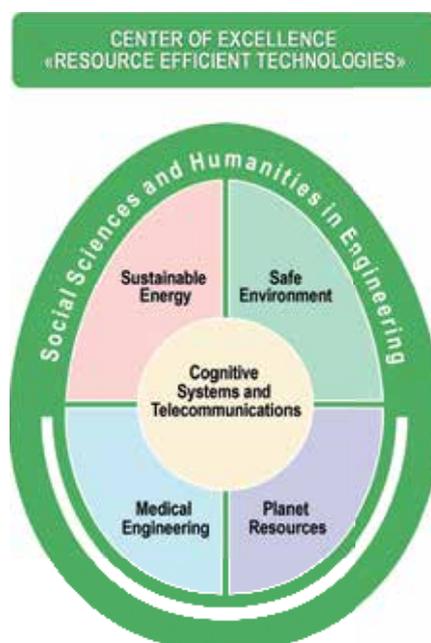
Fundamental technological modernization of the world economy is required. To achieve this, it is necessary on the one hand to train personnel in new competencies, while on the other hand, establish research centres for discovering innovative ideas and technologies in the sphere of resource efficiency. Tomsk Polytechnic University desires to become such a centre.

Advantages

To fulfill the established objective, TPU enjoys the following advantages:

- The traditions and academic schools of the first technical higher educational establishment in the Asian portion of Russia;
- Seven academic institutions, 17 research and scientific centres and 68 scientific laboratories, including international and joint facilities cooperating with the research centres of the Russian Academy of Sciences and global and domestic industrial companies;
- Leading scientific schools of the Russian Federation involved in the priority development fields of science, technologies and methodologies under the auspices of TPU. Among these are schools of chemistry and chemical technologies; underground water geochemistry; the efficiency and reliability of electrical power production and transmission systems; the non-destructive examination of materials; nucleonic, charge particle accelerator, fascicular-plasma and electrical-discharge technologies, etc.;
- The academic staff of TPU includes 22 academics and corresponding members of national science academies, 375 Doctors of Science and 1,214 Doctors of Philosophy;
- The International Academic Board of TPU is headed by Dan Shechtman (Israel), who was awarded the 2011 Nobel Prize in Chemistry;
- TPU has a developed research and innovation infrastructure, including a nuclear research reactor (one of two installed in the higher educational establishments of Russia), a network of centres for the shared use of modern scientific equipment, an innovative-technological centre, a technological transfer centre, a technology incubator, etc.;
- In terms of the scope of off-budget research and development activities from foreign sources, TPU ranks first among Russian universities (6 mln US dollars per year). In total, during 2013 the university earned more than 50 mln dollars through contracts and agreements, as well as under state programs.

At present, Tomsk Polytechnic University ranks 598 in **QS WorldUniversityRankings, 2013**, and seventh in the national rating, Expert RA.



Tomsk Polytechnic University was founded in 1896 as the Tomsk Technological Institute of Emperor Nicholas II. This was the first technical higher educational establishment in the Asian portion of Russia.

Clusters

TPU is establishing a centre specializing in resource-efficient technologies in order to concentrate scientific activities in those directions that are in demand by the global agenda.

The principal scientific research activities of TPU are concentrated within six interdisciplinary clusters: **Safe Environment, Sustainable Energy, Medical Engineering, Planetary Resources**, and the latter's accompanying **Cognitive Systems and Communications and Social and Humanitarian Technologies of Engineering Activities**.

Safe Environment

Within this cluster, TPU holds the strongest position in the following areas of research activities: non-destructive examination and diagnostics, and materials for work in extreme conditions.

Key projects connected with the development of a **new generation of technologies and complexes for non-destructive examination** that ensure the examination and diagnostics of a wide range of objects are being carried out. Within this project's implementation, we plan to develop alternative methods and to improve existing technologies for the receiving of tomographic images, with the simultaneous or asynchronous use of various radiating sources such as cyclic induction accelerators (betatrons), ultrasound, thermography, X-ray and electromagnetic radiation.

Within the project, Materials for Extreme Conditions, two basic classes of materials are being developed:

- Those for work **in space** — Structural materials for space vehicles upon the basis of modern, light, high-strength glass- and carbon-fiber composite materials, and materials and nano-coatings for the protection of the electronics of space vehicles against radiation;
- Those for work **in the Far North** — Resource-efficient nano-composite polymer structural materials.

The concept of a quarterly electronic journal, **Resource-Efficient Technologies**, is being developed. The journal will be published by TPU in cooperation with the Elsevier publishing company and will include 5 sections: «Sustainable (Resource-Efficient) Energetics», «Biotechnologies», «New Materials», «Resource-Efficient Natural Resource Management» and «Waste Processing and Disposal». The first issue is to be published in 2014.



Main Building of Tomsk Polytechnic University

Sustainable Energy

This cluster deals with the sphere of hybrid simulation in energy production and resource-efficient generation.

Key project: **Hybrid Simulation and Management of Smart Grids**. This is associated with the development of high-performance technologies for the management of complex-dynamic electrical systems upon the basis of a hybrid approach to simulation, modern protection and automatic devices; the integration of various physical devices (load-bearing elements and control devices) into the simulation complex; and upgrading of the software of the complex. The technologies developed under this project and the methods of their implementation will make it possible to increase the reliability of electrical systems, significantly reduce the number of major accidents, and mitigate any possible losses during their development.

Medical Engineering

Research work conducted within this cluster is aimed at the creation of biocompatible materials, the development of radiation technologies in biomedical engineering, and electrophysical biomedical complexes.

Key project: **Creation of Innovative Diagnostic and Therapeutic Agents for Radiation Medicine**. This is aimed at the creation of new radiopharmaceuticals, devices and radiation medicine methods (competitive in the world market) for diagnostics and the treatment of oncological and cardiovascular diseases.

Planetary Resources

Directions of the cluster: Resource-efficient use of subsurface resources; space geology; Clear Water (complex solutions for water treatment, water cleaning and water management).

Key project: **Integrated Study of Unconventional Oil and Gas Reservoirs**. The project stipulates the development of techniques for the study of the cores of unconventional (ultra-low-permeable, fracture-cavernous) oil and gas reservoirs, the simulation of development, the calculation of reserves and technical and economic substantiation of the oil recovery factor for unconventional reser-

voirs, which will make it possible to increase the efficiency of complex **unconventional oil and gas** deposits (such as shale-oil and shale-gas deposits).

Cognitive Systems and Communications

Within this cluster, cognitive hardware and software systems for high-performance data processing, as well as wireless telecommunication systems and technologies, are being developed.

Key project: **Telecommunication Systems of Monitoring and Control for Autonomous Robotic Divers**. This is aimed at the creation of hardware and software complexes providing for the implementation of new technological possibilities for the next generation of unmanned underwater vehicles (UUV), the development of new technical solutions of data transfer for separate and grouped UUVs, monitoring of the underwater situation and the optimization of the modal control of UUVs, etc.

Social and humanities Technologies of Engineering Activities

Within this cluster, TPU suggests a number of educational programs of a sociotechnical character: **Management and Engineering in Sociotechnical Systems, Ecoengineering and Ecoculture, Engineering of Sustainable Development, and Forecasting in Sociotechnical Systems**.

On April 17, 2013, the first meeting of the Academic Board of TPU took place under the chairmanship of Nobel Prize winner Professor Dan Shechtman. The members of the board discussed the suggested key projects. All of the projects exhibit a network character; i. e., their implementation will be carried out upon the basis of the cooperation and interaction of the academic institutions of TPU, the institutes of the Russian Academy of Sciences, foreign universities and research centres.

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«Offer of inexpensive smartphones will support growth of the mobile Internet segment»

IVAN TAVRIN

CEO of MegaFon
Company

PETR KASSIN

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ELECOMMUNICATION SERVICES REPRESENT ONE OF THE FASTEST GROWING SEGMENTS OF THE ECONOMY. MOBILE NETWORK OPERATORS HAVE TURNED FROM ENSURING TELEPHONE CALLS TO THE DEVELOPMENT OF MORE HIGH-TECH OPERATIONS INCLUDING HIGH-SPEED DATA TRANSMISSION AND MOBILE INTERNET FORMATION. CEO OF MEGAFON COMPANY IVAN TAVRIN SPOKE WITH SPIEF REVIEW MAGAZINE ABOUT THE COMPANY'S DEVELOPMENT STRATEGY.

CURRENTLY WE'VE SUSPENDED THE NEGOTIATIONS

around the establishment of our own bank with Russian banking market participants. We were forced to freeze the idea of establishing our own bank due to the existing situation in the banking sector, caused by a weakening of the Russian economy. But we don't absolutely rule out the idea of establishing our own bank.

MegaFon has become one of the national partners of the Sochi-2014 Organizing Committee, and the Company's presence at the Games in Sochi was evident. How do you assess the efficiency of the investment in this project, what marketing purposes have been achieved through the Olympic Project?

MegaFon's investment into the Olympic Project was made up of about 10 billion rubles. The return on this investment will be fully realized within six months after the Games, but we are already seeing returns due to several reasons.

Firstly, we undoubtedly expect the increase in revenue in this region. During preparations for the Olympic Games, the number of our subscribers in Sochi and Krasnodar Krai doubled (from 14% to 28%), and the income of the Sochi Branch of MegaFon increased by 7 times. Its growth made up from 45 to 50% in a year. This is fantastic, given that 6-13% of annual growth has already been deemed to be a very good result on mobile market.

Secondly, through our partnership with the Olympic Committee, MegaFon now has as corporate clients the Games' Sponsor - the Russian company Aeroflot, and an Olympic Games Partner - the German company Volkswagen. Attraction of new corporate clients, in our view, is no less an important factor in our return on investment, than revenue growth is.

Third, we completed the commercial projects 'MeteoFon' and 'Safe City' during the Olympic Games in Sochi, which have proved their profitability in the shortest time possible.

