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**Industry Breakfast
RUSSIA'S NEW INVESTMENT OPPORTUNITIES
Building Russia's Creative Capital**

JUNE 18, 2011 — 08:30–09:30, Mercedes-Benz STARBAR

St. Petersburg, Russia

2011

Investment is a main catalyst for the transformation of the Russian economy and raising international competitiveness. Participants will discuss the investment climate in Russia, the growth potential for various segments of the economy, and possible investment approaches. Representatives of leading international investment funds will also take part in a frank discussion of Russia's comparative attractiveness for investment.

Moderators:

Kirill Dmitriev, General Director, Russian Direct Investment Fund

Chrystia Freeland, Editor, Thomson Reuters Digital

Panelists:

Christopher M. Barter, Co-Chairman of the Board of Directors, Goldman Sachs
Russia/CIS

Stephen Jennings, Chief Executive Officer, Renaissance Capital and
Renaissance Group

Mikhail Poluboyarinov, Director of Infrastructure Department, Bank for
Development and Foreign Economic Affairs (Vnesheconombank) State
Corporation

Yermolai Solzhenitsyn, Managing Partner, McKinsey & Company, Russia

Elena Titova, President and Chairperson of the Executive Board, Morgan
Stanley Bank

C. Freeland:

OK. Good morning, everyone. We are already a bit late, so please take your seats. And one cautionary note right away. Kirill has magisterially agreed that this will be open to the press and on the record and on the websites and stuff like that. So I, as a journalist, do hope you say scandalous, injudicious things, but you should know that you could be quoted saying them.

I am Chrystia Freeland with Thomson Reuters. It is a great pleasure to be back in Russia, my favourite place. And I am going to be moderating this session together with Kirill Dmitriev, who, I think, is very well-known to everybody here, your friend and co-investor in all of your Russian ventures for the future.

I am going to ask Kirill to just say a few words about all of the billions he has at his disposal and what he is going to do with them, and then we will go to the rest of the panel. We are going to end promptly at 9:30, because I know some people have flights they have to catch after this. Kirill.

K. Dmitriev:

Chrystia, thank you so much for such a great introduction. I think Chrystia is definitely the best, one of the best moderators and journalists in the world. So it is a great honour for us to hear Chrystia moderate our discussion. Particularly since I think we have the strongest people in this room. Those are the people who either do not go to parties or who are very strong after the parties. So we are very proud to be in that powerful, strong crowd that we have here.

I will just say a couple of words about the Fund. It was announced yesterday, and the basic idea is that we would like to bring international capital to co-invest in Russia. We believe that Russia has a very credible investment story that needs to be told, maybe a little bit better, and maybe we all can help in sharing the story. You know, it is a story about the growing middle class. It is a story about significant opportunities to invest in the infrastructure. It is a story about the stability that exists in the system.

So there are also positive things that we definitely need to remember and articulate. And I will just give you one fact. The middle class, which is made up of households with incomes over USD 10,000, made up 11% of the population in 2005. And now, it is over 30%. So the middle class has almost tripled in the last five years in Russia. And we need to remember that, and that is a very good investment story.

Yesterday, we had a great panel. We had leaders of twelve private equity funds. We had leaders of sovereign wealth funds. We had great people in the audience who represent the investment community. And the overall spirit was very positive. That yes, that this idea makes sense. Yes, Russia makes sense as an investment destination.

We have to be careful, though, that this optimism is very much reflected in our discussion, but also that we have the right expectations about the process. Because so far, the Fund has just one person: that is me. We are very actively hiring people. We believe that we will have our first transaction by the end of this year, or maybe by Q1 of next year.

So we really do not want to rush. We do not want to make bad deals. We want to hire the best team. We want to make the right deals and work with the best people. So please, be patient with us as we form the team, as we form the right investment process and do the right things.

So with that, I'll give it back to Chrystia, who I think will push you with some tough questions. Be prepared, because she is very tough, and we will have a great discussion. Thank you.

C. Freeland:

OK. Thank you very much, Kirill. And you might have to answer some tough questions also. So you are not safe.

What we are going to do is just quickly bring in each of the panellists. And we do have a panel of some of the most important investors in Russia right now. I asked them to make a few, very brief—they have all promised—introductory remarks. And then we will go on to have a bit of a group discussion and then time for some questions.

So I am going to go in alphabetical order. And we are going to start with Christopher Barter of Goldman Sachs. Kirill has said he is interested in controversies. So actually, when I was Russia, I remember when Goldman Sachs actually gave up on Russia in horror and disgust. But I guess longer memories are not really permitted.

I know what I would like to hear, maybe by way of introduction, is specifically: what is the difference between successful investors and the ones who are not so successful in Russia? What is the difference? What makes foreign investment work here?

C. Barter:

Thanks, Chrystia. I would say the most important feature to look for, for foreign investors – and here I am talking about the private equity landscape – is choosing your partners very, very carefully. Our investment philosophy is one where we write smaller tickets. You know, the minimum size is about USD 50 million right now, but rarely is it far above 100 million.

