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**Russia's New Horizons
THE INVESTMENT CLIMATE FOR THE RUSSIAN PROPERTY MARKET
Industry Breakfast**

**JUNE 21, 2013
09:45–11:00, Pavilion 5, Conference Hall 5.5**

**St. Petersburg, Russia
2013**

Moderator:

Dmitry Schugorev, Anchor, Rossiya 24

Panellists:

Alexander Braverman, Director General, Russian Housing Development Foundation

Olaf Koch, Chairman of the Management Board, METRO AG

Jay Nibbe, Managing Partner for Clients and Markets Development EMEA, Ernst & Young

Andrei Nikitin, General Director, Agency of Strategic Initiatives

Michele Randolfi, President, ITACO

Igor Shuvalov, First Deputy Prime Minister of the Russian Federation

Alexander Zhukov, First Deputy Chairman, State Duma of the Russian Federation

D. Schugorev:

Ladies and gentlemen, it is time to begin our discussion for today. Mr. Braverman has just told me that Alexander Zhukov will be joining us in a few minutes. I will quickly update everybody present on the matter in hand; what we are going to talk about today. The housing sector is playing an important role in Russia's economic development, both as a support to economic development and as a strategy for the future.

Today our discussion will focus on profitability and risks. Our industry breakfast is called 'The Investment Climate for the Russian Property Market.' How can we ensure high profits and minimize risks? These questions are extremely important for our distinguished investors and the political representatives who are here today. Over the course of our dialogue, we will try to find answers to these questions, which will in many cases be complicated, and in some cases obvious. We will try to reach a clear position.

We have a very distinguished delegation with us today. We have just been joined by the First Deputy Prime Minister of the Russian Federation, Igor Shuvalov.

So that I do not go on for too long, let me immediately yield the floor to Mr. Shuvalov.

I. Shuvalov:

I will just listen for now.

D. Schugorev:

You would probably like to make some concluding remarks, as you did last year? Are you prepared? Me too.

As I have said, we are discussing how to increase profit and minimize risk. Today, Mr. Braverman will be presenting us with a case that is illustrative of this issue.

A. Braverman:

Thank you, Dmitry. Colleagues, thank you very much for your attendance here at our industry breakfast. It is a tradition for us. You are our target audience, which

is made up first and foremost of all our developers and potential investors: both Russian and distinguished foreign investors.

Today we will present to you one of the 114 projects which are being implemented by the Russian Housing Development Foundation (RHDF) in 39 of Russia's regions. We will stick to the topics Dmitry mentioned: specifically the relationship between profitability and risk. You know that profitability on the Russian market is relatively high, but the risks are also high, and this is suppressing the flow of both Russian and foreign investments.

Our project is an agglomeration cluster in Sosnovka, Chelyabinsk Region. In 2010 and 2011, we offered investors a whole series of land plots on an auction basis for the construction of low-rise, multi-flat homes; low-rise town houses; and individual houses. As you can see, the whole area comprises 498 hectares. The project is designed for 40,000 people – 13,000 families – which is comparable to towns such as Gus-Khrustalny or Gelendzhik.

As you can see on the slide, these plots of land are being fully developed. There will be 22 playgrounds, five general education schools, and sport facilities. All the conditions for comfortable living will be created: this is one of the Foundation's fundamental aims.

Next slide, please. At all auctions conducted by the Foundation – whether that be Dutch auctions with falling prices or standard auctions – we set reasonably high requirements which, in turn, ensure people's health and longevity. This means that we establish environmental requirements regarding the materials used. Then there are requirements regarding their energy efficiency. This slide shows the conditions which were specified in Chelyabinsk, in Sosnovka. These are in regard to lighting around homes: light-emitting diodes, motion sensors, and variable-frequency drives. And, I repeat, the European norms which we maintain for the materials used, from the perspective of their environmental friendliness, have an impact on the longevity of our citizens.

On this slide, you can see what the plot looked like two years ago. If I remember correctly, this is from April 2011. And this is the first phase of implementation, in April 2013. There are already a significant number of families living there. It is a

full housing development, providing social infrastructure. The first phase comprises 64,000 square metres.

Alexander Zhukov has just joined us. He is the First Deputy Chairman of the State Duma. Thank you, Mr. Zhukov.

I would like particularly to draw the attention of our developer colleagues to the next slide: here you can see how far the timescales for cooperation with developers are being reduced, as are the timescales for the implementation of phases. It is worth looking into this in more detail. Currently, the standard time for development, confirmation of documentation, and planning of an area is 17 months. This is confirmed by data from Mosstroy, confirmed by statistical data. It took us five months. In total, we saved a year. The second phase involves design and acquiring planning permission for construction. The standard time for this is 16 months. In our case, it took four months. We saved another year. Then we come to the third phase, and here we did not save any time at all. Do you know why? Because this phase has to do with the durability of construction and the materials used, and here our developers follow standard procedures. For this reason, the time saved overall adds up to two years, which halves the timescales for implementation compared with the standard, sluggish procedure.

This is what the first stage of the completed Polesia phase looks like. Next slide, please.

The main target sector is the residents, our fellow citizens. This is an economically active population that can afford to purchase homes at market prices today. As far as affordable housing is concerned, we will get to this a little later, as we move down the price brackets. This is for low-income families, who acquire homes via special schemes.

Mr. Shuvalov noted the name of this phase. Please be so kind as to go back to the previous slide. This phase is called Geneva. Everything is situated within the limits of the agglomeration. Construction is at a less developed stage, but it is going exactly according to schedule. The overall time scheduled for the construction of 1.4 million square metres is no more than eight years.

Next slide. This is the Prostory project.

What has the Foundation done, apart from supplying plots of land for auction, reducing administrative procedures, and working alongside developers from beginning to end? We conducted market research for each of the large land plots, and saw the potential demand from the economically active population and the low-income population. We saw developers' interest in and potential for developing this land. We realized that infrastructure limitations would make the implementation of this project difficult. For this reason, in conjunction with the Russian federal constituent entity and in accordance with expert opinion, we gradually invested RUB 920 million, working from three basic criteria: the area of the land plot was over 50 hectares, over 75% of homes were economy-class, and the NPV was negative. At the beginning of December 2011, we paid an advance of 15%. We looked to see how the project would be realized. Then we paid RUB 184 million, 20%, as another advance. We looked at the project's implementation and paid RUB 508 million after construction had begun and expert reviews had been conducted. Then we paid the tariff. I would like to emphasize this so that we all have the same understanding: we do not pay for construction. That is a principal issue for us. We pay the tariff for a third party, and in this way we encourage municipal governments to both adopt investment programmes and introduce clear, transparent tariffs.