Fourthly and finally, we hope that the participation in such projects as Olympic Games will enhance the value of the MegaFon brand and hence the level of the company's capitalization.

Usual voice services are no longer the area of priority for mobile network operators. However, data transmission services

come to the fore. How does the company see this segment of MegaFon's business, and how does it plan to develop this area in 2014-15?

Indeed, currently data transmission in Russia is growing vigorously. MegaFon actively invests into network development in all ranges, including 4G and 4G+. We plan to invest an equal amount or more of our obligations under the license for the construction of the fourth generation network in 2014-2015 and we are confident that these investments will payoff.

We believe that the growing demand and supply, especially for inexpensive smartphones and tablets, will support the growth in the mobile Internet segment within the next few years. We are already offering not only the best Internet quality and the highest speeds, but also a number of devices with LTE support from MegaFon for our clients. You are already able to purchase more than 30 models of smartphones and tablets with 4G in the MegaFon network of stores. According to our forecast, up to 50% of smartphones in the Russian market will have LTE support by the 2nd or 3rd quarter of 2014.

A slowdown of the rate of growth in the Russian economy and a possible recession will affect all markets. Do you expect a decline in MegaFon sales and do you plan to adjust your investment program?

In the current economic circumstances in the country we feel confident and don't expect a substantial reduction in sales. This is possible thanks to our business' low dependency on foreign exchange rates. In order to decrease this dependency we've transferred the most part of our assets into roubles. The company has showed a high level of financial stability in 2013 and therefore we are still an investment attractive.

MegaFon is a large co-owner of Euroset Company, whose IPO has been cancelled recently due to lack of demand for

the company's papers. Do you consider this event to be a failure in company's IPO preparation or a sign of decrease in demand for the papers of the companies conducting business in Russia?

I haven't seen the first attempt of the Euroset IPO and wouldn't like to comment about it. However, I can confidently say that since we've come to Euroset the business has become more stable. In turn, the deal with Euroset has made a considerable contribution to subscribers' attraction for MegaFon.

At the beginning of the year, MegaFon declared a willingness to create an alliance with a large banking structure. Has the search for partners finished yet? Are you considering only Russian financial structures?

Currently we've suspended the negotiations around the establishment of our own bank with Russian banking market participants. We were forced to freeze the idea of establishing our own bank due to the existing situation in the banking sector, caused by a weakening of the Russian economy. But we don't absolutely rule out the idea of establishing our own bank.

Being a Russian market-oriented company we will prefer the Russian financial structures when selecting the partner. The task of the joint venture company, after its establishment, should be the development of banking products in the field of mobile financial services: payments system and retail lending.

What do you expect of the St. Petersburg Economic Forum in this year?

We expect that the Forum will traditionally become the platform for discussing the relevant business issues that are most topical today, in this difficult period for the Russian economy. I am confident that this year will bring many interesting meetings and discussions, which will be useful to all participants for the search and adoption of new management and strategic decisions.

EVGENY DOD

Chairman of the
Management
Board
of RusHydro

PETR KASSIN

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USHYDRO GROUP IS ONE OF THE LARGEST RUSSIAN ELECTRIC POWER HOLDING COMPANIES. RUSHYDRO IS THE LEADING COMPANY GENERATING POWER FROM RENEWABLE SOURCES, DEVELOPING POWER GENERATION USING WATER FLOWS, TIDES, WIND AND GEOTHERMAL ENERGY. IN THE RUN-UP TO THE ST. PETERSBURG ECONOMIC FORUM, EVGENY DOD CHAIRMAN OF THE MANAGEMENT BOARD OF RUSHYDRO TOLD THE SPIEF REVIEW JOURNAL ABOUT THE INVESTMENT ATTRACTIVENESS OF THE ENERGY SECTOR, LARGE PROJECTS AND ABOUT THE COMPANY'S PLANS FOR THE NEXT FEW YEARS.

«The state shall offer a single divided strategy to the company»

Evgeny Vyacheslavovich, Africa, South America, China, Korea, Japan, India – RusHydro has its own interests in all these countries. What foreign projects are RusHydro developing now and is the company interested in enticing investors into them?

We have some large projects abroad. I'd like to start with Verhne Narynskiy Kaskad in Kirghizia. We are interested in attracting funds for this large project. There are 4 stations with a total capacity of 237 MW; we are delivering the project according to the Inter-Government Agreement between Russia and Kirghizia. At the moment there are only in preliminary stages, which are going very successfully! The field settlement for the builders, with all the required infrastructure and concrete plant, are already built. The roads are constructed to those areas where the hydroelectric power station facilities will be built. This year we are going to start erecting the main facilities of the hydroelectric power station (dams, diversion canals) and in 2016 we are going to commission the first hydroelectric installations. At the end of 2013, RusHydro and the Kirghiz approved a feasibility study of the project; according to it, the total construction cost total 24 billion rubles. It should be noted that half of these funds are invested by the Russian Federation; the other half is a loan with a preferential interest rate. The payback period is dependent on electricity prices. We are considering several scenario plans including export supplies.

It is said that you have a large project planned in India. Are you planning to build or purchase?

India is a big country with huge water resources. It's most likely that these projects will be from scratch. Now we can lift the veil and tell you that in March of this year, RusHydro International A.G., a subsidiary company of RusHydro JSC, signed a contract for designing of one of the largest hydroelectric power stations in Asia and the biggest in India called

the Upper Siang II (installed capacity – 3,750 MW). This project will be in conjunction with the NEEPCO Company. The Government of India considers the project to have national priority. The operator of this project will be RusHydro International India. This joint Russian and Indian enterprise is to be controlled by the Russian party. The research and design will take about 24 months. Then RusHydro is going to take part in the plans for the building of the hydroelectric power station itself - construction cost of the two stages of the project is estimated at 16 billion USD. The investor of the project will be the Indian party.

Earlier, RusHydro International AG (together with Institute Hydroproject institute) and RusHydro International India won the tender for developing of the feasibility study of the hydroelectric power station. After completion of construction the hydroelectric power station will be the second largest in Asia after the Three Gorges Chinese hydro-power supply complex.

Are you going to build or operate the hydro-power supply stations in Nigeria?

In this case we are going to operate. The cooperation between RusHydro and Mainstream Energy (Nigeria) began in 2013 when RusHydro International AG signed an agreement with Mainstream Energy Solutions Ltd. The agreement provided engineering services for a five-year-long project of modernization for the Kainji and Jebba hydroelectric power stations. The Russian company will control the hydroelectric power station Kainji with a capacity of 760 MW, as well as the hydroelectric power station Jebba with a capacity 578 MW. At present, the hydroelectric power stations operate a diminished capacity due to outdated and worn-out equipment that requires modernization. As part of the consortium that has been created, the company will modernize services for the engineering management of the Nigerian hydroelectric power stations, create a more efficient control system and supervise the con-

tractors' work that will perform the modernization of this equipment. I will note that according to this agreement RusHydro will not provide funding. The engineering services include the development of the design and estimate documentation, services for tender of the supply of equipment, construction and installation work, as well as consultation on current matters for the operation of the hydroelectric power station. We have several partners in this project: Institute Hydroproject JSC, Pöyry and Mott MacDonald.

RusHydro expects the participation of Rosneftgaz for capital funding for Far Eastern projects. Can some of that money be used for the reconstruction of HPS in Abkhazia?

We have priority projects that are to be funded from these funds. As for HPS in the Republic of Abkhazia, we are working on this project in accordance with instructions from the President. Currently there is a cascade of four Drop HPS's on the Eristskali River in Abkhazia with the total power output of 340 MW. Only one of them is in operating condition. The rest – Drop HPS's 2, 3 and 4 (with the total power output of 120 MW) - have been decommissioned since the beginning of the 1990s and require complex reconstruction. In particular with respect to Drop HPS's 2, 3 and 4, there is a plan to conduct a pre-project and research development feasibility study, design estimate documentation to ascertain the cost and terms for the restoration of the stations, as well as determine the structure of the deal. The approximate duration of this comprehensive reconstruction and restoring of Drop HPS's 2, 3 and 4 to operation is at least 3-5 years from the start of the project funding.

One of your most ambitious projects over the past five years has been the reconstruction of Sayano-Shushenskaya HPS. RusHydro is planning to allocate 3.21 billion rubles of its own funds for the completion of the project this year. The sta-

tion will be put into operation by October 2014. What is the total amount of RusHydro funds that have been spent for the reconstruction and what's new at Sayanka?

The total amount of funds which are planned to be spent for the restoration and reconstruction of Sayano-Shushenskaya HPS is 41 billion rubles. That is 4 billion rubles less than had been planned. The savings were achieved due to competently conducted tender procedures. I can say that when the work is completed, all ten hydroelectric generators will be fully replaced with new ones, the power output equipment will be completely redone (generator circuit breakers and power transformers will be replaced) and a new, modern-type electricity distribution plant (KRUE 500 kV) will be built. Moreover a large number of the auxiliary equipment will be replaced and the automated control system for the hydraulic facilities will be created. In fact, it will be a completely new station – only the facilities of HPS themselves, namely the dam and station, building remain unchanged.

And who will be the main consumer of the modernized HPS?

The electric power of the restored and modernized station, as before, will be supplied to the consumers of power system of the Siberian region. Additionally, the station is used, and will be used in the future, by the System Operator for the control of operational modes of the power system, which will increase the reliability and quality of the power supply to the whole region.

Still more recently, the power sector has frightened off investors due to its instability, has anything changed?