We as a firm of investors have invested over a billion dollars in Russia over the last four years. Right now, we have about 15 companies in our portfolio. So we take lots of smaller stakes, and when doing that, we are a minority shareholder. We like diversification. And I would say that is the second thing that is very, very important, is investing in a number of different opportunities. Do not put all your eggs in one basket, because there is a lot of volatility to be expected.

And so when you are making a large number of investments in a lot of different sectors, you are going to have to have the right amount of local expertise,

industry expertise. We have a matrix approach with London in doing that. And again, I just want to stress how important it is when you are a minority investor in this country to choose your partners very, very carefully.

That being said, we have had a very good experience. You would think that an investment portfolio vintage 2005, 2006, 2007 would be pretty challenged, given that we went through the crisis. We have actually had a very good experience in pretty much everything we have invested in, a very healthy money multiple return. We have already received about 75% of the capital we have invested back, and there is a lot of upside left in the portfolio.

C. Freeland:

Any special sectors that you love and ones you hate?

C. Barter:

Well, I just want to echo what Kirill said before. Sectors we like to reflect historically on our investment portfolio in Russia have been reflected in the growing importance of the middle class in Russia. That is when it is often more underbanked than overbanked in the private equity landscape. We have historically tended not to invest in the natural resource base. However, I think what we are going to see is a renewed interest in looking at a wide spectrum of natural resource opportunities.

C. Freeland:

OK. Thank you very much. Next, we are going to hear from Stephen Jennings. Stephen Jennings is, as anyone with experience in Russia knows, one of the most seasoned and experienced investors on the scene here. I remember him when he was still at CSFP and the Russia guys were known as the "smellies", because it was such a weird place to be doing business. And as people are

familiar with Renaissance know, they have expanded from their Moscow base to be a true, pan-emerging-markets firm.

So, Stephen? And maybe a little bit of Russia in the perspective of all the different places where you are doing business. Why Russia versus, I know you are very excited about Africa right now.

S. Jennings:

You know, I think we are at that stage of the cycle where Russia typically is somewhat out of favour with global investors. And I think many of us know that it is definitely the time of greatest opportunity from a cyclical standpoint. So clearly, in terms of valuations, relative to BRIC, Russia is very cheap. A little-known fact that people forget is that all the BRIC countries are on a per capita GDP basis.

Russia is the second-fastest-growing; in fact, has been for the last ten years. So there is plenty of growth here. So many sectors are still very immature structurally or in terms of management quality, technology, logistics. We only really have ten years of a normally functioning economy for these businesses to be built, let alone for them to be optimized from a management or structural standpoint.

So there are a lot of growth opportunities, but there are a lot of restructuring, productivity, efficiency-type opportunities. And I think, given where the economy came from, they are across all sectors. And honestly, we have been looking at a sector and say, "Well, that is extremely competitive. It is world-class management. It is really productive. It is really efficient. We cannot add anything to that sector."

So I think compared with the other BRICs, there is still value and there are still a lot of early-stage-type opportunities. And of the big emerging markets, I think Russia stands out in that regard, which means the investment opportunity and private equity opportunity here right now is very attractive, in my opinion.

C. Freeland:

OK. Next we are going to hear from Mikhail Poluboyarinov of Vnesheconombank.

E. Titova:

Well, we can start with the presentation. Could you please distribute the presentation?

C. Freeland:

OK. Do people have Mikhail's presentation? No, does not look like it. OK.

M. Poluboyarinov:

OK.

C. Freeland:

OK, Kirill is working on it. This is his facilitation of investors. OK, here we go. See, this is how efficient he is going to be for you guys. Mikhail.

M. Poluboyarinov:

Good morning, ladies and gentlemen. I would like to briefly discuss what Vnesheconombank is actually doing, how we can assist the Russian Direct Investment Fund in its first steps on the Russian market.

Vnesheconombank has many important functions in Russia. It supports industrial export and acts as a government agency and a state pension management company. Sometimes it enables the Russian government to fulfil special tasks.

OK, as opposed to during the latest financial crisis, when Vnesheconombank was used as a major anti-crisis instrument, its core activity is being a national development institution, and specifically, implementing investment projects.

Please open the presentation at page number two.

Here you can see the breakdown of our investment project portfolio which may exceed USD 40 billion in total. More than 30% of it is concentrated in one large area: infrastructure. The Russian government sees its infrastructure as a main focus for Vnesheconombank investment activity because it strongly contributes to the development of all the other sectors of our economy.

In infrastructure, we have four main sectors: transport and telecoms, energy, utilities and social facilities, and tourism. As part of our everyday work, the Russian government assigns Vnesheconombank programs of national importance, such as the Olympic Games, the Football World Cup, the Northern Caucasus tourism cluster, the development of the forests of Russia, modernization of the Moscow Regional Transport System, infrastructure for Skolkovo City, and so on.

Next, we can see some examples of our infrastructure projects by sector. The tourism and sports infrastructure.

We support private investors such as Inter RAO, BasEI, etc., in projects with a total capital of RUB 123 billion, and this is not all involved exclusively in the Sochi Olympic Games. There are projects in Yaroslavl and Gelendzhik, and other Russian cities. Next slide.