This slide shows the three phases to which we lent support, and the results of this support. This is the investment which we were talking about, in the most difficult type of infrastructure for us: water supply. Do you remember the hierarchy our infrastructure specialists talk about? It is water, heat, and electrical power. The easiest for us, strange as it may seem, is gas.

And so, we paid more than RUB 900 million. Naturally, the area was fully supplied, and administrative barriers were removed. Please have a look at the figures from this project, which the developer has fully disclosed. The IRR is 30% here. Compare this with European or American figures, with the 5–7% over which desperate battles rage. Consumer house prices here have gone down to RUB 28,000 per square metre, and the average market price in Chelyabinsk Region is between RUB 37,000 and RUB 39,000 per square metre. That is a very significant indicator! We intend to continue implementing similar cluster

projects, and they are now progressing, for example, in Saratov Region, in Krasnodar Territory, in Nizhny Novgorod Region... There are many similar projects. We are grateful that you are prepared to ask us questions and discuss this with us. As the moderator has said, we will continue our activities in this way. Thank you very much, everybody.

D. Schugorev:

Thank you, Mr. Braverman, for the slide show, and for explaining to us how we can and should work. We will be happy to discuss these mechanisms. It is true that certain difficulties very often arise in the construction of these types of projects. After all, we are not simply building a house; we are creating a particular environment, so that the people who move there can use it. At the same time, specific problems which arise for investors and developers are solved. Today we will hear the opinions of both those who build and those who then inspect and monitor.

We have with us today regional leaders: the Governor of Krasnodar Territory, Alexander Tkachyov; the Governor of Nizhny Novgorod Region, Valery Shantsev; the Governor of Perm Territory, Viktor Basargin; the Governor of Saratov Region, Valery Radaev; and the Governor of Chelyabinsk Region, Mikhail Yurevich (Chelyabinsk Region was the location for this project). Unfortunately, Alexander Torshin cannot take part in this industry breakfast, as he is in Minsk on the instructions of Valentina Matvienko. As I have said already, we have with us today developers who are realizing projects on RHDF land, and our strategic partner, Sberbank. Hello, Andrey Donskih!

Mr. Zhukov, you have just arrived and have already managed to familiarize yourself with what has been presented. Naturally, it is necessary to have legislative support from the government for such complicated work. It would be very interesting to hear about that now.

A. Zhukov:

Good morning. Mr. Braverman explained the activity of the Foundation in great detail. But it is necessary to say that this activity, both at the founding stage and

over the course of the four years of its operations, has been accompanied by a very active legislative process. The idea at the heart of the creation of the Foundation was to search the country for plots of land which were suitable for housing construction and attractive to investors, to provide infrastructure solutions, and fast allocation to developers. Realizing this idea requires making constant adjustments to legislation, because in real life we are perpetually coming up against the need to solve some new problem or other; rather, they are perhaps also old problems, but we cannot grasp everything at once. Gradually we are trying to improve legislation. In this way, laws appeared which, over the years, have been approved by the State Duma: for example, those relating to the expansion of the Foundation's ability to present developers with certain conditions. Because we want the homes which are being constructed on these plots to have particular characteristics. As the government gives investors particular preference, it is natural that it wants to get as many quality economy-class homes as possible for a cost that is accessible to our citizens. One of the most important problems which the Foundation solves is the guaranteed construction of quality homes, so that we get not only multi-storey buildings, but also comfortable one-storey homes in specific price brackets. I will not list in detail all of the changes to laws which have been made over this time, but what I have mentioned was brought in through special legislative acts in 2009, 2010, and 2011. Comprehensive changes were also made in 2012. Of the most important trends in recent times, I will mention the holding of Dutch auctions, when land is granted for use with no time limits and free of charge, on the condition that the investor builds as many economy-class homes as possible at extremely low cost.

These auctions began in December of last year. This year, 50 of them will have been conducted. This methodology has proven itself, in my opinion, to be rather successful: investors participate with great interest in these auctions.

One other innovation which we brought in last year is cooperatives. We felt that this format could be popular in Russia. They are, moreover, cooperatives with government support, where the government helps people by paying part of their subscription to the cooperative. We remembered the Soviet experience a little.

We began with Novosibirsk, with young scientists. And we realized that this mechanism could also be fully functional.

A. Braverman:

We have 51 housing construction cooperatives functioning today in 34 Russian regions. Their support is bound up in three basic things: the land is free of charge; there is infrastructure support; and there are projects in our archives which can be reused – there are 36 of these today. By the end of this year, there will be 60, attached to all the neighbourhoods. Moreover, these are projects completed before the documentation process, and they can be attached to plots of land without additional work.

A. Zhukov:

The legislative work does not stop there. Two important draft laws are currently being examined in the State Duma. One of them was introduced by a group of deputies who were aiming to implement the 600th Presidential Executive Order, and was announced last year as part of the package of Executive Orders with which the President went into the elections. The name of this Executive Order is ‘On Measures to Provide Citizens with Affordable and Comfortable Housing and to Improve the Quality of Housing and Community Services’. This draft law proposes the improvement and regulation of procedures specifically for the creation of those same housing construction cooperatives which I mentioned, and the improvement of the procedures for running auctions to provide land plots free of charge to developers who have accepted the obligation to construct economy-class homes and to sell them to separate categories of citizens at fixed prices. That is, the legal parameters are subjected to a constant improvement process, taking into account those problems which arise over time.

Today, the Duma should be examining the first reading of a most important draft law which was discussed not long ago in a meeting of the State Council. Its intention is to prolong the activity of the Housing and Utilities Sector Reform Fund until January 1, 2018. That is a separate subject, but it is directly connected with the development of housing construction, because there are many different tools.

Here we have the Housing Development Foundation, the basic roles of which we have just discussed. And of course, there is the Housing and Utilities Sector Reform Fund, through which all reconstruction of run-down buildings goes. The volume of this work is also rather high.

I have spoken briefly about the development of legislation; it is an active process. Therefore, if you have any suggestions on what could be changed in our legal system, with the aim, say, of facilitating access to plots of land, or, perhaps, of changing some nuances of regulation of the activities of developers, we are prepared to do this quite quickly. Thank you.

A. Braverman:

Dmitry, allow me a quick remark. We are grateful to the State Duma: we have suggested 15 corrections and 14 of them were unanimously accepted. All the factions voted for them.

D. Schugorev:

That is revealing. I think that we will have a lot of responses, advice, and requests today from our investors. We have had preparatory contact, and I am sure of this.