Yes, it has, but it happened gradually therefore the market does not react very quickly. Let's remember what happened to the stock market as a whole. In 2013, the electricity sector

showed the worst dynamics on MICEX: the MICEX- Energy Sector index fell by 41%. At the same time, the leaders of the decline were the most liquid stocks of the sector – Inter RAO, FSK and Russian Grids, which lost 40-60% of their value. The reason was the investors' perception of the regulatory environment, which employs the entire sector, saw frequent changes in the rules of the game and inconsistent tariff decisions were taken. Against this background, the value of shares of RusHydro dropped by 23%. The situation gradually improved on some issues. For example, we welcome the decision of the Government of the Russian Federation for the partial liberalization of tariff regulations for the HPS second price zone and the removal of restrictions to enter into bilateral agreements on Boguchansk HPS. Slowly but surely, we are proceeding to change the regulation system and guarantees of investments for renewable energy sources and heat generation in the Far East.

The world hydropower industry is experiencing a true renaissance associated with the large-scale construction of a considerable number of large HPS's in developing countries: China, India, Brazil, Ethiopia and others. In your opinion, what mechanisms can be employed to increase the attractiveness of investment in the industry in order to draw investors to Russia?

We cannot say that investors aren't drawn to Russia. They are wary and just take slow steps. We are convinced that the consolidation of hydro-power generating assets, on the basis of RusHydro OJSC, as well as the implementation of measures and strategic initiatives in the company, in conjunction with its organic growth, will increase the value of RusHydro OJSC's business and the market valuation of the company expressed as capitalization on the stock exchange. The sale of shares (above the controlling stake of 50%+1

share) to a strategic partner with significant financial resources could be an important factor for the capitalization growth.

In order to attract investors, it is first necessary to change principles of tariff rules in areas which are not incorporated in price zones of the wholesale market and isolated from the European Union, including taking into account the method of return on capital (RAB). In addition, the removal of restrictions on the sale price of power for hydro-power facilities (including new facilities) in the UES of Siberia is still a question of no small importance. It is necessary to create mechanisms (tenders, concessions, feed-in tariffs, RAB, power supply agreements) to stimulate the construction of new power generating facilities including HPS and RES in areas, united in the price zones of the wholesale market. The state, our main shareholder, has offered a single dividend strategy for the company, which takes into account both the interests of the state and the interests of minority shareholders. Investors are waiting for these measures...

I am bound to ask you about the 'famous' 50 billion rubles, for which you were criticized at length. Will the budgeted money be enough for such large-scale construction projects as those being implemented in the Far East?

I emphasize that 50 billion rubles is not the final estimated cost. The estimated cost of all projects initially (before the completion of the design process and expertise of the design estimate documentation) was equal to 63 billion rubles. The government determined the amount of special-purpose investments to be 50 billion rubles. There was a lot of talk about the placement of the interest of these funds too. I emphasize again: first of all, we will use interest earned from the received 50 billion rubles deposit with

THE COOPERATION BETWEEN RUSHYDRO

and Mainstream Energy (Nigeria) began in 2013 when RusHydro International AG signed an agreement with Mainstream Energy Solutions Ltd. The agreement provided engineering services for a five-year-long project of modernization for the Kainji and Jebba hydroelectric power stations. The Russian company will control the hydroelectric power station Kainji with a capacity of 760 MW, as well as the hydroelectric power station Jebba with a capacity 578 MW.

Sberbank as an additional funding sources. We are also ready to consider the possibility of debt financing. Now, let's speak about the cost of the projects. As of today, Glavgosexpertiza and independent auditors have approved estimates for two projects — the 1st stage of Yakutsk SDPS-2 (26.1 billion rubles with VAT) and the 2nd stage

turnkey general contract on the construction of the Blagoveshchensk CHPS 2nd stage were 0.601 billion rubles. Thus, based on the open tenders results, the total amount of savings for the building and construction work and manufacturing of the equipment for these two projects was 3.425 billion rubles.

ject the construction of thermal power stations, which will reduce the consumption of imported fuel and allow a reduction in the growth of electricity tariffs by decreasing its production cost.

Our second project is the construction of Nizhne-Bureyskaya HES in the Amursk region, which we have been conducting since

WE CANNOT SAY THAT INVESTORS AREN'T

drawn to Russia. They are wary and just take slow steps. We are convinced that the consolidation of hydro-power generating assets, on the basis of RusHydro OJSC, as well as the implementation of measures and strategic initiatives in the company, in conjunction with its organic growth, will increase the value of RusHydro OJSC's business and the market valuation of the company expressed as capitalization on the stock exchange. The sale of shares (above the controlling stake of 50%+1 share) to a strategic partner with significant financial resources could be an important factor for the capitalization growth.

of Blagoveshchensk CHPS (8.2 billion rubles with VAT). We will be ready to talk about the cost of the 1st stage of Sakhalin SDPS-2 and CHPS in Sovetskaya Gavan only in the summer. As of April, the total amount of funding the projects is 6.6 billion rubles (from them 5.6 billion rubles that were allocated from funds of RusHydro Group, including RusHydro OJSC and RAO ES Vostoka OJSC [RAO ES of the East], 980 million rubles — the amount of funding from our special purpose budget funds).

During the implementation of these projects have you managed to optimize the costs as well as was achieved in the reconstruction of the Sayano-Shushenskaya HPS?

It is still difficult to obtain the final figures, but something can already be noted. Based on the tender procedures results, the initial (maximum) price of the tender for the general contract to construct the 1st stage of Yakutsk SDPS-2 were reduced by 2.306 billion rubles (from 19.687 billion rubles to 17.381 billion rubles with VAT), and the cost of services to manufacture gas turbine power plants for this station was reduced by 0.518 billion rubles (from 4.008 billion rubles to 3.490 billion rubles with VAT). This is quite a lot of savings! The savings on the

What are the plans of the company for the next year and in the next five years?

We will develop all of the projects that I have already told you about. Additionally, in 2014, RusHydro will continue the construction of new hydropower generation facilities — Ust-Srednekan HES on the Kolyma River in the Magadan region, Nizhne-Bureyskaya HE on the Bureya River in the Amursk region and Zelenchukskaya HES-PSEPP in the Republic of Karachay-Cherkessia. Each of our projects can be discussed at length. All of them are important for our company and for the consumers of their respective regions. The first project is Ust-Srednekan HES, which is the second in the cascade of Kolyma HES's. The capacity of the station is 570 MW (4 hydroelectric generators with the capacity of 142.5 MW each). The completion of the construction is scheduled for 2018. The commissioning of the station into operation will provide the developing mining enterprises, most importantly — the gold ones, with electricity. The hydropower development will simulate the creation of new production facilities, unique for the region. The liquefied hydrogen plant, about which I previously discussed, can become such an enterprise. In addition, the hydroelectric station will facilitate shipping, regulating the flow of the Kolyma River. It will be possible to re-

2010. This station will be a counter-regulator of its 'older sister' and the flagman of the Far East energy sector — Bureyskaya HES, built 80 km upstream in 2006. When the amount of water discharged at Bureyskaya HES changes, significant fluctuations of the levels take place in the river downstream. In order to prevent this, the counter-regulating station, with a relatively small water reservoir is being built, in which uneven water discharges are compensated. Nizhne-Bureyskaya HES will become the third counter-regulating HES in Russia. Our plan is to put the first hydroelectric generator into operation by 2015 and complete the construction in 2016.

The third project is Zelenchukskaya HES-PSEPP, which is the creation of the pumped-storage electric power plant (PSEPP), where two hydroelectric generators will be installed, based on the already operating Zelenchukskaya HES with the capacity of 160 MW. The principle of HES-PSEPP is as follows: at night time, two generators pump water up to the daily runoff pond (DRP), and, in the morning and afternoon, this water comes back through turbines to the lower pond, at which time the electricity generation will be carried out. This results in the peculiar circulation wherein HES operates in the daytime and PSEPP at night. All of this is carried out within the same structure.

A professional portrait of Dmitriy Chernyshenko, a man with glasses, wearing a dark pinstriped suit, a white shirt, and a red patterned tie. He is seated at a table with his hands clasped, looking thoughtfully to the left. The background is softly blurred, showing green foliage and a light-colored wall.

**DMITRIY
CHERNYSHENKO**

President and CEO
of the Sochi 2014
Organizing Committee

«We have done everything to make the Games in Sochi a part of the proud history of Russia»

HEAD OF THE ORGANIZING COMMITTEE OF THE OLYMPICS IN SOCHI DMITRIY CHERNYSHENKO TOLD PYOTR KUZNETSOV ABOUT THE COMMERCIAL SUCCESS OF THE GAMES AND THEIR ROLE IN PROMOTING THE POPULAR APPEAL OF MASS SPORTS. HE SPOKE ABOUT THE MODERN IMAGE OF SOCHI AND HOW TO BEFITTINGLY VIEW THE GREAT LEGACY OF THE OLYMPICS.



The Olympic Games in Sochi were a great success in the sporting and organizational realms, as well as in a commercial one. You spoke about the Organizing Committee's operating profit of 5 billion rubles. Could you expound on this number, please, what is it composed of?

Everybody has done an excellent job, indeed, and the result has surpassed all expectations. The Games turned out to be exactly as we wanted them to be – vivid, vibrant, memorable, genuinely ours – Russian Games, but very modern and innovative.

The Games in Sochi appeared to be the commercial success as well. We earned 5 billion rubles in total as a result. Firstly, this sum comprises direct profit from the sales of successful marketing, license and ticket programs, the earnings on sales of rights for the television coverage of the Olympic and Paralympic Games. Secondly, is the Organizing Committee's property will be used for the development of sports in Russia. Additionally, through effective planning and optimization of costs, the Organizing Committee was able to organize the Games without using the entire public subsidy assigned by the state in accordance to the bid commitment. Now these funds will be used for the development of sports programs in the regions.

Personally, I know only 'the Russian Ski Run' among winter sports events with mass appeal. How can the Sochi sites expand the geography for public sport usage and engage Russians in snowboarding, short track speed skating and other sports that have prior to been exotic for our country?