Our involvement in the energy sector is even more impressive. We have co-financed projects to a total amount of RUB 230 billion, supporting not only large state companies such as Inter RAO, but also private investors who intend to implement independent power plant projects in Russia. An interesting thing is that we are now moving our focus toward renewable energy, for example, heat energy. Again I work in a field not only with state-owned companies such as RusHydro, but with independent, private companies such as Nord-Hydro. Next slide.

To go further, our transport sector project portfolio exceeds RUB 315 billion. These are airports, ports, logistics centres, and terminals. To give you an

example, we are simultaneously participating in six airport projects in Moscow, St. Petersburg, Sochi, Yekaterinburg, Kaliningrad, and Vladivostok.

Next slide, please.

Our utilities and the social facilities project portfolio amounts to more than RUB 17 billion and is mostly represented by water treatment projects. This sector plays an important role in urban development and the sustainable growth of Russian territories, and also improves the quality of life. And next slide.

What is very specific to Vnesheconombank? We have unique expertise for structuring projects using project finance techniques with or without limited recourse to the project sponsor, which is a rare case on the Russian market. Our strong knowledge of the sector allows us to offer to sponsor quite aggressive leverage, sometimes up to 85%.

What does this mean to an equity investor such as the Russian Development Investment Fund? That means boosting the return on equity investment; moreover, we work very often with international financial institutes such as Sberbank, IFC, in syndications and this can provide a lot of confidence to investors in our projects.

On the other hand, we also need the Russian Development Investment Fund in our activity. In most cases, we act only as the debt providers and are seeking a reliable and experienced equity partner able to identify investment opportunities, to build up a strong, bankable case, and thereafter to properly manage the project, bringing the best industry standards into Russia.

All this allows us to believe that cooperation between the Russian Development Investment Fund as the equity provider on the one hand and Vnesheconombank as the debt provider on the other hand would cause many synergistic effects and would be extremely attractive to all participants in the investment process. Thank you.

C. Freeland:

OK. Thank you very much, Mikhail. I must say, your promise of the glorious returns offered by high leverage makes me feel like I am back in New York in 2006. They are scared to say that nowadays in New York, but maybe they will stop being scared in a moment.

Now, we are going to hear from Yermolai Solzhenitsyn. And it is particularly exciting for me to have Yermolai on this panel. He does not know this, but we were at college together and Yermolai was the dashing, young, Russian romantic figure. And so, it is slightly terrifying to me that he is now an adult. It shows that I also am an older person. And he is a very—see, he is blushing, even.

He is a very responsible one, heading the office of McKinsey in Moscow. And on our walk here through the rain, Yermolai said that we needed to actually ask the tough questions, not just tell the positive stories. So, Yermolai, why does Russia need Kirill's Fund? We have heard from Kirill: the middle class is growing; it is fantastic. Goldman Sachs is making tons of money, even their 2005 vintage. Stephen is saying all these dumb Western investors do not understand that the low is a great time to buy in.

But why actually—I mean, on relative terms, FDI in Russia is weak. Why?

Y. Solzhenitsyn:

You really kind of knocked me off the prepared speech with the college thing. It was 20 years ago. OK, I think... several things.

First of all, investments in Russia have probably come in waves, I guess. Right? So I think it is probably certainly true that when the crisis happened, a lot of money stopped flowing in. Why does Russia need a Fund, an instrument such as this? I think it is, a lot of it is psychological, actually, because I think, at least, everything I have heard about the Fund is that it is not trying to offer any special benefits or special conditions, that it is really a market-oriented idea, which basically means that it is just supposed to give people confidence that,

essentially, we won't get screwed because these guys are in it with us. I guess that is, to me, what I would imagine as the development...

C. Freeland:

True, Kirill? You are the guarantee of not getting screwed? You will answer at the end? Yeah, it is a good motto for you.

K. Dmitriev:

I love his points.

Y. Solzhenitsyn:

No, we have discussed it with Kirill many times. No, I guess there is another element which is there as a sourcing or opportunity identification role. You see, he is happy with my answer. Because, of course, again, I think, at the level of the middle class, or import substitution, or infrastructure development, people kind of know that theme. But they cannot just invest in the middle class, right? I mean, it is kind of hard. You have to find the actual sliver of opportunity.

So I think that is why I agree with Stephen in saying that there is a lot of stuff that is still underdeveloped. Tourism, number of cars per people, square meters per family; the list goes on.

The trick in the question and the barrier is, how do you link the, let us say, the capital, the opportunity, and actually deliver those services? Because what happens is you get people running into tons of barriers: regulatory barriers, skills, people, where do you get people to do it, logistics. Everybody gets excited about going into the regions, and then they say, "Wait a minute. People actually have to go live and work there?" There is just a whole bunch of stuff around which facilitation is probably helpful.

So, I hope that is what the Fund does, and I think Kirill wants to say something.

C. Freeland:

Yes, OK. Kirill, please.