We saw on the presentation slides how the project is developing in Chelyabinsk. Would anybody mind if we turn to the developers of this project? We have with us today the General Director of Green Park, Ivan Petridi. What problems have you had to deal with? Do you have any questions for the legislators?

I. Petridi:

Thank you. Good morning, ladies and gentlemen. Well, what can I say? You all know what comprehensive development is. Here you have an area of agricultural land: 500 hectares of just fields. And the desire to create an economically profitable project for investors, which is what we are ourselves.

Of course, comprehensive development would be impossible without the RHDF and without the help of regional governments. We are all capable of building within towns, connecting houses to old utility networks, building on existing

roads, and sending children to existing preschools. There was none of that here. The Housing Development Foundation helped us to create an infrastructure network for water supply and waste removal that cost RUB 1 billion over the course of a year.

Chelyabinsk Region allocated significant financial resources to finance the construction of a road network. With this kind of help and support it is genuinely possible to realize effective investment and construction projects with 30 or 50 revenue points.

What problems did we face? The problems were mainly connected with obtaining the necessary technical specifications. In this, the role of the Foundation is obvious. Without it, it would have been impossible to persuade IDGC, our gas companies, to come to an agreement with ordinary developers.

A. Braverman:

Excuse me. We did not persuade anybody; the Foundation has an agreement with all natural monopolies. This means Gazprom, Mezhrefiongaz, IDGC Holding, FGC, united now within Rosseti, and there is an agreement with Rosvodokanal. We act according to the regulations of this agreement, which does not mean any particular work for us.

I. Petridi:

For us, this was not the norm. In conclusion, to be brief, we received permission for construction on 1.5 million square metres. We are actively developing the site. The price range you indicated of between RUB 30,000–35,000 per square metre is absolutely correct. This is the price at which we are currently investing and we are earning 30% annually on invested capital. In order to lower the cost of homes, it is necessary to increase the input every year. Therefore, I have just one request for the investors present here. Today we have a project provided with roads and utility networks, and the technical specifications and planning permission have been obtained. We know how to invest and deliver around 100,000 square metres in a year. I believe that we need to increase these figures to 300,000. Therefore, if anyone is interested in making a profit on invested

capital, you are welcome in Chelyabinsk Region! Thank you, colleagues, for your support.

D. Schugorev:

Thank you. It is not easy to get an expert opinion from our distinguished investors who are sitting at this table. I know that there are projects which are being realized on the Foundation's land, and projects which are being realized elsewhere. In preparation, I spoke with Mr. Randolfi, who is engaged in construction in Saratov Region and Krasnodar Territory, and is creating clusters of housing and industrial facilities. Judging by what he told me, he has questions for our legislators. Let us ask him to tell us how things are working here from the perspective of the investor. Please go ahead.

M. Randolfi:

I would like to thank the St. Petersburg International Economic Forum for this opportunity to talk a little bit about our work with the Russian Housing Development Foundation. Our company, ITACO, is an international company with roots in Italy, and our main activities involve investing in the production of pre-fabricated plants and houses. Our company has developed large-scale residential, commercial, and infrastructure projects in Europe, the Mediterranean, and the Middle East. We have been working in Russia for many years, since the days when it was not Russia but the Soviet Union. Together with the Housing Development Foundation, our company is developing projects in many regions of the Russian Federation. Each project has a plant with an estimated annual production volume of 200,000–400,000 square metres of economy-class housing, in a residential development plot including retail and commercial real estate. That creates a comfortable living environment, where living, working, and educational facilities are all located within the same area.

In accordance with the concept, our company has already acquired land plots with a total area of more than 400 hectares through the Foundation, and has begun work in two regions of the Russian Federation. In line with our expansion strategy, we are planning to develop similar projects in five or six regions of the

Russian Federation. We are currently producing the equipment, and this will be sent in August or September to enable production to begin at the plant in Saratov Region, where we will build over 300,000 square metres of economy-class apartments per year. At this point in time, our Saratov and Krasnodar projects are up and running, and we hope to inaugurate our first plant in the Saratov Region before the end of the year.

Such a large-scale project can only be developed together with a strong, reliable partner such as the Russian Housing Development Foundation because as an international company operating in a country with specific rules and mentalities, of course we need partners who drive us to obtain good results. The instability of the European markets, as well as their somewhat lower profitability, encourages investors to turn towards Russia when development institutions such as the Russian Housing Development Foundation create new, attractive investment opportunities. We are planning to develop other activities and we are grateful for all of the collaboration with the energetic individuals who are managing and directing the Foundation. Thank you.

D. Schugorev:

Thank you, Mr. Randolfi. Today we are talking about high profit and minimal risk. I would really like to hear the opinion of a representative from a Russian company: in practice, how can we attain maximum profitability and minimal risk? And is this necessary? Please participate more actively in the discussion. We would very much like to hear an expert opinion. Does nobody have a suggestion?

R. Timokhin:

Good morning. Mr. Shuvalov, guests, we at the MR Group are building affordable housing in Moscow and Moscow Region. Maximum profits and minimal risks are possible for us only in Moscow and the nearby surrounding area – within a radius of 10 kilometres. When you build panel houses with a housing construction company, which constructs them within four months, you do not need to visit the site at all, and you sell for RUB 100,000 per square metre. Everything is great. If

we were to comprehensively develop a territory, it would be practically impossible to sell a square metre for RUB 35,000–40,000, because it is impossible to build an entire infrastructure on that amount of money. The house itself, maybe, would cost that much. The social infrastructure would cost another RUB 6,000. Let us add another RUB 3,000–4,000 for roads. That adds up to 40,000, and that is just cost value.

Therefore, for this kind of development, it is essential to have criteria according to which projects would be selected by the government: the engineering infrastructure would be financed by utility companies, but transport and social infrastructure would be financed by the government. Then there would be many of these projects. Because then it would be possible to make RUB 5,000–6,000, and build over 500,000 square metres, and it would be very good business.

But only in partnership with the government. Otherwise, everyone will build within a ten kilometre radius of Moscow and St. Petersburg.

I. Shuvalov:

I would like to continue on the topic of high profits and minimal risks. But first I will say a couple of words about the kind of situation that has arisen around the provision of housing on the Russian market. According to data from the Agency for Housing Mortgage Lending (AHML) and the Central Bank, in 2012 our banks gave out a record sum in mortgages: over RUB 1 trillion! This has never happened in Russia before, even before the crisis. In the government, we believe that this is an inaccurate figure, because many different schemes exist: mortgage credit, credit, and acquisition of capital for construction through Federal Law No. 214. Some use exchange schemes, obligation schemes, and other instruments; therefore, the Bank of Russia's official data are not entirely complete.