The entire country has already been engaged in these sports! Before launching the Olympics' ticket program, we had some concerns about whether such unusual for Russia sports such as slopestyle and short track would be interesting for the Russian audience. But everything has turned out to be quite the opposite – at these newer sports there was barely room to move. The audience was taking the stands by storm in the truest sense of word. For example, before the short track finals, which have already become legend, there was a bigger rush than the one that occurred before the hockey final. And what was going on in the stands of the Rosa Khutor Ski Center when Vic Wild worked wonders on the slopes? I know that children are already going to Children's and Youth Sports in order to 'run as Ahn' or to 'snowboard as Wild.' I have no doubts that the competition for winning a slot on the national team in these sports will be greater by an order before the next Games.

To what extent are the Olympics important for the mass popularization of sports in general?

This is the one of the reasons for making countries compete for the right to hold the Games. The Olympics in Sochi has become a real catalyst for sports development for the general public in Russia. Physical training is being paid more attention to at schools. Corre-

sponding changes had been introduced to the Russian educational standard prior to the Games. The availability of sports facilities has increased significantly; in Sochi itself the number of sports facilities has doubled compared to 2006. After the Games, people started to come in masse to the sporting areas in the regions. In addition, we observed that interest for sports activities grew steadily throughout the country during the whole period of the Olympics preparations. Let me repeat, the figures given by the President of Russia Vladimir

only with the sports themselves but with the growth of the availability and convenience of the city and sports infrastructure as well. I might add that in many ways for this reason the Olympic capital tops the list of Russian cities in regards to the highest quality of life.

One of the major aims of any Olympics is to tell the world about the country and certain city. What do you think, what vision of Russia and Sochi have the foreigners gained following the results of the Games?

THE GAMES IN SOCHI APPEARED TO BE

the commercial success as well. We earned 5 billion rubles in total as a result. Firstly, this sum comprises direct profit from the sales of successful marketing, license and ticket programs, the earnings on sales of rights for the television coverage of the Olympic and Paralympic Games. Secondly, is the Organizing Committee's property will be used for the development of sports in Russia. Additionally, through effective planning and optimization of costs, the Organizing Committee was able to organize the Games without using the entire public subsidy assigned by the state in accordance to the bid commitment. Now these funds will be used for the development of sports programs in the regions.

Putin: the number of people engaging in sports in the country has doubled; this number has increased three times among the women.

So one can speak of what is called the 'Olympic effect'?

Certainly! Take Sochi as an example. The number of foreign tourists in the city has multiplied by 2.5 times over recent years, and the internationally know magazine National Geographic Traveler called Sochi one of the most important destinations for travelling in 2014. The number of Sochi hotel reservation inquiries for the 2014 summer season has increased by almost 800% in comparison to 2013. Now the city's aim is to keep the tourists in order to ensure the continued growth of interest in Sochi in the future.

But the tourist is not the only category that has seen change. In Sochi, the number of people regularly participating in sports activities has more than quadrupled. On the Para-Olympian front, disabled people have also started engaging in sports more actively. This is connected not

Taking into consideration that the Games were visited by fans from 126 countries, we tried to show the world a new image of Russia – a country respectful of its traditions while also looking to the future. 'Sochi 2014' volunteers have really become key to the national identity of the country and are the calling card of the Sochi Games. These people have touched everyone's hearts and created the unforgettable atmosphere to be remembered by every person who visited the Games. We have done everything to make the Games in Sochi a part of the proud history of Russia, and, according to the positive response of the international mass media, we succeeded.

Will the experience of holding the Olympics in Sochi help Russia to compete for other large sports competitions?

The Sochi Games are just the beginning.

According to the official line of the influential Olympic portal Sportcal, due to the Olympics, Russia has taken a steady hold as the leader of sporting world for the next

five years. According to the official line from Sport Business journal, Sochi has joined the ranks of the world's leading sport centers. A GSI Nations index has placed Russia in the second position among world nations, reflecting its activity of holding the some of the largest international competitions.

I am sure that we are in prospect of hosting many championships of the world and other global sports tournaments in future.

How can the Sochi experience be used to help promote other Russian cities? Has anyone approached you for advice?

We started sharing our experience far before the Games began. We handed over our equipment and technology to Kazan for the preparation of the Universiade. Our experience will almost certainly be used at the Universiade in Krasnoyarsk. In my opinion, one of the most important elements of the Games' heritage is that we have created a unique solution for the organization of large sports events 'starting from nothing.' We have developed the management technology, which will allow others not to 'learn the hard way' but instead, to be able to use the solutions that are already available. All these, by the way, are being taught in the Russian International Olympic University. They are the major human heritage of the Sochi Games.

were very few of these. Therefore, we engaged the employees in learning and upgrading their skills to become real stars and fulfill assigned task of the highest level. We have formed an excellent team. Actually, I am sure that everybody who took part in the organization of the Games are high-level professionals, and every company getting such an employee added to its team will be in luck.

The Sochi Olympics have left a tremendous heritage, this being one of the goals of the Games as a matter of fact. How can this heritage be intelligently managed as to avoid the facilities becoming idle as in Athens?

We were concerned about this matter as early as at the time of application. Therefore, we long ago developed a program for the post-Olympic usage of all the facilities and infrastructure. For example, the Bolshoi Ice Palace will become a multifunctional sports ground, Adler Arena will be the largest expo center in the South of Russia, and at the Shayba Ice Arena, we have planned to establish the All-Russia Children's Sports and Study Center.

The Olympic stadium Fisht is one of Russia's first facilities to be prepared to host the World Cup matches in 2018. The arena will be used as a sports training center for Russia's national team. I am sure that after the Games the Sochi dwellers will see the national team visiting Sochi often.

===== **TAKING INTO CONSIDERATION THAT**
the Games were visited by fans from 126 countries, we tried to show the world a new image of Russia – a country respectful of its traditions while also looking to the future. 'Sochi 2014' volunteers have really become key to the national identity of the country and are the calling card of the Sochi Games.

Sochi created a strong team that has produced a vast reserve of talented personnel as well as trained specialists, all of which was missing in Russia prior to the Games. What is the best way to manage this personnel?

According to Jean-Claude Killy, "The best people make the games." Our project has proved that to be true. The Sochi Games have united the most professional, energetic, effective and in a good sense of the word 'restless' people who are able to 'move mountains' in the truest sense of the word. We started the project from nothing, not only in respect of the infrastructure, but also in respect to the specialists required and the world-class expertise in all spheres in general. In Russia there

The Krasnaya Polyana facilities will not only keep their sporting focus but will also be a popular touristic attraction. The Rosa Khutor and Gornaya Karusel ski centers will provide ample opportunity for professional sportsmen and all skiing and snowboarding fans alike to use their unique tracks.

The Laura Complex will be a ski resort for tourists and a venue for ski racing and biathlon competitions and trainings. The Sanki Luge center and Russkiye Gorki Hills Center will remain training and competition facilities. Thus, for the first time, the Russian sportsmen will have bases for engaging in all winter sports. As you can see, none of the facilities will turn into a so-called 'white elephant.' They will not stay idle.

OLYMPIC GAMES IN NUMBERS

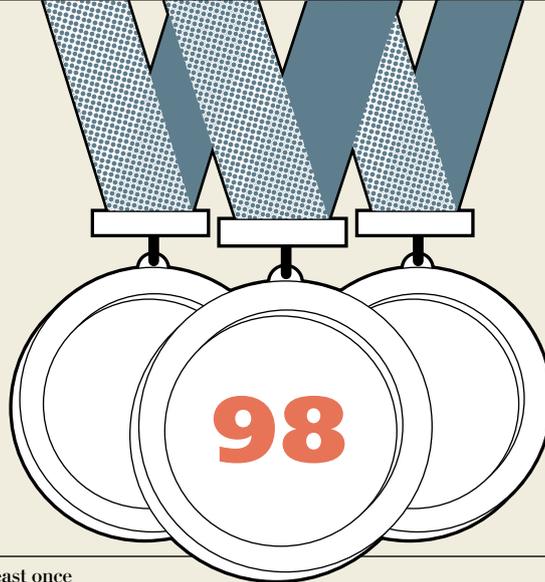
More than 2859 athletes from 88 countries came to the Olympic Games in Sochi


2859

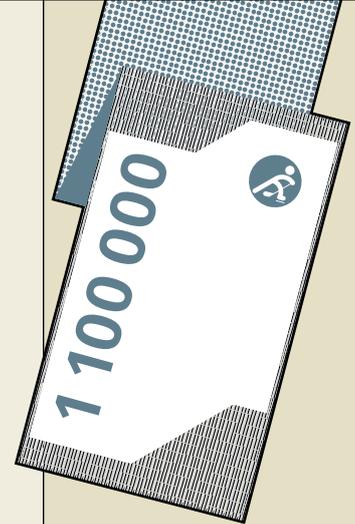


88

98 sets of medals were up for grabs during the Olympic Games



1.1 million tickets to the Olympic Games were sold



2 billion people saw the Games broadcast at least once

2 000 000 000

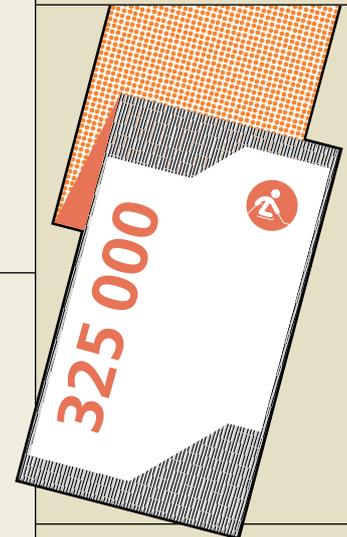

Sochi2014
13 billion

#Sochi2014 was 13 billion times in Internet



464 TV channels covered the Olympic Games in Sochi

325 000 tickets to the Paralympic Games were sold



547 athletes from 45 countries participated in the Paralympic Games

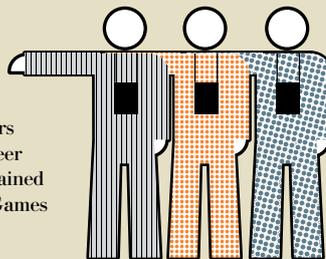


547



45

25000 volunteers from 26 Volunteer Centers were trained to help for the Games



25 000

«Sochi 2014» Marketing campaign profits exceeded 1,3 billion dollars



1,3

Investment Prospects of the Arkhangelsk Region

Arkhangelsk Region Governor Igor Orlov: "Arkhangelsk is the sea gate of the European north of Russia". It is a land characterized by modern shipbuilding and cosmonautics, the forestry and fishing industry, and the only diamond-producing region in Europe.