K. Dmitriev:

Yeah. No, I think Yermolai is right about lots of things. And I think psychology is really important, because I think what we have is, you know, there is risk in investing in Russia, of course. But the perceived risk is much, much higher. So we want to bridge that gap, and we want to share risks with co-investors. And originally, we thought, "Well, shall we guarantee something else to other people?" And the answer was no, because we want to have the same incentives. We do not want people to come to Russia and have the risk—downside, no downside—because then they would make seriously stupid deals, and we do not want that. We want to share the risk with them, and we want to make good returns with them.

And what Yermolai touched upon, I think, is very important, because we want to have a world-class team, we want to have great sourcing, and we want to be able to respond very quickly to deals that are brought to us by co-investors as well. So I think there will be a lot of things that are not in the category of some kind of a special arrangement, but in the category of breaking of those barriers and making it just easier for people to invest in.

The final point is, just think: if you invested in China or India, or any other market, would you want to make your first investment on your own, or would you like to have a partner? So this is not just a Russian story. I mean, partnering makes sense. When you enter a new market, partnering makes sense. And here we are with a bunch of funds that are thinking about Russia but want to make their first investment.

So we want to be their first partner on their investment in Russia, and we want this to be a good experience.

C. Freeland:

Does having you as a partner, Kirill, does it offer this “you won't get screwed” guarantee? Is it like the government stamp of approval?

K. Dmitriev:

See, I told you about Chrystia and her tough questions.

I think, you know, all I can say is that, obviously, we will be sharing the risk with co-investors. But I do not think it is a special kind of exotic deal. And we had a good discussion yesterday, where one gentleman said, “Oh, there is a great business, but for it to happen, let us make sure that governments spend billions of dollars to get railroads there.” And I was very specific. We are not in that business. We are not in the business of investing first and then having the government make some kind of a special railroad track to that business.

So we just want to be very much market-oriented. We had a great meeting with Prime Minister Vladimir Putin with investors on the 18th of May, and he was very specific. The Fund needs to be focused on returns, and that focus on returns will allow good companies to be built, new employment opportunities to be created, and the Russian economy to be modernized, but the returns are the key.

So it is really not a special arrangement. It is more about sharing risks and working together with investors.

C. Freeland:

OK. Thank you very much. And finally, we will hear a few words from Elena Titova. She is a widely experienced investor who has worked not just in Moscow but around the world, and not only from Morgan Stanley where she now is, but she has a Goldman Sachs background too.

Elena, I would like to hear your remarks. And maybe if you would like to respond, you have the privilege of making some concluding remarks for the panel and responding to some things other people have said.

E. Titova:

Thank you, Chrystia, for the honour. There is one small correction. I am not an investor. I am an investment banker, which is slightly different. So what we do for a living is, we help other people to invest, and it is a slightly different model than what my colleague from Goldman Sachs describes, where they do actually make a lot of principal investments here and elsewhere.

Now, I also have prepared remarks, but with your questions and what people talked about here, I will probably throw them away and just make a couple of comments about what I heard.

In terms of the Fund and what Kirill said, I think we had an interesting discussion yesterday at the privatization round table, or whatever it was called, and some people were present there, where we discussed whether it is good that the government is an investor and whether private investors will be happy to co-invest with it. And now it was in the context more of, should the government settle down, really, to zero, some of the government-owned companies that it has.

And if we were somewhere in the developed world, so to say, where most companies are completely public without major investors, the answer would be that it is better not to have a government or a major co-investor around, whether you are a public investor or a strategic investor in an asset.

It is different in the new markets or emerging markets of which Russia is still one. And it is, in fact, centralized in many ways and in the economy, where the government has a lot of involvement. And understanding how the decisions are made, obviously investors—especially major private investors in the private equity sense, as well as strategic investors—want to have the government at their side. And therefore, it doesn't give you, necessarily, a guarantee against all troubles, but clearly it puts you – at least in the investors' minds – closer to the points where the decisions are made. And that is where you want to be.

And so, from that perspective, I think the initiative is extremely helpful.

As we move to an economy where which is more institutionalized, if you want there to be less government involvement, that will go away. But for the current period, it is clearly very important and helpful. That is one point I wanted to make. And another one, I think, is the question of what the investors should think about, especially the strategic investors, when they come into this market. There are a number of interesting industries, clearly, and my colleagues, it appears, on this panel have already mentioned them.

There are issues, as well. And we haven't really talked about issues today much. I hope we will a little bit. Should I start?

OK, well, that's a dangerous one, but I think from our own experience, as well as experience with the clients that we help to come into this country, into various industries, there is one interesting misconception, I would say. And that is the following: where especially the corporations believe that you really have to have access at the top, preferably of the government, and then if you get that blessing from the top, everything will fall into place. And that's clearly not the case. And one example I would give you quickly is the one you probably heard about, the joint ventures and framework agreement that GE announced at the middle of last year.

They were looking for a number of years to localize production of gas turbines as well as medical equipment: to be specific, CT scanners. And for a number of years, they were talking to various potential partners here. Jeffrey Immelt has met with the Prime Minister and received the blessing. But for some reason, things were not really working.