More houses are being built now than before the crisis. In any case, that is what the Minister of Regional Development has previously told us. But we understand that in terms of the quantity of houses built (in square metres), we are far from the specified scope. Every year, we need to build no less than 100 million square metres. Then the situation will qualitatively change, and people will feel that housing has become more affordable.

Last year, around RUB 1.5 trillion of credit resources were invested, but ask our citizens – young families and middle-aged people – if they feel that the situation on the market has really changed, if housing has become more affordable. Nobody would say that, even though the figures would suggest otherwise. We expect that our regional, municipal, and federal governments will speed up the work of this programme considerably. What will be the main sign that it has been successful? The lowering of mortgage interest rates.

Currently, it is not possible to single out a mortgage which has lower rates than other mortgages. But the government, together with the Bank of Russia, has sent a recommendation to the President which discusses how to achieve, in a very short time, interest rates that would perhaps be only 2% or 3% higher than inflation. It is a very difficult task, but it is achievable. And of course, then the cost of mortgage credit would become lower than it is at the moment.

This is a big, complicated problem, a headache for the government. Interest rates offered to small and medium-sized enterprises, even at Sberbank, are around 17%. Families consider mortgage rates to be very high. Why? Because families need to put down a deposit to buy a house, plus pay the amount required in the form of interest. When they see how much the bank will get in 15 or more years, they do not want to borrow on these terms. We are not used to living like that. And of course, people want to purchase houses at their nominal price. Nobody wants to add the cost of credit to that price. It is true that the whole world lives like this and, as a rule, families only finish paying for their homes when they retire. A home is the most important capital acquisition for any family, in all countries of the world; in the most developed countries of the OECD.

But we have our own particular expectations. There is nothing we can do; that is what people think about what is happening, and they expect that we will respond to this concern.

But we cannot tell them that housing will be free of charge. To bring credit interest within certain limits, to make it reliable and affordable: that is a task we can achieve. Among other things, we will bring resources we have built up in the pension fund of the National Wealth Fund into play. Now we are finishing off work on the basic parameters of a project which has the working title of 'Five by Five'. I

hope that following a few presidential decisions which we are expecting, it will become possible for us to work on this project publicly.

The project provides government help to develop necessary infrastructure facilities, to provide assistance to banks so that their lending is not absolutely risky, but based on a balanced credit policy. But we would, of course, like to see a situation where this assistance is not free, but that the money offered is to be repaid, let us say within 20–30 years. We will provide these monetary resources either in the form of loans, or financing provided through special tools, municipalities, and regions of the Russian Federation. But the money spent on infrastructure must be repayable. Some regions understand this; some think that this is not right. By the way, not everyone agrees that in one region, or even, perhaps, in one large municipality, tariffs for electricity, for example, can be different. But this exists in the world: if you are entering into a large new field, if you have a new development, you use the latest energy-saving technologies. But you need to build some new capabilities, which you would apply to this micro-region. Then a special investment component would be calculated under that tariff, and over a certain amount of time it would differ from the average tariff that had developed in the region. But we are not ready for that yet either. We are constantly conducting surveys, and I cannot say that everybody is ready for this kind of regulation. I think that it will be necessary all the same for us to do this kind of work and go down this road.

With regard to the issue of the quantity of square metres of housing construction... The problem of monopolization has not gone anywhere. Monopolized markets – local, regional – exist as before, and close ties exist between municipal and regional governments and developers. That is putting it mildly. It is very difficult to enter such a monopolized market. We are now, with the RHDF, trying to conduct a few pilot projects, inviting those who want to build in Russia using the latest technologies, but for a much lower price than our developers are currently offering. We have offers, for example, from the construction sector in Spain. The industry there is currently in a terrible condition, and they are now coming to us and asking us to let them into our market so they can show us how they can build. This is real competition. Yesterday I conducted

discussions on this topic with the First Vice Premier of the State Council of China. He is a member of the Politburo, a very experienced man, and he has also been charged with working on housing policy. He says, "Please let us into the market. We will undertake to fulfil the strictest requirements; we will show you what we can do, paying all taxes to the Russian Federation in full, and our houses will be very high quality for a completely different cost price." I can see that the Belarusian Ambassador to the Russian Federation, Igor Petrishenko, is here. We are currently conducting discussions with our Belarusian colleagues, who have a very modern construction sector. They would also like to enter into comprehensive projects in Russia, specifically for the development of economical housing. They have a great deal of good experience. Who among you has been to Minsk recently? There you can see what modern industrial housing really is. To look at, it is qualitatively better even than in Moscow. These partners and colleagues are coming and saying that they are ready to enter our market, that they will pay our taxes in full. Just now, Roman said that it is only possible to build in Moscow. But that is not true. Even our Kazakh partners in the Customs Union are saying that they are prepared to come from Kazakhstan, where companies are already spoilt for choice, and build things for us. They are prepared to come because Russian companies expect higher profits. To return to the subject of high profitability and minimal risks, it seems to me that it is those who build a lot, of high quality, and transparently, who will achieve high profits: those who show absolute transparency in their business. Their high profits come from building many quality houses on an absolutely transparent basis; they are not simply the result of some agreement with the administration, which can at times bring in 100% returns. In Moscow, generally speaking, the profitability on certain construction projects is astronomical.

In conclusion I would like to say that high profits not the sole preserve of Moscow. Very recently, the Prime Minister and I were in Ryazan, and saw how housing complexes are springing up there, including in rural areas. The projects which the RHDF is carrying out in Vladivostok and in Primorsk Territory are also very profitable. Housing is expensive; the profits are high; and there are not enough houses on the market. Now we need to do everything we can in order to

combine the use of capital – I mean monetary resources for the construction and sale of houses – with the destruction of local monopolies and certain schemes. Once at a conference, the Minister of Construction of Tatarstan said to me, “You understand, there are certain mechanisms which are preventing the market from becoming more transparent.” That is the simplest means of connection between business, capital, and local administration. The projects I have spoken about will be realized with the help of the European, Chinese, and Belarusian construction sectors. They will come to the RHDF's land and work according to the Dutch auction system, acquiring large plots of land for development; they will build a lot, and transparently. These companies deserve high profits with minimal risks. Working with dodgy businesses to secure them high profits must become a thing of the past. In this market we need a large quantity of contracting companies: small, family companies, which will get involved in the construction of industrially built homes. We are studying those kinds of experiences now as well: this system is widely used in Canada, the USA, and other countries. When there is a housing production industry, you only need small teams to set it up simply. There is a lot of room here for small and medium-sized enterprises.

D. Schugorev:

Thank you, Mr. Shuvalov. It is true: there is the problem of replication, and the problem of the struggle with the phenomenon of monopolies. There are many subjects around which our discussion for today is built.