In terms of the Industrial Production Index, our region currently takes first place in the Northwestern Federal District. In 2013, this value amounted to 108.3%, while the growth rate in the building industry amounted to 127% in 2013. According to our estimates, the Gross Regional Product (GRP) in 2013 amounted to 368.0 billion rubles.

The main contribution towards the increase in the industrial output in 2013 was made by the innovative shipbuilding cluster of the region, represented by the Severodvinsk shipyards, which are the largest in Russia. In addition to being employed in the fulfillment of the State Defense Order, the yards build ships, bridge boats and other civil floating structures; design and manufacture constructions and equipment for the extraction, transportation and processing of oil and gas; and build accommodations and auxiliary buildings for various purposes. For this reason, we believe that our region is the perfect location for projects aimed at the development of the Russian Arctic.

Arkhangelsk is the most convenient terminal base for Northern Sea Route. This is mainly due to the geographical location of the region, having direct access to the sea.

The project for the construction of the new Severny deep-water area will make it possible to unlock the transport-transit potential of the Arkhangelsk seaport to its full extent.

The new port construction project is synchronized with the project for the construction of the Belkomur main railway line, which will cross four regions and provide the shortest route for the transportation of cargo from the industrially developed regions of the Urals and Siberia to the ocean.

If the specified projects are implemented in alignment, we will be able to create the most optimal transport and logistics scheme,



Arkhangelsk Region Governor **Igor Orlov**

aimed at the development of the ties of the Russian Federation with business partners of different countries.

One of the advantages of the region is the availability of rich deposits of natural resources, the share of which in the proven reserves of the Russian Federation is as follows: diamonds, 20%; bauxite, 18%; zinc 3%; lead, 2%; plaster, 1%.

Our region is one of the leading timber regions of Russia. The largest pulp and paper plants operate within the territory of the region. A number of investment projects for advanced timber processing are being implemented, projects for the production of biofuels (fuel bricks and pellets).

Arkhangelsk wood is rightfully considered to be among the best in the world. The products of Arkhangelsk's plants are currently exported to 79 countries on a permanent basis. The reason for this demand is connected not only with the excellent mechanical proper-

ties of the wood, but also with its high level of environmental friendliness. Arkhangelsk wood is our regional brand.

A number of top-priority investment projects for forest exploitation are also being implemented in the region. To implement these projects, the government of the Arkhangelsk Region rents timber areas without auction and provides a 50% discount on payments for forest exploitation.

In terms of the number of historical-cultural sites, our region ranks among the top ten of the Russian Federation. Within the territory, there are many historical, cultural and natural monuments of universal importance, including the Solovetsky Islands, the Kenozersky National Park and the Malye Korely Museum. We have also started to implement investment projects for the development of the Kargopolje and Ustyany tourism and recreational clusters.

To improve the investment prospects of the region, we have created the necessary regulatory basis, specifying all aspects of cooperation between investors and the authorities. Investors are offered tax benefits applicable towards the taxes imposed by the regional budget. The state's "Economical Development and Investment Activities in the Arkhangelsk Region" program is being implemented.

Belkomur Investment Project

Project goal: Provision of access to unused raw material resources, the creation of a new, short transit route connecting the Urals and Siberia with northern Russian ports.

The total length of the line is 1,252 km. The total amount of private investments in the accompanying local projects within a territory encompassing three regions is more than 442 billion rubles. The project will be implemented upon the terms of a public/private partnership.

Severny Deep-Water Area of the Arkhangelsk Seaport Investment Project

Project goal: Construction of a new deep-water port to the north of Arkhangelsk with independent access to the ocean.

Project summary: The Project stipulates the construction of a modern deep-water cargo district of the seaport able to service vessels with a deadweight of up to 75,000 tonnes and handle approximately 30 mln tonnes of cargo every year. The project implementation period is five years. The total amount of capital investment required is approximately 30 billion rubles.



ANDREY SHARONOV

Rector of the
Skolkovo
Moscow School
of Management



«Russian business has begun to understand the value of human capital»

RECTOR OF THE SKOLKOVO MOSCOW SCHOOL OF MANAGEMENT ANDREY SHARONOV TOLD OUR CORRESPONDENT ABOUT WHO SHOULD CONTINUE THEIR BUSINESS EDUCATION IN RUSSIA, THE DIFFERENCE IN OBTAINING A DEGREE ABROAD, AND WHY SKOLKOVO SHOULD NOT YIELD TO SCHOOLS OF LAUSANNE AND BOSTON IN TERMS OF COST OF PROGRAMS.

Y

ou have been managing the business school for already more than six months; please share your impressions of your new role.

Yes, it's been eight months already. One of the first conclusions that I have made is that the Skolkovo Business School is not only about education, but also about the development of an entrepreneurial environment, the conditions of which are still unfavorable in this country regardless of all the governmental efforts. This is why our projects include the significant social and business components necessary in order to create new, qualitatively different business conditions.

We focus on developing skills demanded by transient economies. As a rule, entrepreneurs have such knowledge and abilities. In this area is where we make a difference. With a rare exception, all traditional business schools train managers and hired workers. For instance, at Harvard, only about 5-7 graduates start their own business. In comparison, from our graduates of the Executive MBA program, entrepreneurs equal about 60%. This creates a specific and interesting environment because an entrepreneur is a person with an entirely different mentality and degree of personal freedom. Such experience is very appealing to top managers – we see how active the exchange of experience is among students.

This is why we actively expand the infrastructure to develop the business projects of our graduates that will better facilitate their active networking and communication with mentors from among the founding partners. We also help facilitate exchange of experience and interesting ideas. We thus create an ecosystem within a business school where graduates want to return.

What skills do the entrepreneurs who attend the business school lack? What kind of business education is in demand on the Russian market?

-If we have a look at the global civilization and at the countries with centuries old entrepreneurial traditions, there exist a long-established system of obtaining business education. For instance, the Anglo-Saxon countries lead by the quality of entrepreneurial environment. As for our country, it will take time to change attitudes toward entrepreneurship. Under conditions in Russia, the changes should start with secondary school students who need to realize that career prospects are not limited to employment within state corporations. It's necessary to teach them that in normal conditions being an entrepreneur, earning money, creating opportunities for other people, and being able to take a risk, are all achievable while still being aware of prices. Active, affluent and happy people contribute to a society's stability and, broadly speaking, it's this ideological basis that is absent from Russian business education.

In a narrow sense, in speaking about our students, they are usually people with vast executive experience. They include hired managers who would like to systematize their knowledge. To master a basic set of disciplines each manager needs a command of accounting, strategic planning, work with personnel, managing negotiations, etc. Another category of students is those who come to learn how to build a business. They are managers of corporations who have their own project ideas and who want to try a "start-up" way of life. We have developed a special program called, "A practical course for directors for medium commercial enterprises." It was launched for those who had "overgrown" a start-up level and are actively increasing the scale of their business but are still far from founding a large company. What is interesting about the program is that most students come with practical tasks and are interested in the project work. It is a

real challenge to go into an educational program with many years of an entrepreneurial experience under the belt and to work in a non-uniform, unfamiliar environment with like-minded people, dealing with essentially the same problems.

Besides that, we have programs in corporate education that help to establish the management teams of large companies. Here the training takes place with the participation of international experts and uses only practical cases that are strategically important for companies. The end result is the application of acquired knowledge to practical business development projects, which are specified by the owner or CEO. This intensive training can allow potential employees to understand whether they are prepared to become leaders and whether they are capable of coping with increasingly complex and unusual tasks. Russian businesses are increasingly beginning to understand the value of human capital because only strong teams can help companies survive in difficult economic times.

Is the Russian market ready to evaluate those who obtained an MBA degree according to their merit?

In my opinion, not yet. If you look at the global trends, the process is also controversial. The value of a business education has decreased, but I would say that this is true for academic business education. Previously, it was very important to get an MBA at a certain level in a company, so the Anglo-Saxon tradition of full-time business school while taking leave from employment was quite popular. Now the popularity of this model is collapsing. In my opinion, it speaks to a rejection of the old form of business education as a way to improve one's skills, rather than to a loss of the value of a business education. Everyone gets confused by the necessity of leaving work for a long time. If you are able to earn tens of thousands of dollars for a degree, it means you've got a lucrative job and, accordingly, there arises a risk of losing it. On the other hand, those who go to the best business schools rely on the fact that the mere admission via a highly competitive examination and a successful graduation will increase their importance in the eyes of the employer.

There has been a global trend of increased talk about lifelong studies. The world is changing too fast, hence our knowledge and skills may become obsolete in three years' time. Unfortunately, most Russian managers either do not know this, or turn a blind eye to it. Many are deluded into believing that if you move quickly up the career ladder and occupy more senior positions, it will be so all the time, you'll make fewer mistakes, while the amount of knowledge will increase proportionally to your promotion. This is a terrible misconception that may be catastrophic.