And we realized that there is an opportunity there with helping to get from that top access that they had down to execution and actually making things work.

After the meeting, another meeting that Mr. Immelt had at the top level, we have helped GE as our, well, actually more colleagues than clients in this case, to execute it. And the way to do it was to make sure that the message that was in

the blessing that came from the top actually got down and did not get lost in the trenches as had happened before.

So we have helped them to go to the next level in the government, figure out who would be the right partners, and they happen to be Inter RAO UES for the turbines and Rus Technology for the equipment, the medical equipment. And then in the process, we not only had to follow up every step of the way to make sure that the messages got translated correctly, but we also seconded one of our experienced bankers to help the negotiations.

And it was not really help in technical negotiations, but more (because we, obviously as bankers, do not understand much about the equipment, the medical equipment or the turbines), but more translating from one language to the other because not literally, but figuratively, the—as you may understand, Rus Technology and the major international, global, corporations, think in a different way. And so bridging that gap was key.

The result was the announcement of the framework agreement of the two joint ventures. One, in medical equipment, again, and the other in turbines; and there is progress in building those joint venture since.

So, again, I am not going to talk about other problems or misperceptions, but I think that is one that is important to think about. It is not the steps up to the top and being able to get the message and get the blessing, but it's about how you interpret it for the big global, international organization or corporation that wants to invest here, or the financial investor, and how you execute it.

C. Freeland:

No, no, it is very good. I actually want to ask you a follow-up. Do you think your interpretation of thinking the blessing at the top is the only thing you need applies to BP's recent travails? Was that the mistake they made?

E. Titova:

That is another very tricky question. I think to some extent, probably so. I guess, again, the devil is in the detail in these things. And as central as the decision-making and maybe a number of situations in this country are, you really have to understand the broader picture. And it is quite tricky. Often, it does not work. But, again, it is the question of how do you understand what's going on locally? What access do you have, and how do you work with it? As opposed to, "We have it. Go. It is going to work."

C. Freeland:

OK. Well, thank you very much for that. I think, actually, we only have 15 minutes left. So maybe we should throw it open to questions. And if, when people ask questions, you could please introduce yourself and maybe address it to whichever of the panellists you would especially like to hear from.

H. Teplitskaia:

I'm Helen Teplitskaia. I'm wearing several hats. One of them, the most recent one, is that I'm President of the First Iron Group. We're going to have an IPO in London next month. This is not just a question, but rather a comment about your question regarding the timeliness of the creation of the Fund.

But before I go into it, I want to kind of challenge you a little bit. You might remember a wonderful time when you were probably one of the very first journalists who had the courage to challenge Russian oligarchs.

And I spoke with you regarding Mr. Gusinskiy a while ago when you wrote this fabulous book and helped some of the people from the Western community understand Russia better, because you went way beyond the headlines and *FT* and other publications, that had a very shallow view of Russia.

And coming back to the Fund, we have not discussed the issue of the upcoming elections, because it is incredibly challenging for every country that is expecting

presidential elections. I think it is even more challenging in the United States, where there are twelve candidates.

In Russia, there are very few and President Medvedev mentioned yesterday that disregarding the election's outcome, the Russian government will continue its policy. And I think the creation of the Fund is incredibly timely to reassure investors. This is going to be like at some cost with this Fund helping investors understand the political situation here and share the risk and hopefully, as Kirill said, also make money.

And the appointment of Kirill... many of you in the room know Patricia Cloherty, who, in my understanding is a tsarina and a magic woman who came onto the Russian private equity arena. And she told me a couple of years ago that the only regret she had was that she could no longer work with Kirill Dmitriev who went to Ukraine, because he was absolutely brilliant in understanding investment. I congratulate Kirill and I hope we will all have a great chance to work together. Thank you.

C. Freeland:

OK, but what was the question?

H. Teplitskaia:

The question is, I would like to argue with Elena a little bit because it is very, very helpful to have the blessing from the top. It is helpful for the message to go down. But if you do not infuse local people, you know, the understanding of local is critical. And you really have to infuse and engage in teamwork with the locals and the people in the middle and the people at the very bottom, because the lowest level person can really, as you already termed it, "screw the deal."

So the trick is in working with all of them, from the very top to the very bottom, and making sure it is all cohesive and you are all in this together.

C. Freeland:

OK. See, Yermolai has shown the family facility for language. He has brought this term into our discussion.

I just wanted... I think your point about the elections is a really excellent one. And maybe we could just have a very quick round robin of everyone. I would just like to hear whether you and your clients are delaying until after the election. Is that now going to be a stopping point, and people just do not want to make any decisions before then?

C. Barter:

Sure. No, nothing is being delayed, at least with respect to what Goldman Sachs is doing on the investment side. I would say there are certainly clients of ours who think that there could be dramatic change depending on the outcome of the elections. But our advice to them is usually not to wait.

As has been stated a couple of times here, the opportunities are really enormous; the valuations are very, very attractive versus other BRIC countries and developing markets in general. So we do not see there to be a lot of wisdom in waiting.