Mr. Shuvalov, while you were speaking, there were some strongly dissenting voices from around the table. Let us hear what they have to say.

A. Arsamakov:

Allow me to introduce myself. Arsamakov, Moscow Industrial Bank.

I do not so much work in construction as know how it needs to be financed. In Moscow, we finance DSK-1, which builds 1.14 million square metres of housing every year. I agree with the young man who said that with today's technologies, it is possible to build only within a radius of 100 kilometres of Moscow, because transporting those technologies and products even a little further is economically

inexpedient. I would like to present the construction industry to the room as an important branch of our domestic economy. Five or so years ago, we financed a housing construction centre in Astrakhan, re-equipping it with new technologies. I also informed the Belarusians who were there four years ago or so on business of the benefits of this new technology. I am talking about permanent constructions. You can transport them within a 700 kilometre radius without significantly raising the nominal building cost in comparison with panels from a housing construction plant. I believe that new technologies are a very important component in modern construction. These are technologies which allow us to transport construction elements across large distances, to build houses of different types. These technologies exist. I can say that in the town of Chekhov, we financed a plant based on promising Austrian–German technology. This year it will reach a capacity of 240,000 square metres, and will soon be capable of producing one million square metres of housing. It is possible to build housing across the whole Central Federal District: the nominal cost for transportation, for example, to Belgorod, will increase by about RUB 500 per square metre. It is possible to build in the villages. The nominal cost in the villages will reach RUB 19,000. And if you build high-rise buildings, the nominal cost will also be around RUB 20,000. Today's technologies work in the following way: we recruit people, and we buy constructions from abroad. We have mobilized resources and built, and the investor has come out the winner. Today it is necessary for the government, banks, and investors to devote more attention to technologies in the construction industry in order to lower their nominal cost. We already have these technologies: the first factory in Chekhov has been built. We are ready to collaborate. Moscow Industrial Bank. Thank you.

D. Schugorev:

Thank you. Veniamin, it would be good now to hear the opinion of our Western colleagues about how to work in Russia and achieve maximum profits with minimal risks. We have with us today the General Director of NCC Real Estate, Juuso Hietanen, who, if I understand correctly, does not in fact work with the Foundation's land.

J. Hietanen:

For the moment we have private land, but we have been negotiating with the Foundation quite a lot and we would like to cooperate because the Foundation is doing a great job. But first of all, talking about higher returns and lower risks, I can say a few words about why we are here in this market. We have been here in the Russian market for over 40 years, constantly, and we will continue to be here. First of all, demand is huge in Russia – especially in Moscow and St. Petersburg – compared with any other markets in Europe. This is the best market to be in from an activity point of view. At the same time, there is a huge demand for our product so customers like us. That is also why we are here. A third point, being a public company, a stock company, it is very important that we can conduct our business transparently, according to our code of conduct. We can do that in Russia, and I like to repeat that a lot because quite often, the international media gives a different view. We want to give the correct view, that you can do business here according to your code of conduct.

The third item, of course, is that we need to be profitable for our shareholders. We have proven over the last 40 years that we can be profitable here. But at the same time, there are a lot of challenges. Why, for example, are all the other European companies not here? As you mentioned, it is a town planning issue, the unpredictability and the time involved in that, the construction of utilities, getting permission for building permits. We want to build modern buildings, and it is quite difficult to build modern buildings with those outdated norms. When we were building the first heat recovery system in Russian housing, it took one and a half years to approve it, even though we invested a lot in it and so on. Local experts supported it, but it still took time to make decisions. In all of these challenges, we consider the Housing Development Foundation to be a great help and a great support. So what we are saying is we would like you to operate more and we would like to have a partnership. We are basically focusing on all of the challenges within the market. It is not demand or construction, construction we can do. We can do design and concepts. But it is exactly what you mentioned, and those are why investors can easily come here.

A. Braverman:

All of the problems you have mentioned, we can overcome together.

J. Hietanen:

Exactly.

D. Schugorev:

It turns out that we can overcome all of this together. Really, it is in working together that we will succeed in this. I would now like to yield the floor to Olaf Koch. Inasmuch as our discussion today is about infrastructure solutions, we would very much like to hear about your experience, as it concerns retailers specifically.

O. Koch:

Thank you very much, Mr. Braverman, for organizing this. For us, it is a good opportunity to have a dialogue about what has been and what can be achieved in Russia. If you are not familiar with our group, we have been here for over 10 years and have invested more than EUR 3 billion in this country. We are committed to doing more because we are convinced that there is a huge opportunity, not only because of our trading but because we are business developers. I think quite often there is a misconception that Metro is a retailer. We are a wholesaler. Our purpose is to make independent business people successful and this is required if you want to develop residential areas: you need independent traders to be successful, you need the hotels to be successful, you need the restaurants to be successful. And we have done that here. We have 69 stores in Russia: not only in Moscow and St. Petersburg; we are also in the South, in the Volga region, in the Urals, in Siberia. And we are daring to go east. We have not yet committed to this, but we are looking into it very seriously. But we need reliability and accountability, and while we have seen significant improvement, and we have been cooperating with you for two and a half years, the more we can get, the faster we are. And the faster we are, the better it is for

the environment that we serve because, typically, the economy in the area where we are investing is growing and therefore I would conclude that we are happy to be in Russia and can do more in Russia if conditions improve.

D. Schugorev:

Thank you. Yet another theory on the question of the comprehensive development of areas. I will now yield the floor to Veniamin Golubitsky, the General Director of the KORTROS Group of Companies, which is engaged in exactly this issue.

V. Golubitsky:

Our company was formerly the Renova StroyGroup. I would like to concentrate on a few points. Mr. Braverman said some very accurate things. We need to state that high profitability in comprehensive development projects outside of public-private partnerships is not possible. These projects are generally impossible outside of public-private partnership schemes. What problems exist here? The paradox is that we still do not have a normative legal definition of what the comprehensive development of an area means: how many square metres there should be, what characteristics it should have. We are always talking with Mr. Braverman, who is raising the status of these projects, about the comprehensive development of areas. At the same time, the Foundation has a set of criteria for this development. But what is the government's position on comprehensive development? Today there is no answer to this question in the legislative sense. But we must provide a certain quality of life, a certain range of services. All of this is extremely important to define.