Those who wish to continue their education demand very high-quality programs. This means both a strong academic platform, and a complex project work. Students also want to obtain contacts that will help them in the fu-

ture, they want to be part of the clubs of like-minded people that always form around good schools. I have recently met a very successful entrepreneur who was a graduate of Wharton (one of the oldest business schools at the University of Pennsylvania). All of Wharton's graduates – over 92,000 people – are graduates of certified programs and they can get each other's address, a resume or a CV through a single system. Therefore, knowledge is only the first component provided by a business school. The second component is communication, the third is the opportunity to have access to investors, and the fourth is the opportunity to continue with education. Many graduates return and take short specialized courses. The school becomes a trusted source of ideas, new knowledge and approaches for them.

As for foreign students, to what purpose do they enter the Skolkovo Business School?

As a rule, students go to study at a young business school not because of its reputation but because of the interest to enter the Russian market as an entrepreneur, a manager of a multinational company or a foreign manager of the Russian company. The presence of foreign students is very important, it enriches the program and provides more opportunities to exchange experience. In recent years we have seen a growing interest in our school from the students from the CIS countries. As for students from Europe, America and Asia, there will be a new stage of development of the economy, and there will be many more of them on our programs.

Does the school follow its graduates' progress?

This is an essential tool for evaluating the success and effectiveness of business schools. Where is your graduate working after six months, one year, or five years? How has their salary changed since graduation? We are creating an information system for alumni that would be part of networking for them and would give the school sufficiently up-to-date information about their achievements.

Now we track the progress of our graduates at our events - workshops, public lectures, and Speaker's nights. This is a way to bring graduates back to school and to draw their attention to new opportunities or problems.

If you look at the experience of the most famous business schools, a significant portion of their budget comes from sponsorship donations from alumni. In other countries, it is a well-established practice to transfer a part of your fortune to your alma mater. It's a question of time and power. The school must earn such an attitude from its alumni over a long period of time. You cannot be good today and regress tomorrow, as it will destroy your reputation.

Do you plan to present the results of such monitoring? After all, what can be a better advertisement for the school than if the graduates' earnings grow upon obtaining a degree?

We plan to do it once we have built the system and obtained the first data. Business schools disclose this information, it is a part of their strategy, and we, too, aspire to do so.

Are you going to participate in the international rankings of business schools? - For now, our founders have a different perspective on this matter. On the one hand, the international ratings are like fine feathers that ought to make a fine bird, but, on the other hand, we have positioned ourselves as a pioneer school, which is very different from traditional business schools.

Recently, business tours to the East, Southeast Asia, China have become very popular. How does the school develop in this direction? Do you forecast any education shift from Europe and perhaps even from the United States to the Asian market?

east Asia, where they organize trips to these countries, including for our business school.

What will happen with the cost of education at SKOLKOVO School? Is it possible to reduce the cost as a sort of “anti-crisis” measure? Currently, when compared to Asian business schools with good positions in international rankings, the education is considerably more expensive.

It depends on the program content. If you look at a break down of our expenses, a significant part of them comes from the salaries paid to very expensive professors from leading schools. Such a price is not the result of a secret deal or our own invention, these costs do exist on the market and can be easily verified. The high price is largely determined by the expenses that we incur. These include campus infrastructure charges, i.e. comfortable hotels, a swimming pool, a spa

===== **WE FOCUS ON DEVELOPING SKILLS**
demanded by transient economies. As a rule, entrepreneurs have such knowledge and abilities. In this area is where we make a difference. With a rare exception, all traditional business schools train managers and hired workers. For instance, at Harvard, only about 5-7 graduates start their own business. In comparison, from our graduates of the Executive MBA program, entrepreneurs equal about 60%. This creates a specific and interesting environment because an entrepreneur is a person with an entirely different mentality and degree of personal freedom.

In fact, this process has been taking place for a long time. We pay great attention to the experience of Asian countries, as they show remarkable progress both in education and in business and have very strong potential. For example, under the «5-100» program to improve the competitiveness of Russian universities, the rectors of Russian universities have traveled to Hong Kong and South Korea where they witnessed the experience of Asian universities that have only recently started their conquest of ratings. They were very impressed by what they saw. They realized that the experience of the Asian universities was perhaps more relevant to us than the experience of Western countries.

In addition, our graduates have started a project within the sector of Industrial Tourism entitled, “InnovativeTrips.” The project focuses on the Asia-Pacific region, they work primarily with Hong Kong and South-

and a first class room for football and basketball. On the other hand, the price is also a marketing option. For us, a high cost of education is a certain criteria, a natural filter for our target audience. This price is for those who want to study in Moscow, not in Lausanne or Boston, and thus to develop business in Russia. We cannot create a club without introducing some entry barriers, otherwise it will just fall apart. Therefore, we will maintain a high price level.

On the other hand, we certainly think of ways to help gifted people who have financial difficulties without compromising the quality of programs and financial stability of the school. Let me remind you that the school is a non-profit organization, that is, it does not distribute its profit among the founders. All the money goes back into education and to the maintenance of our campus.

**JEAN-
PASCAL
TRICOIRE**

Chairman
and CEO
of Schneider
Electric
Company

**FOR THE FRENCH
COMPANY SCHNEIDER
ELECTRIC RUSSIAN
MARKET –
IS THE SECOND
LARGEST AFTER
THE FRENCH.
ABOUT HIS WORK
AND INVESTMENT
PROJECTS
IN THE RUSSIA SAID
JEAN-PASCAL TRICOIRE,
CHAIRMAN AND CEO
OF SCHNEIDER
ELECTRIC COMPANY.**

«We are ready to share experiences and technologies with Russian partners»

W

What is the place of the Russian market in Schneider Electric global business structure?

Russia is one of Schneider Electric's key markets: it is our the 4th largest market globally and the 2nd largest market in Europe (after France). Over the past five years, our company has invested extensively in the Russian economy. Today, Schneider Electric has representative offices in 31 Russian cities; the

company's production base in the country includes seven factories and three logistics centers. In 2013, our company substantially expanded its presence in Russia by bringing on board Schneider Electrosshield – TM Samara. This acquisition reinforces Schneider's offer for our industrial and utility customers in medium and low voltage equipment in Russia, and accelerate export from the country. This January we continued our investment in Russia by purchasing a factory in Yekaterinburg, which became our seventh own production facility in Russia. In addition, we plan to build a new facility for the production of transformers based on Electrosshield – TM Samara, which would give the Samara region additional 500-600 jobs. We plan to launch the construction by the end of this year.

Schneider Electric has more than 100 years history in Russia and about 40 years of experience of work with the Russian fuel and energy sector: the first project was launched in 1974 for Samara Oil Refinery. In the 1980s, we implemented a project that became the initial point of strategic cooperation between Schneider Electric and Gazprom, i.e. compressor stations of the Urengoy – Pomary – Uzhgorod export gas pipeline were almost entirely fitted out with electrical equipment manufactured by Schneider Electric. In 2014, we celebrate the 20th anniversary of our multilateral cooperation with Gazprom Automation, which subsidiary Kaliningradgazavtomatika plant has been manufacturing Schneider Electric equipment for the oil and gas industry for 20 years.

We believe the Russian energy sector has great potential for growth and technological development and in-

tend to continue investing in Russia. We invest not only in the production but also in R&D and the development of human resources. We believe that research and development should be closer to the production to support innovation. That is why we intend to set up our own R&D Center in Skolkovo.

In your opinion, how comfortable is the work in Russia for a foreign investor?

As mentioned, Schneider has invested extensively in Russia in recent years, and this is an illustration of our trust in Russia: its economic potential, its human capital and its willingness to attract foreign investors. The Government constantly works to improve the investment climate. We see the authorities' support and willingness to build constructive dialogue. For example, when Schneider Electric has encountered a number of bureaucratic hurdles during the acquisition of Electrosshield – TM Samara, the Government provided us with invaluable assistance. We are recognized as a technology partner of many Russian companies, a company with extensive international experience and a major investor in the Russian economy. We are getting support of local authorities in all regions in which Schneider Electric operates and creates jobs.

We are ready to share experiences and technologies with Russian partners. Schneider Electric has played a key role in the activities of the Association of French companies in Russia for energy efficiency. In November 2013, the Association and the Committee of Energy Policy and Energy Efficiency of the Russian Union of Industrialists and Entrepreneurs (RSPP) signed a cooperation agreement, which covers all activities related to energy efficiency, environmental protection and renewable energy. The signing took place during a meeting of the Russian-French Intergovernmental Commission in the presence of political leaders of the two countries.

The implementation of energy efficiency technologies does not appear to be number one concern for Russian industry actors. What problems does the country need to solve to boost the adoption of energy efficiency technologies?

Energy efficiency and energy-efficient solutions are becoming more urgent and desired. These are the efforts of both the Russian government that has declared a policy of energy efficiency and the real sector of economy that pursues a goal of cutting costs. Currently, a grow-

ing number of companies are willing to upgrade their equipment and effectively use resources, carry out energy audits and implement energy management systems.

Energy efficiency technologies are in demand both by business and by local authorities. Can you give some examples of successful cooperation with local authorities from your practical experience?

Certainly, energy efficiency projects attract not only business, but also public sector. I would point out the example of Tatarstan, where Investment Development Agency of the Republic of Tatarstan carries out activities to set up Kazan Smart City. Schneider Electric will participate in the design and construction of the Smart City control center and implementation of engineering and transportation networks intelligent management systems. In particular, we are talking about deploying integrated solutions - Schneider Electric Smart Grid and Smart Mobility Traffic for traffic management in Smart City Kazan. We intend to apply similar solutions in the construction of the Innopolis Technological Center in Kazan.

You carry out a number of education projects in Russia. Please tell about its results. Where work the people who completed training in your educational centers?

How do you appreciate your collaboration with Skolkovo foundation to create your own research and development center?