S. Jennings:

I think with international clients, the elections are having a small impact. But I think it is very, very clear that with Russian investors—particularly some of the older investors—there is offshoring of assets, there are sales of assets, there are liquidity-based transactions. There is a desire for global mergers, which are definitely being influenced by a sense, at least at the moment, of heightened political risk. And you see that in the capital flight numbers, actually.

Y. Solzhenitsyn:

I thought you were going to say, before that, to go around and say which party you support.

C. Freeland:

You can say it.

Y. Solzhenitsyn:

The right one, right? I think, actually, in terms of the election it is not... from our angle, our angle is that when the clients are asking, "Which products I should develop?" "Which area should I go into?" "How do I make these investments?" "Who do I partner with?" Those questions are coming at the same clip as before, even probably accelerating. It's nothing to do with the elections, but coming out of, let us say, of the slowdown.

But I wanted to add one thing just, from before, if I may, quickly, some of the investment is coming into a very, let us say, regulation-light area, that middle class, import substitution, it is a pretty basic concept. You say, "Hey, instead of importing this stuff, why not manufacture it here?"

There's a whole big chunk of stuff, and Mikhail was talking about this, in the infrastructure, in ports, and energy, in roads, and where there actually is a huge opportunity, and it is not moving nearly fast enough, because the rules of the game are not thought through. Not because of any malicious intent, but just because people haven't quite gotten around to it and are not professional enough.

So we had this whole session yesterday discussing this: for example, the investment into Pulkovo here, into the airport. And there was private, public, some financing from Vnesheconombank. Sergei was the CEO and was saying, "Look, as an idea, this could be rolled out."

But then everybody is saying that it is not quite ready to be rolled out because a lot of the things still need to be fixed. So I would say that in that area, investment

is slower than it should be. But if for the election, I am sure everything will be very good.

C. Freeland:

Mikhail, do you want to make a comment on the elections and whether that is sort of holding – no, you really do not want to. Maybe that is a comment in and of itself. No?

E. Titova:

Should I?

C. Freeland:

Yes, please.

E. Titova:

Well, I think the investors who are experienced in Russia – understand the landscape, get the messages, translate them for themselves – they feel that the elections should not really change the course. And as Chris said, no, it is probably a good time to invest rather than a bad time to invest for them.

Having said that, public investors and people who are a little bit farther away from the ground, so to say, are somewhat uncertain, and if you look at capital markets that is exactly what we see. Whereas if you go to the marketplace for an IPO or a secondary offering of the company, that is what you hear. People want to know what the outcome is going to be. And they will feel more comfortable.

So, I think the further away they are from the market, the more affected they are by the factor of the elections.

C. Freeland:

OK, Mikhail?

M. Poluboyarinov:

May I speak in Russian? I do not see what could be added to the address of the President at yesterday's Forum with regard to the stability in Russia. From the point of view of Vnesheconombank, it does not have a huge impact, because our lending portfolio is in excess of USD 40 billion; the average of maturity is more than ten years for our loans.

So our task as an institution of development is to set up a certain platform for a long time to make sure that investors come to us, understand what's happening, and invest with us.

So the maturity of our investment, the investment period, is a certain guarantee for all investors that it will be stable.

C. Freeland:

Kirill, do you want to make a comment where you guarantee that there is no political risk?

K. Dmitriev:

I'll just echo what you said in the last two comments. It's basically that we are very much focused on attracting long-term capital. And I think that is very important, because there is too much speculative capital coming in and out of Russia, and it comes in and out of Russia not because of Russia but basically because if somebody is saying that all emerging markets are not cool anymore – boom! They get out. And if somebody thinks it is good, you know, they come in.

So I think long-term capital is what Russia very much needs, and this is what we are focused on – foreign wealth funds, private equity funds, strategic funds – all thinking about the long term. So now the discussion for investors, really, is that elections are not a big issue. People believe, as Mikhail said, that there is continuity: that actually, policies are pretty clear and are supported by both the

Prime Minister and the President. So I think what I would like say is that long-term investors really believe in the future of Russia, the growth of Russia.

C. Freeland:

OK. I think we have time for a couple more questions. Anyone? Come on, please.

T. Talkington:

Good morning, it's Tim Talkington with Goldman Sachs. Chris, don't worry. It's not – it could be directed at you, if you would like to answer as well. But Stephen referred to capital flight, and I think it is an important issue to raise in the context of what is being discussed here today. If you look at the numbers year-to-date, I don't remember off the top of my head, but it is tens of billions of dollars that have been leaving the country. At the same time, you are trying to attract foreign capital.

I speak a lot with the international investment community: particularly portfolio investors, not so much the real investors. But I am curious what the panellists think. What is the one initiative or the one policy choice, or policy issue that needs to be addressed for attracting domestic capital into the market? Because there is lot of capital flight from people who are already here, and at the same time, you are trying to bring in new capital.

C. Freeland:

OK. I think that is an excellent question. I even looked up at the number. It was USD 20 billion of capital outflow in the first quarter of this year. So that is a lot, right?