Secondly, we are very grateful to the RHDF for the provision of technologies. But these technologies, as has been said many times today, must be replicated. And that means implementing them not only on RHDF land, not only on federal land, but on all kinds of land. Otherwise, we will never ensure the comprehensive development of a whole town. It would be fantastic if we or Mr. Braverman were to create a new town next to an already existing one. We are indeed building nine million square metres of housing in Yekaterinburg. There are already 40,000

inhabitants there: there is transport, and schools, and hospitals, and everything you could want... However, none of this is provided in a systematic way. Everything is determined by the skill of the developer. That is important, but the developer must have support when he is planning a project; otherwise he will not be able to determine or count on any kind of profitability, let alone high profits. Options are sometimes chosen simply at random.

Another thing is that comprehensive development projects are long-term projects, not year-long ones. They last 10–15 years. What does that mean? The developer wants to make sure that the project's image is not discredited. That means that the finished houses must have the same quality the developer set out to offer from the start. The quality of green building must be maintained. Security services and maintenance systems must be provided. And what have we had to do? We have had to develop our own companies! That is not a matter for the developer, but it is the only way to maintain the project's quality reputation. Our maintenance company routinely follows everything that is happening online. If an old lady wants to go to the chemist's at night, our security company will accompany her there and back, and she will not be afraid to go out into the street. If a child in a sand-pit, God forbid, gets lost, they can wind back the film of the security camera, show where the child was, and bring him back. There have been such precedents. But all of this should not lie with the developer.

Regarding social infrastructure, we can collaborate with a wide circle of participants, but beyond technology we cannot provide social infrastructure to the areas undergoing comprehensive development. At the moment we have a project in Moscow Region where we are establishing a partnership with a company that builds preschools. We will return our investment over a lengthy period, but for that some conditions are necessary. When did they appear? When standards in private and municipal establishments in relation to a single child were made equal. What is to be done with schools is not clear today.

Turning to the legislators, I would strongly suggest that we need a regulatory basis for comprehensive development, and we need mechanisms which are legally prescribed and addressed to the market as a whole, and not only to the RHDF, which I admire to no end. Thank you.

A. Braverman:

Thank you very much, Mr. Golubitsky. Allow me to make a few comments. Thank you, Dmitry: as I understand it, the distinguished Minister of Construction of Belarus will join us; it is simply imperative.

Mr. Shuvalov was absolutely right in what he said about monopolies. We came up against an example of this as recently as the day before yesterday. In the city of Kursk there is an excellent developer. He alone holds the market, and the land will be developed only when he wants to develop it, and in the way that he wants to develop it. This is a regional monopoly. It is a very difficult situation. Can we break this monopoly? It is possible, having established regional, municipal, and federal land plots, non-delimited land plots. The distinguished Mr. Golubitsky was just talking about this. That is the only way we can break that monopoly. What distressed me in the previous presentation was the expression, "We are looking for alternatives." That is the worst thing possible. The system should be finished! It is not yet fully completed, but we are trying to draw up a system so that we do not need to look for alternatives. The auction process is clear; relationships with the infrastructure companies, the bank, the registration agencies, and the AHML are clear; procedures regarding guarantees for the developer are clear. Here we have that cooperation with the government which Roman was talking about.

Nevertheless, I cannot agree at all with the idea that high profit with minimal risk is possible only in Moscow. Today our developers have 16.8 million square metres of housing in 39 of Russia's regions. Let us take the project in Vladivostok noted by the distinguished Mr. Shuvalov: the average IRR there is 32%. Moreover, economy-class housing dominates. The elite do live there, by the sea, but it is the economy-class housing that is rising to the top. I believe that it is possible not only in Moscow and the surrounding area, but also in other places – but government involvement is essential. The first thing which we say to our foreign colleagues and investors is this: do not look at Red Square or Palace Square; look at the Russian regions. Thank you. Our honoured Chair of the Council has made a completely justified comment to your humble servant: I have

not mentioned the construction materials industry. I would like to request another couple of seconds.

D. Schugorev:

Fine. We have just been joined by the Minister of Architecture and Construction of the Republic of Belarus.

A. Nichkasov:

Thank you, Mr. Shuvalov. Colleagues, today we have with us governors, with whom you have already become acquainted. The areas of land in Russia are large by Belarusian standards, and this suggests good prospects for possible collaboration. I can see what an enormous amount of work has been done by the Foundation in the last five years or so to encourage the development of housing construction. Unique market tools have been found to support the population, including through the creation of infrastructure, and the creation of legitimate ways of improving living conditions for citizens.

We are conducting analogous work in Belarus. We have achieved certain results. I am here in connection with an agreement with Mr. Shuvalov regarding the expansion of collaboration in the field of housing construction, both with the Foundation and with you, with the Russian regions. In Belarus there is enough strength to lend support to those programmes which you are working on in the regions. There are modernized housing construction centres, adapted to Russia's current technical and regulatory foundation. There are energy-efficient and energy-saving solutions which are approved as standard in the models being produced by our housing construction companies. There are also all kinds of social infrastructure, including unique sporting facilities. I think that many who have been to Belarus have seen our buildings and the facilities we have already built. I invite you all to collaborate with us, and I am grateful for your hospitality to Belarus at this meeting. Thank you, Mr. Shuvalov.

D. Schugorev:

Thank you. We are all talking about standards, about replication. I will now yield the floor to Andrei Nikitin from the Agency of Strategic Initiatives. He is involved in exactly the problem we have just touched upon. Please go ahead.

A. Nikitin:

Colleagues, good morning. I would like to focus on four things.

The first thing is that a working group of developers headed by Leonid Kazinets, has used the platform of the Agency to develop a road map to simplify the procedure for obtaining planning permission. This has its own complications, but the intentions of the government to follow this road map are completely clear. I would reckon that, with the support of the State Duma, we will see the improvement of federal regulations as soon as this year.

The second thing is that it is a mistake to think that our problems lie exclusively in legislation. Both in the regions and at the level at which permissions are granted, there are huge areas of inefficiency. I would like to emphasize what Mr. Braverman said about the best practices of the Foundation: our task is to make it so that these will be replicated by the regions. We must make it obligatory for every region to follow practices which are in line with existing legislation. Here, the Agency will collaborate with the Foundation as much as possible.

The third thing is that every federal constituent entity has an obligatory standard for working with investors. There is an important point here: the mandatory presence of an infrastructure development plan in the region. As far as I know, this is only 100% implemented today in Kaluga Region, where business has adopted it. This plan must be public and, most importantly, it must show the yearly requirements of the region in terms of the construction of infrastructure. Again, by the end of the year we should be able to feel this effect.

Lastly, the fourth thing is that the RHDF has now become, as a matter of fact, the centre of innovation for management technologies in construction processes. The task of the Agency is to assist our colleagues to pass those innovations on to the regional level.

These are the four areas in which we will be continuing to work actively. I think that in a year, if Mr. Braverman invites me to this breakfast, I will already be able to report on the results. Thank you.