Within the R&D development strategy, our company is going to open its own R&D center in Skolkovo. In December 2013, Schneider Electric and Skolkovo Foundation signed an agreement for the creation of R&D center in the Skolkovo Innovation Center in the presence of Dmitry Medvedev, Chairman of the Government of the Russian Federation. We have extensive plans for this cooperation. Activities of Schneider Electric's R&D center with nearly 100 engineers will be focused on creation of advanced energy distribution management system for electricity networks, the development of control systems for autonomous generators and the pipelines of different purposes, the adaptation of Schneider Electric's solutions for the Russian conditions, etc.

What do you expect from the Russian economy in 2014?

Taking into account the current trends of slowdown in the economic growth rates, energy efficiency remains one of the priority areas for investments. According to our estimates, activities aimed to improve energy efficiency may give additionally up to 2.5 percent of the Russian GDP growth. All energy saved in Russia is energy that can be exported to other countries. Energy efficiency is

ALL ENERGY SAVED IN RUSSIA IS ENERGY THAT CAN
 be exported to other countries. Energy efficiency is the shortest way to enhance competitive capabilities of the national economy in the international market, as the cost of power resources is the major part in the final product price

Cooperation with universities is one of the priority areas in the development of Schneider Electric throughout the world and particularly in Russia. Schneider Electric has entered into cooperation agreements with over 30 universities across Russia; they are members of the club of universities-partners of our company. Generally, these are technical institutions. We have opened joint training centers in many of them where students study up-to-date energy management technologies based on our equipment. Furthermore, we arrange Schneider Electric days for students and participate in employment fairs and career days; we hold probation competitions and provide international practical training. Schneider Electric also awards special scholarships in some higher institutions. Our educational projects facilitate us, on the one part, in finding talented persons and attracting them to our company, and on the other part, improve the general educational level of young professionals since training using up-to-date equipment assists graduates in faster studying their professions. In addition, our clients in many regions of Russia attend trainings at the training centers at universities.

the shortest way to enhance competitive capabilities of the national economy in the international market, as the cost of power resources is the major part in the final product price. That is one of the reasons to continuously improve energy efficiency and upgrade the infrastructure; a fact understood by both our Government and businesses.

What do you expect from the current St. Petersburg Economic Forum?

It is a great pleasure for me to visit the St. Petersburg International Economic Forum for the third time in a row. This Forum gives us an opportunity to meet business partners and to learn about priority areas of the Russian Government. Moreover, I love St. Petersburg very much; it's a beautiful city and I always look forward to the St. Petersburg International Economic Forum.

This year, Schneider Electric participates in the Forum as a newly elected member of the Foreign Investment Advisory Council under the Chairman of the Government of the Russian Federation and as an active partner and member of the Russian Union of Industrialists and Entrepreneurs.

Magadan Region – an area where your assets grow

A most favourable environment for the implementation of profitable investments has been developed in Magadan Region, one of the largest and richest territories in Russia.

The amazingly rich Magadan Region! No wonder it is called “the Russian gold mine”. In the regional subsurface area, there is a concentration of more than 11% of placer gold deposits, 15% of gold ore and about 50% of silver of the total volume of mined reserves of these metals in Russia. Of the 14 deposit fields situated in the richest gold ore province of Yana-Kolyma, nine are located in Magadan Region, which means nearly five thousand tons of gold. In comparison, about three thousand tons have been mined in over 80 years in Kolyma.

In addition, the region has large reserves of copper, iron, molybdenum, lead, zinc, coal and peat... Oil and gas deposits can be found in the Magadan sector of the Okhotsk Sea (about 4.5 billion tons of hydrocarbons). Regional rivers create powerful energy (currently, the Ust-Srednekanskaya HPP is being built). The waters of the northern part of the Okhotsk Sea contain almost a fifth of Russian fish resources. “Our territory is undoubtedly very rich in raw materials. It’s obvious that in the next 15 years, there won’t be any drastic changes in the regional economy.” says the Governor of Magadan Region, Vladimir Pecheniy. “However, mineral resources can and should serve as a basis for us to stop practicing a mono-economy and help us diversify our investments, which we can achieve by developing an advanced processing system for our raw materials. This will reduce our dependence on price fluctuations on the world market and, incidentally, will open up the huge Russian market for our products. Of course, we’ll need a lot of domestic and foreign resources that we’re currently trying to attract by developing a new investment policy.”

Attracting investors has never been an easy task, and this is even truer in view of the current unstable global economic situation. However, the regional government has outlined promising projects, and favourable business conditions are now beginning to bear fruit. According to 2013 results, the volume of investments in Magadan’s economy reached 32.2 billion rubles, an increase of 9% as compared to the investment level of the previous year.

This growth can be explained by the fact that various organizations have tested the productive economic state of Russian regions. According to the results of monitoring studies conducted by the Ministry of Regional Development of Russia — “On the situation in the economy, the banking-financial and social spheres of constituent subjects of the



Governor of the Magadan region
Vladimir Petrovich Pecheniy

Russian Federation in January-December 2013”, Magadan Region entered the top ten leaders that had attained specific values in socio-economic indicators, and the top five for dynamics development. The Expert-RA rating agency named Magadan Region as the area with the lowest legislative risk.

We cannot describe the entire spectrum of measures that have been implemented to improve the business climate in the region in our short article. For example, the Agency for Strategic Initiatives and the public organization “Delovaya Rossiya” (Business Russia) introduced performance standards to ensure a favourable investment climate in the region for government executive authorities of constituent subjects of the Russian Federation. On the one hand, they unify the “rules of the game” throughout the country; on the other hand, they introduce established mechanisms and contribute to the development of closer cooperation between authorities and the business community. Incidentally, this cooperation has resulted in the creation of a developed business support infrastructure, which includes, in particular, the Chamber of Commerce and Industry and the Entrepreneurship Support Fund. There is also a joint project that involves the Magadan regional branch of the entrepreneur organization “OPORA ROSSIYI” (SUPPORT OF RUSSIA), the regional government and Magadan Mayor’s Office — the Magadan Mini-Business Incubator — and a direct association between investors and Magadan’s regional management, which

allows for making quick solutions to various problems. There is also a uniform regulation for investment projects based on the “single-window” principle and the approved law — “On investment policies in Magadan Region”, which provides guarantees to investors.

The region does not remain on the sideline with respect to work accomplished at the federal level. Pursuant to the request of President Vladimir Putin, a lot of work has been done to improve the Federal Law — “On the Special Economic Zone in Magadan Region”, which should extend the SEZ regime and improve it qualitatively. Business conditions in the region have become more attractive with the enactment of the Magadan Regional Law — “On establishing the profits tax rate for organizations that implement regional investment projects in Magadan Region” — which regulates the following benefits for investors: new production companies will not be subject to profits tax in the region during the first five years and, in the course of the next five years of business activity, the profits tax will not exceed 10%.

In addition, the regional government is working on questions related to the exploitation of subsurface areas. In particular, the region initiated the idea of a Federal law on individual prospector business, thus regulating relations with prospectors and offering to delegate the right to form and approve lists of subsurface areas containing small reserves of ore and placer gold to Rosnedr territorial agencies. This would reduce the time required to obtain licenses for subsurface areas.

On July 18, 2014, acting as coordinator of the Sub-Commission on the Development and Regulation in the field of mining minerals resources in regions belonging to the Association of North East Asia Regional Governments (NEAR), Magadan Region will once again be in charge of organizing a meeting of the Sub-Commission, which will take place at the same time as the First International Magadan Investment Fair. These events will promote an open dialogue and effective cooperation between the business community, financial institutions, government authorities, international organizations and business and scientific-academic associations. “By working hard and maintaining an honest and human attitude towards people who come to work here, Magadaners will ensure that their region retains the top position for investment attractiveness rating among all the Russian regions.” remarks the Governor of Magadan Region, Vladimir Pecheniy — Government authorities and in the future.

R

UBEN VARDANYAN, HEAD OF THE CHARITY FUND "RUBEN VARDANYAN AND VERONICA AND FRIENDS" TOLD SPIEF REVIEW, AS HE UNDERSTANDS CHARITY AND PHILANTHROPY, AND WHAT IS THE MISSION OF ORGANIZATIONS SUCH AS HIS FOUNDATION.

RUBEN VARDANYAN

Head of the charity fund «Ruben Vardanyan and Veronica and friends»



VLADIMIR ASTAPKOVICH / FOTOTAR-TASS

«Philanthropy is an inherent part of wealth preservation»

To what extent is the task of setting up private philanthropic foundations and managing philanthropic capital in Russia complete?

We all need to understand that developing philanthropy is essential to building a wealthier, healthier society. The maturation of the first generation of Russian entrepreneurs who created wealth in the 1990s has refocused them on succession planning and wealth preservation issues with philanthropy being an inherent part of this process. People are now thinking about the legacy they will leave behind and what to bestow to future generations.

Russians have traditionally made significant contributions to private philanthropy. Before the revolution in 1917 it was common practice for wealthy individuals. A revival is now underway, though it's going quite slowly. We are continually learning how to manage phil-

latory environment needs to be changed. Mass philanthropy should be stimulated by introducing tax relief mechanisms like, for example, donor advised funds in the US and UK. As far as contributing various asset types (for example, real estate) to philanthropic causes, Russian legislation fails to address the full diversity of situations which may occur in the process of such donations.

During the 1990s, many artificial foundations in Russia were used like mechanisms to receive funding from the government and other public institutions, thereby eroding the trust placed in the charity industry and creating lots of negative connotations surrounding the charity industry at that time. Hence we need to be very careful when developing legislation, reporting standards and infrastructure for the philanthropic foundations and how these are governed.

projects? Moreover, it is about how you attract and bring the best people who work for you and your projects.

A broad array of current examples has proved effective, ranging from personal charities like the Dynasty Foundation established by Dmitry Zimin to the corporate philanthropy programs implemented by Alfa Bank. It is encouraging to see such examples of fund organization and of how to deliver on founders' promises.

In your opinion, what is the current relationship in Russia between private philanthropy and the social, cultural and educational activities of the government? What is the collaboration like, and are the tasks understood? Or do philanthropists "fill the holes" left open by the government?