So guys, you are talking up the Russia story. If it is so great, how come the insiders, who should be the smartest, are taking their money out of the country?

K. Dmitriev:

You know, I think we should not overdramatize this issue. And I will give you one explanation that I think is one of many that are plausible. But I think, obviously, journalists and people want to get this exciting end of the story, Russians are not invested, and elections. I think...

C. Freeland:

He works for Goldman Sachs. He is not a journalist. Is that worse even than a journalist?

K. Dmitriev:

And then you read the newspapers, and there is analysis, and it continues. But realistically, I think one of these explanations is because oil prices actually are pretty high. Lots of liquidity came out of that. Russian companies are still figuring it out, and they are bit slow in making some decisions.

So a lot of the liquidity and monies that they will be investing four months, five months from now, they are just putting in some, sort of, liquid instruments before putting it back in.

So, you know, there are a lot of explanations like this that are out there. I would not dramatize it or say, you know, Russians are fleeing. It is good for the newspapers. But it is not true. So but, you know, I am eager to hear other people, what they think.

S. Jennings:

I think the huge problem we have that we are all dancing around is that we have not built a domestic capital market in the last 20 years. I was with the Chairman of the Hong Kong Stock Exchange yesterday. And he said, "Stephen, what are the fees on a domestic IPO?" And I said, "Ron, I do not know." Because frankly, we virtually never do them. Our whole capital market is offshore, and our pension

industry is incredibly undeveloped. Our domestic capital market infrastructures are extremely rudimentary, and we are all missing a massive trick.

So the sources of domestic capital are very limited. They are not very diverse. They are very concentrated in government hands. And not only does that result in less capital, less efficient intermediation of capital, but it means we have the highest bidding market in the world. So if we do not have the structure, when we have the next crisis, Russia again will be the worst-performing market in the world. That is just a sort of structural thing.

So it is good to have these government initiatives to plug some of the gaps in the capital market. But what we really need is the infrastructure and the domestic governance which is going to enable us to develop the kind of domestic capital market that Brazil, or even Poland, is developing now, in my opinion.

Y. Solzhenitsyn:

This is also a diversification question. I mean if you, as an international investor, said, "OK. If you like Russia, put all your money here." Now, how many of you would do that, right? Probably not many. OK, a couple.

So I think that there is one element that is that, of course, people who have domestic capital and businesses and groups that have all their money here, they think, "Hey, you know what? It would not be a bad idea to diversify a bit." And so I think that is clearly true. We could see that in the trend of people trying to buy assets abroad or merge abroad.

The other thing of course is, I mean, look. If you just read the transcript of Medvedev's speeches and articles and... I mean, the laundry list of problems comes right down from the top. So everybody can freely repeat it without worrying about saying something bad.

But one of the questions is that everybody always talks about is institutions. So what is this about? It is about the fact that if the going gets tough, nobody quite knows how the system reacts. Right?

So if oil prices collapse and we have a lot of social obligations, what will the government do? Nobody really knows, because there is no real system. It will be a little bit like, well, it depends on how the top leaders of the country react at that moment. So there is no malice. There is no attempt to discourage capitalism. But people are just not sure how things would play out in different scenarios. I think they'd say, "Look it's safer to park it somewhere else, a little bit."

However, they are also sure they will make more money here than they will, let us say, in more developed markets. So you do not see people exiting entirely.

So it is just, kind of, a diversification geographically and the diversification of return I think is a little bit of what people are thinking. And the big task for Russia, of course – there are a lot of tons of slivers of opportunities, we talked about it: the middle class, import substitution, productivity enhancement; there are tons of those – but from a longer-term perspective, of course, Russia needs to say, "Listen, we cannot just rely on top-down initiatives like the Fund to help people feel that everything is OK." It has got to be just much more natural and systemic, and happen on its own without, as (again, a Medvedev quote) government interference or government help.

E. Titova:

Very quickly. I think the capital flight question is interesting, despite the fact that the government is so focused on the investment climate, and rightfully so. And I want to disagree with Kirill, actually. I think it is right that the oil price is high and that creates a lot of liquidity in the system, so the numbers are higher when you talk about net or outflow. But oil prices were very high in 2006 and 2007, and we did not have the capital outflow we have right now. Elections are most definitely

one factor, in my mind, but there are others. And unfortunately, Tim, I do not think there is one thing you could do to stop that.

And in that sense, I agree with Stephen that there are structural imbalances. There are also a number of other things. And so, we probably will, in my view, see a slowdown of that outflow as we go through elections and stuff, but there are a number of things that need to be done over many years to stand out for good.

C. Freeland:

OK. A very short comment.

From the audience:

A very quick question.

C. Freeland:

Oh no, I promised that gentleman, so he can ask his and you can ask yours.

From the audience:

OK.

C. Freeland:

Feel free. You guys both ask and then we will have the responses. Sorry for not speaking in the mic. Please.

M. Murray:

Thank you. Very quickly, this is a question for Chris from Goldman Sachs. Matthew Murray with the Center for Business Ethics and Corporate Governance.