D. Schugorev:

Mr. Braverman.

A. Braverman:

Of course, Andrei is always a welcome guest, and someone with whom we have established systematic cooperation. I have received a second note from the Head of the Supervisory Board saying that we have not touched upon the topic of the construction materials industry. Regarding what the distinguished Minister of Construction and Architecture of Belarus was saying, apart from comprehensive housing construction and new mechanisms used in housing construction – such as Dutch auctions – we provide land plots and help to increase the capacities of industrial and construction materials companies, and get involved in other work to develop areas. The Quality Construction Materials Manufacturer National Enterprise has now equipped 32 sites. It is true that of these, only 24 projects are live; the contracts for the rest have been annulled. Unfortunately, we did not have a prequalification process; we did not try to get an indication of the market. As a result, some of our developers bought land plots, but nothing is happening on them. However, 24 projects are live! The most important of these is the already completed cluster in Iskitim: 360,000 square metres, and the production of aerated concrete using Wehrhahn technology. It is not transported far; the haulage is inexpensive. For this reason, the construction materials industry is also one of our areas of responsibility. By the way, what the distinguished banker was saying was of interest to our international partner, Mr. Randolfi. We are prepared to join up with you.

I. Shuvalov:

Mr. Braverman, tell us what is happening with the lands which you gave over to the Russian regions. You have two methods: you could send the land plots

directly to auction and hand them over to the regions for development according to their requirements. We reviewed this with you at a meeting of the Government Commission. Do you have any statistics for the plots which you are directly responsible for? How many projects are live, and how many plots of land handed over to the regions are proving problematic? Is there a legislative mechanism to return lands to the Foundation?

A. Braverman:

Unfortunately, the statistics here are not comforting. I will cite two figures. The Commission of the Government of the Russian Federation took the decision to give both the Foundation and the Russian regions roughly equally sized land plots at the same time. Today, we have 16.8 million square metres under development on our land, whereas the regions are developing two million. People have already been living in 1.5 million of our square metres for three years. And they often say unpleasant things. Go to our website; everything is refuted there. Do you know how many square metres have been implemented by the regions? Seventy thousand square metres; that is one fourteenth of our number.

The legislature was obliged to adopt an amendment, because the regions were only given these lands for three years. They were squeezed until the deadline year for provision to the investor, and now the land plots are being returned to the Foundation. The second figure is also not comforting for us. Today we hold a 32% stake in the public market for the provision of land plots. That is bad. Why? Because the regions do not provide municipal, regional, or delimited land. That is, the trends are going in absolutely opposite directions: we are going up; they are going down. Next year, we will have 40% of the land plots. But there will be no additional housing from this. There is a whole ministry which should coordinate these processes. We are waiting for coordination from them.

D. Schugorev:

Unfortunately, our time is already coming to an end. If there are any questions remaining, you will be able to ask them privately.

We were promised that we would not be chased out of here, and there will also be the press conference. I would like to turn now to our foreign colleagues from Ernst and Young Global. Please go ahead.

J. Nibbe:

Just to summarize, there are three things that I would take away from this meeting, and they are reinforced by the information that we have. First of all, foreign direct investment has been relatively stable in Russia, and has been generating more jobs. Last year, there was a 60% increase in jobs created from foreign direct investment. That will create the need for more housing in the locations where those jobs are, many of which are in the regions. Secondly, the confidence of investors who are already in Russia is extremely high. I think as you heard from the gentleman to my right, they are looking to do more investment, and that is fairly typical. Foreign investors who are already here are very positive. Lastly, real estate investors look at Russia as a very positive market. Almost 90% of those who look at real estate see Russia and its potential as quite significant. There is more to do; you heard about the need to continue investment to strengthen infrastructure, to continue to strengthen rights of ownership, and to continue to reduce administrative burdens related to ownership. That said, the potential is quite significant, and that is certainly how I wanted to conclude today.

D. Schugorev:

Thank you very much.

We have a little time for three short questions and three short answers. Please go ahead.

A. Kogan:

Thank you. Alexander Kogan. Mr. Braverman, Mr. Shuvalov, Mr. Zhukov, we are talking about the risks which are preventing development today. I have three questions related to this.

First: today the management of common property is seriously holding back the development of low-rise buildings. The legislature is moving away from this initiative, but for the villages, comprehensive development is one of the most important issues.

The second question: from July 1, all transactions on the real estate market will be insured. Housing cooperatives remain in the risk zone, because they do not currently submit to a single regulatory agency. Their transactions will not be insured, and there is a risk that many unscrupulous developers will retreat into this zone, which would be rather problematic for the regions and for the market. This problem must be solved one way or another.

I also have a very important question connected with prequalification. In principle, qualification already exists, if companies attract resources from citizens. We are talking about prequalification for the construction of economical housing on the Foundation's land. It seems to me that it is necessary to prequalify a company that works on government contracts. Thank you.

A. Braverman:

Mr. Kogan, I will begin with the third question. And under the instructions of the Chair of the Council, I will answer the first two.

Prequalification is in operation for the Foundation's land. The challenge lies in its replication. It must be expanded to all plots. Prequalification consists of two basic things. The first is a closed list of requirements; it is a digital working test. I will not talk about this in detail now. The second thing is financial indicators. These indicators are ascertained in cooperation with Efim Basov, the Head of Mosstroy, who is present here. And this is absolutely correct, in that it allows us to solve the second task: to ensure that unscrupulous developers do not enter the market, so that the shareholders of cooperatives are better protected. The legislature is dealing with this. Thank you.

D. Schugorev:

Thank you; let us have another question. I would request that you ask one, and not three. And be as brief as possible.

L. Kazinets:

Leonid Kazinets. I apologize for my lateness. Mr. Braverman, we were discussing the development of towns in the auditorium next door. For this reason it is possible that my question will duplicate what has already been discussed.

We are looking at how the Foundation is working and what expenses you carry for every completed plot of land and utility network. If you take into account all of the plots of land in the country which are necessary to implement the housing programme, the figure is astronomical, comparable with the budget of the Russian Federation. In your opinion, are there any solutions? From where can we attract money for the development of land plots, mainly in terms of infrastructure, so that the quantity of plots available grows? Because the Foundation is an excellent Foundation; well done. But the Foundation cannot cover all of Russia.

A. Braverman:

Both questions really do duplicate the preceding discussion. I will start with the second. You should ask the regional ministries about the creation of lots of plots of land, not me. Is that clear or not? You always say the same thing. The Foundation will not fully cover the problem throughout Russia. It is true; it will not cover it. That is not a question for me. Do not address it to me any more; I am telling you this publicly.