WHAT IS YOUR SOCIAL IMPACT? HOW WILL YOU measure it? How effectively organized is corporate governance? How do you execute your projects? Moreover, it is about how you attract and bring the best people who work for you and your projects

anthropic capital. We do not have enough experience and knowledge, so we have to learn by doing, and also learn by the best practices. Incidentally, we decided to establish the Wealth Transformation Center at the Moscow School of Management SKOLKOVO precisely in order to make the best philanthropic practices available to Russia's donor community.

Are the legislative questions here clarified? Could you articulate what should be added to or changed in Russia's legislative base given the tasks of private philanthropy?

Several intractable legal issues stand out, such as low legal transparency, tax credit problems, and a dearth of specialized service providers and intermediaries. The regula-

In your opinion, which organizational form of private philanthropy is most promising? Private companies perform certain charity activities. Some, like you, set up family foundations. How fundamentally different are the activities of such structures? Are there philanthropic tasks which the corporate philanthropic programs cannot address in principle, yet which the private family foundations may perform?

It does not matter. The more diversified the forms of philanthropy are, the better for the development of the charity industry. The key point is effectiveness evaluation. What is your social impact? How will you measure it? How effectively organized is corporate governance? How do you execute your

Overall, I would say that yes, cooperation is underway between private philanthropy and government activities, but the process is ongoing and many things have to improve. Remaining endemic is the practice of "philanthropy on call", that is at the government's behest. Officials at different levels ask corporations or individuals to do certain charity projects, essentially imposing additional taxation. Meanwhile, it is a voluntary, self-regulating, competitive decision-making system which is an important precondition for the long-term, sustainable development of the charity industry.

Yet we can also point to good examples and success stories of public-private partnerships, which should be disseminated and studied as best practices. One such example is Moscow School of Management SKOLKOVO, which

has received very strong support from government officials. At the same time, it received no government funding, and it was really our desire to do the project. The government supplied moral support and help with creating a pool of dedicated stakeholders and strategic development, but was not involved in the decision-making process, a key fact to the project's success. I am a strong supporter of public-private partnerships, but I believe it needs to be done in the right way and on the right basis.

Going forward, we must further develop philanthropic and charitable infrastructure while striking a balance between simplicity, transparency and preventing abuse of such infrastructure.

As we see, the current context around philanthropy is complex and controversial. What are the motivations of major private philanthropists in Russia to continue their activities? Is it a moral imperative, certain ambitions or something else?

Russia finds itself in a quite unique situation in that many of the people responsible for wealth creation in the country are relatively young in age. I think now is a good time for people to try to do something on the philanthropy side. The desire to leave legacies and create reputations

development is one of the crucial impact drivers. A mature philanthropic tradition is essential for social stability and its long-term sustainable development.

Once established, philanthropic foundations create additional social value from generation to generation. In Russia, where many people live in the short term and our society is short-term oriented in general, it is important to develop not only philanthropy but also social entrepreneurship and mechanisms of strategic planning with the goal of efficiently connecting resources, procedures, outputs, outcomes and social impact between each other.

We are at least 100 years behind the US, whose modern philanthropic tradition dates to the early 20th century. I think we need to supplant "emotional" philanthropy with a more professional approach, where rather than one-off charity giving something more sustainable for many people is created – not just once so you feel emotionally in touch. It's very important to build this long-term mechanism. What kind of mechanism will it be? It will be trustworthy, transparent, professionally organized and long-term oriented. All philanthropic organizations need to invest time and other resources to organize their activities professionally and strategically, just as we are doing in business.

All of my major projects, including the Moscow School of Management SKOLKOVO in Russia, UWC Dilijan College and Tatev Revival Project in Armenia, have planning horizons of 20-25 years.

Driving this personal commitment is the desire to leave a legacy for future generations. Hopefully, your projects will operate not only now, but also when you pass away. That's why I think it will be very critical to make sure that sustainable mechanisms are in place. One of the goals of the Wealth Transformation Center is to facilitate discussion of these issues, look at different options and try to find the best one. We need to study best international practices and at the same time try to keep our own understanding of the best way it should be done in Russia.

There is a well-known maxim about "old money", different in its behavior from "new money". In an interview you said that one of the issues you would like to research as part of SKOLKOVO is the mechanisms for transferring large capital to heirs. In your opinion, when the capital actually reaches the heirs, how might this affect philanthropic activities? Will the heirs have any other reasons to engage in such activities?

WEALTHY RUSSIANS TODAY ARE FACED WITH many questions: should the heirs continue running their businesses and foundations or should it be a trustee model?

for following generations is a big driver for personal action. What's more, the nature of the assets and the personal values we share are incredibly important for the future of our society overall. My family believes that the key to building a stable and successful society is to create efficient mechanisms for philanthropy so there are people who not only give money but have institutions and infrastructure and will hire the right people and bring management skills to help the industry and society in general.

To what extent, in your opinion, does today's philanthropy presuppose a clear formulation of the tasks set and strategic vision, both of the activities carried out and the changes in society which may be achieved through such activities?

You know, there are two fundamental problems on all levels of our society, be it businesses, government or people: lack of trust and a very short planning horizon. Philan-

You like to speak about a 20-year planning horizon in your work. Can you say the same about your philanthropic activities? What will require support in Russia in 20 years' time? Which institutions will do this work?

Selection and implementation of all my philanthropic projects are guided by seven core principles:

- Long-term vision and planning horizon for several decades ahead;
- Magnitude and symbolic character of the projects;
- Global scope and collaboration;
- Multiplier effect;
- Engagement of local communities and resources in the implementation of projects;
- Best international practices and standards for design and realization of projects creating a new local benchmark;
- Self-sustainability after initial philanthropic investment.

Succession planning involves many complex issues, including that the respective culture has yet to evolve and the legal instruments haven't been introduced. Wealthy Russians today are faced with many questions: should the heirs continue running their businesses and foundations or should it be a trustee model? Who will make sure that the person's will is observed? Can the general vision be revised under certain circumstances? I think philanthropy is obviously an inherent part of succession planning and wealth preservation. Yet what is the best way to proceed? As I mentioned, the Wealth Transformation Center will offer educational programs on philanthropy for wealthy individuals, their families, family foundations and family offices. We are also preparing an academic research and interviews with members of the Russian entrepreneurial community to study the socio-demographic trends and agenda in the areas of wealth management, succession planning and philanthropy.



IRINA BABYUK

CHAIRMAN OF
THE SAINT PETERSBURG
COMMITTEE
FOR INVESTMENTS



SAINT PETERSBURG IS OPEN FOR NEW INVESTMENTS AND PROJECTS

We discuss the specifics of the Saint Petersburg investment policy in current conditions with Irina Babyuk, chairman of the Saint Petersburg Committee for Investments.

Q According to experts, the principal goal of the SPIEF-2014 (Saint Petersburg International Economic Forum) is defusing the global economic and political tensions. However, the external factors can also be regarded as a sign of the regional policy's viability and adjustability. Will the city retain the investors' trust?

I agree with you. Today, the global struggle between countries and regions for investors has stiffened. Saint Petersburg stakes on optimum policy of pluralistic investment. The city is expanding its links with and a number of joint ventures with different foreign partners. An effective direct dialogue between the authorities and investment companies preserves and bolsters the status of Saint Petersburg as a reliable and time-tested business partner, simultaneously eliminating the existing prejudice and media propagated risks.

Q How easy is it for the investors, foreign ones in particular, to come onto the Saint Petersburg market?

The committee's number one job is still establishment of an optimum work pattern of dealing with investors along with creation and optimization of a universal and efficient mechanism of such cooperation.

Based on the established pattern, a comprehensive aid to investors, including foreign ones, is provided by the Investments Attraction Agency during their entry into the market of Saint Petersburg. In forming it, we used the best European practice, in which such structures efficiently draw a large number of investment projects.

The Agency specialists help to clear, as soon as possible, the administrative formalities in implementing the investment projects, supporting the investor at all stages of the investing operations.

Q What kind of measures for investors support do you have?

The members of Saint Petersburg business community have an opportunity to directly contact the city administration by presenting their investment projects at the Council for Investment held monthly under the governor's supervision. Last year, the Council approved 90 billion rubles worth of projects.

In addition, since 2013 the Committee for Investments regularly arranges the Governor's meetings with investors at which pressing issues of cooperation are discussed.

For simplifying the dialogue with a potential investor the Committee has formed and continues to replenish the portfolio of investment projects, which now contains around 30. Among them is a project to build a light rail transit system, which will connect the city with the airport area, reducing the traffic tension in southern districts of the city, as well as a project of a pedestrian flyover that will function as a footbridge, trade and entertainment facility and as a decorative architectural ensemble. Also, the portfolio includes a project to renovate the historical quarter Apraksin Dvor (The Apraksins' Court) and create, on its basis, a unique urban environment purely in Saint Petersburg style.

Q What are the results of the city's investment policy pursued on the international arena?

From 2003 through 2013 the amount of foreign investments in Saint Petersburg has grown by 15 times from US\$ 696 million to 10.8 billion. The growing investment influx testifies to the investors' mounting interest in Saint Petersburg. Also, it is noteworthy that the quality of investments is changing. For instance, today no less than 40% of foreign investments are channeled into the real sector of Saint Petersburg's economy.

The accrued potential of business partners' trust in Saint Petersburg makes it possible to conduct an active foreign economic policy and to develop international cooperation. With reference to actual examples of such achievements it is worth noting the results of the last real estate exhibition, Exporeal, where Saint Petersburg signed two agreements with investment companies totaling 75 billion rubles. At the MIPIM-2014 exhibition (an international property event) the city concluded four agreements for implementing a number of projects in Saint Petersburg whose value exceeded 50 billion rubles. This replenished the portfolio of projects with Chinese, Italian and American companies.

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