A couple of years ago, Goldman produced a new metric for evaluating companies based on their governance performance. It is called ESG, Environment Social Governance Performance. And you posited that companies that have good metrics or good performance in this area produce a premium when they go to the market, when they do an IPO and they are coming from a country like Russia with a rule-of-law deficit.

Do you use that metric when you evaluate your investments here in Russia? Are you looking at governance issues when you come in? And how do you apply it?

C. Freeland:

OK. Let us just take the last question.

From the audience:

OK. European legal history changed when Frederick the Great accepted a court ruling stating a windmill could stand next to Sanssouci. In Russia, three decisions from the Court of Human Rights in Strasbourg have been accepted to the Constitutional Court, which is great news. Very few people believe that is true, but the highest authority is no longer the President but the Constitution, as decided in Brussels and *FT*. And they are no longer the *FT*, but Reuters. So please take notice.

Now the next decision coming up could be that the USD 40-billion lawsuit in Strasbourg by Yukos shareholders has won against the Russian Federation. Dear panellists, do you think the Russian government would accept that ruling? Thank you.

C. Freeland:

OK. Some easy final questions. Chris, you go first.

C. Barter:

I will answer the first question. The answer is yes. We do not just do this type of research for external investors. We apply our research very much to our own investment criteria. One of the comments I made in the beginning is: choose your partners carefully when you make investments in Russia in the private equity sphere. That certainly, when reflecting on it, really means when you are choosing your partners, there are partners who are part of well-run companies that have appropriate governance and appropriate ethical standards, appropriate environmental standards.

So, absolutely, and it is borne out in the performance of the portfolio.

C. Freeland:

OK. Anyone, thrilled about the Yukos question or willing to give it a shot? Come on, I'll choose. OK, Stephen. You have been around for such a long time. What is your comment?

S. Jennings:

I think everything I have ever said about Yukos has turned out to be wrong. So whatever I say, do the reverse. I really do not know. We have been very involved through some of our assets, extremely involved in some of these court cases.

There is an enormous politicization. I guess I will make one comment. There is an enormous politicization within Europe. And I do not think it has influenced the latest European decision, but a lot of these cases – the stereotypical view of Russia, and frankly, a very naïve view of what actually happened in Russia – have had a huge bearing on some these particularly the court cases in Holland over the last five years. But I think that is only comment I would make.

C. Freeland:

OK. There is a gentleman in the back who is very keen to ask the very last question. Direct it to one panellist so we keep our promises.

From the audience:

Absolutely. OK. BHP is a big client of ours from Australia. Stephen, in particular because you are from New Zealand, you might understand. What are the three things that I am going to say to Jacques Nasser, the new Chairman (he is very international, Lebanese, French, the whole bit; great chairman)? What are the three things that I should say to the Chairman of BHP when I come back and say, "Invest in Russia"? Three things to convince him to say, "OK". They are the biggest. They have more money, BHP, than you can poke a stick at, no debt, huge funds, good time to take risks. What are the three things, please?

C. Freeland:

OK. I do not know why you think a New Zealander is going to be well-intentioned towards an Australian. But I would like to hear that out there, and then maybe Yermolai can make a final comment, and then we will wrap up.

S. Jennings:

You know, having worked with BHP extensively, I think there are a couple of just very obvious points. If you want to get large-scale incremental natural resources, there are only two places in the world to get them, and that is the CIS and Africa. And obviously, on a risk scale, the CIS is a long way ahead of Africa.

Secondly, if you measure historical returns on FDI, for the fashionable places like China and India, the historical returns on FDI are a fraction of what they are in Russia. So you have scale; you have returns.

And thirdly, the market is not crowded. You are not at the end of the long queue of people who are going to do these projects. So I think the answers are very, very clear.

Y. Solzhenitsyn:

I would add in the upstream, in the mining and the resources, that if you look on the Russian landscape... maybe I am missing something, but I do not see any large foreign investment that exists in the mineral space. As Stephen said, the opportunity is huge. So there is a certain tradition, maybe a sensitivity—not just Russian—about selling off the underground resources.

So I think it needs to be creative in thinking, can you come in and be OK without trying to, let us say, book their reserves or have them on your board – to be the majority owners? So thinking about partnerships. And the other thing is, the more downstream and midstream you go in basic materials, the easier it is and the more welcoming people are.

Look at the Alcoa example. I mean, Alcoa practically bought the whole of Russian aluminium downstream, and feels very good about it. It is doing a lot of great things. I think if somebody came in and said, "We want to buy up a lot of iron", or "We want to buy up a lot of coal", or "We want to buy up a lot of potash", that would be a little bit more of a delicate discussion.

C. Freeland:

OK. Thank you very much, Yermolai. Thank you very much to our panel, who were, I thought, very provocative, willing to take on the tough questions. I offered Kirill concluding remarks, and his modesty is such that he has foregone this opportunity.

But I am sure he wants to hear from you and make some investments with you. And I do think that he should be hiring Yermolai to be writing his slogan, because that, I thought, was a pretty powerful one for Kirill's fund.

Thank you all very, very much. It was a real pleasure for me to listen. I learned a lot.