Now I will answer the second question of where we can get money for infrastructure. We have with us today our distinguished colleagues from VEB. Under the direction of the First Deputy Prime Minister of the Government of the Russian Federation, Mr. Igor Shuvalov, a few meetings were conducted regarding long-term credit. I repeat: long-term, cheap, but, of course, repayable money. VEB is studying this problem and is prepared to get involved. That is in relation to engineering infrastructure.

Now I will say something about social infrastructure. That is the most difficult point. It is the most difficult even for the Foundation, and thank you for your praise, but we cannot solve it either. We simply cannot build preschools; we do

not have the legal right to do so. This means it must be done by the municipalities and regions. Either that or it lies with the developer, which raises the cost per square metre even more. Those are two solutions, and there is no third. But we squeeze as much as we can out of the municipal governments. I again refer to what Mr. Shuvalov has said. We are analysing the financial and economic indicators of the project together. If the IRR there is 100%, probably the developer will be able to build social infrastructure as well and get not 100% but 70% or 80%. Or they could get a little less. It is a different matter if the project does not run well, if the project becomes overburdened.

I will stop there. Dmitry, please go ahead.

D. Schugorev:

There was one more quick question here. We will have one quick answer. Please go ahead.

A. Valukhoff:

This is not so much a question as a brief observation. The company Lafarge is a global leader in the production of cement. Regarding the reduction of costs and the raising of profitability, I would like to draw attention to the fact that infrastructure in Russia is very expensive. That has already been said. According to our expert analysis, taking into account the current cost of materials, it is 25–30%. Considering the revolution which is currently in process in the manufacture of construction materials, it is possible to reckon on up to 50%; that is being proven now in China. Mr. Shuvalov mentioned this.

The second part of my remark is that Russia is a country of industrial solutions to construction. There is, for example, 40% consumption of cement (in the Urals there is 55% consumption of cement). This is a unique relationship by global standards. These kinds of industrial solutions are the solutions of the 1970s. Progress here is imperative, and the Foundation can help significantly, if we take into account the sites which you are creating for construction materials.

A. Braverman:

The figures for infrastructure are as follows. If, in a housing complex, or in the conversion of a housing complex, a company produces more than 150,000 square metres a year, the Foundation has the right to offer it infrastructure support. But at the same time, colleagues, I would like you to understand that we do not in fact have any budgeted funds. However we are prepared to support you.

D. Schugorev:

Thank you all for your questions, for the answers to them, and for your responses. The questions we have discussed really are comprehensive, as comprehensive as the development itself.

Mr. Shuvalov, if it is not too much trouble, please summarize today's meeting.

I. Shuvalov:

It is good that this meeting on this question is becoming annual. And it is right that the Foundation organizes these meetings. The only thing is that we have perhaps lingered too long, and Mr. Kazinets began asking questions which had already been answered earlier. It is better to leave some things unsaid than to beat a dead horse. It seems to me that we will need to take a few decisions in the near future. Regarding Mr. Braverman's complaints that he has no budgetary resources: he has the most important thing. He has a kind of wealth which is more important than money, which is more valuable than money: that is land. You say that you do not have any budgetary resources. But you have a government resource, which is very important and has a certain value. Apart from this, you have the opportunity to work with the Development Bank, with the Government of the Russian Federation, to make sure that we discuss in full all possible measures to support housing construction.

Look what we have at the present time. There is the RHDF, and almost 17 million square metres being developed, as Mr. Braverman has said. Together we have a large stock of land; we are constantly implementing solutions through the Supervisory Council: where arguments arise, we discuss questions at the Government Commission. We are withdrawing plots of land almost by force from

those who are not using them for their intended purpose, or not using them at all, and we are devoting them to housing construction. This work has been launched; it is progressing.

We have the AHML. That is a very powerful institution, which somehow does not have much attention paid to it. But perhaps that is a good thing: it works in peace and quiet, and works absolutely precisely. It is an institution which is working well, collaborating with regional banks. We will make it so that it works a little differently, including the RHDS within the sphere of its activity. But it is an institution which is working well. It is just that its management is so modest: Mr. Semenyaka did not come today for some reason. I remember when it was founded; it was nothing. But today a huge quantity of transactions rests on its shoulders, money given out through the AHML, which supports mortgages.

We have Vnesheconombank, which is prepared to provide investment in infrastructure on a long-term basis; here I am repeating myself for those who did not hear this. We are prepared to consider allocating money from pension funds and the National Wealth Fund for the provision of the necessary infrastructure facilities, but only on a loan basis. This money must be repaid. Its value must not be lower than inflation. That means inflation plus 1%. We can create a flexible interest rate, which will depend on the level of inflation. But the regions and municipalities will be obliged to repay these funds. To make this project take off, we need to create the same kind of fund that we currently have at the federal level in every Russian region. It will probably be necessary to modify legislation in order to develop particular connections between the federal and regional funds. This will probably not be a horizontal link, so that the federal fund drives the regional ones; it is more likely that some kind of regulatory mechanism will be created, through which it will be possible to enforce the observance of standards. And we need to fill these regional funds with land resources, and to create a system to distribute long-term funds for the construction of infrastructure facilities through the federal fund. We can do this work. Therefore, when Mr. Braverman says that that is not his function, but a function of the regional ministries, I would say this: yes, it probably is a function of the regional ministries, with which the

regional ministries are not coping very well, and for this reason we need to entrust this function to someone capable of completing it.

I think that together with the legislature, with Mr. Zhukov, we have work to do. It will also be necessary for us to work with Mr. Braverman in this area. Because we cannot fulfil everything through the federal ministry: we need regional funds; we need to ensure an administrative link and regulation between your Foundation and the funds of the Russian regions. We will provide long-term funds for the provision of infrastructure facilities according to certain standard procedures through you. Everything is there, but we need to not be afraid, we need to enter the marketplace more quickly. I think we have had a very interesting discussion today. I will finish with what is closest of all to my heart. Those who earn a lot without risk will be those who build a lot, and openly.

D. Schugorev:

Briefly: tasks have been set, and requests have also been taken into consideration. That is, probably, that main conclusion from today's discussion. Yes, Mr. Braverman.

A. Braverman:

I would like to express our gratitude to our distinguished investors, bankers, and the deputies from the State Duma, Alexey Russkikh and Elena Nikolaeva, for finding time for us in their busy schedules. Our particular thanks go to the First Deputy Prime Minister of the Government, Igor Shuvalov, and to Alexander Zhukov. And to Dmitry Schugorev, who we see almost every day on TV.

D. Schugorev:

So that is it. Thank you all for this pleasant atmosphere.