

Presidential Address to the Federal Assembly

December 4, 2014, The Kremlin, Moscow

Citizens of Russia, members of the Federation Council and deputies of the State Duma,

Today's address will be related to the current situation and conditions, as well as the tasks we are facing. But before delivering it I'd like to thank all of you for the support, unity and solidarity you have shown during the landmark events that will seriously influence the future of our country.

This year we faced trials that only a mature and united nation and a truly sovereign and strong state can withstand. Russia has proved that it can protect its compatriots and defend truth and fairness.

Russia has done this thanks to its citizens, thanks to your work and the results we have achieved together, and thanks to our profound understanding of the essence and importance of national interests. We have become aware of the indivisibility and integrity of the thousand-year long history of our country. We have come to believe in ourselves, to believe that we can do much and achieve every goal.

Of course, we will talk about this year's landmark events. You know that a referendum was held in Crimea in March, at which its residents clearly expressed their desire to join Russia. After that, the Crimean parliament – it should be stressed that it was a legitimate parliament that was elected back in 2010 – adopted a resolution on sovereignty. And then we saw the historical reunification of Crimea and Sevastopol with Russia.

It was an event of special significance for the country and the people, because Crimea is where our people live, and the peninsula is of strategic importance for Russia as the spiritual source of the development of a multifaceted but solid Russian nation and a centralised Russian state. It was in Crimea, in the ancient city of Chersonesus or Korsun, as ancient Russian chroniclers called it, that Grand Prince Vladimir was baptised before bringing Christianity to Rus.

In addition to ethnic similarity, a common language, common elements of their material culture, a common territory, even though its borders were not marked then, and a nascent common economy and government, Christianity was a powerful spiritual unifying force that helped involve various tribes and tribal unions of the vast Eastern Slavic world in the creation of a Russian nation and Russian state. It was thanks to this spiritual unity that our forefathers for the first time and forevermore saw themselves as a united nation. All of this allows us to say that Crimea, the ancient Korsun or Chersonesus, and Sevastopol have invaluable civilisational and even sacral importance for Russia, like the Temple Mount in Jerusalem for the followers of Islam and Judaism.

And this is how we will always consider it.

Dear friends,

We cannot fail to mention today our perspective on the developments in Ukraine and how we intend to work with our partners around the world.

It is well known that Russia not only supported Ukraine and other brotherly republics of the former Soviet Union in their aspirations to sovereignty, but also facilitated this process greatly in the 1990s. Since then, our position has remained unchanged.

Every nation has an inalienable sovereign right to determine its own development path, choose allies and political regimes, create an economy and ensure its security. Russia has always respected these rights and always will. This fully applies to Ukraine and the Ukrainian people.

It is true that we condemned the government coup and the forceful takeover of power in Kiev in February of this year. The developments we are currently witnessing in Ukraine and the tragedy unfolding in the country's southeast prove that we were right to take such a stand.

How did it all begin? I will have to remind you what happened back then. It is hard to believe that it all started with a technical decision by President Yanukovich to postpone the signing of the Association Agreement between Ukraine and the European Union. Make no mistake, he did not refuse to sign the document, but only postponed it in order to make some adjustments.

As you recall, this move was fully in line with the constitutional authority vested upon an absolutely legitimate and internationally recognised head of state.

Against this background, there was no way we could support this armed coup, the violence and the killings. Just take the bloody events in Odessa, where people were burned alive. How can the subsequent attempts to suppress people in Ukraine's southeast, who oppose this mayhem, be supported? I reiterate that there was no way we could endorse these developments. What's more, they were followed by hypocritical statements on the protection of international law and human rights. This is just cynical. I strongly believe that the time will come when the Ukrainian people will deliver a just assessment of these developments.

How did the dialogue on this issue begin between Russia and its American and European partners? I mentioned our American friends for a reason, since they are always influencing Russia's relations with its neighbours, either openly or behind the scenes. Sometimes it is even unclear whom to talk to: to the governments of certain countries or directly with their American patrons and sponsors.

As I mentioned, in the case of the Ukraine-EU Association Agreement, there was no dialogue at all. We were told that it was none of our business or, to put it simply, we were told where to go.

All the arguments that Russia and Ukraine are members of the CIS free-trade zone, that we have deep-rooted cooperation in industry and agriculture, and basically share the same infrastructure – no one wanted to hear these arguments, let alone take them into account.

Our response was to say: fine, if you do not want to have a dialogue with us, we will have to protect our legitimate interests unilaterally and will not pay for what we view as erroneous policy.

So what's came out of it all? The agreement between Ukraine and the European Union has been signed and ratified, but the implementation of the provisions regarding trade and economy has been postponed until the end of next year. Doesn't this mean that we were the ones who were actually right?

There is also a question of why all this was done in Ukraine? What was the purpose of the government coup? Why shoot and keep shooting and killing people? In fact, the economy, finance and the social sector were destroyed and the country ruined.

What Ukraine currently needs is economic assistance in carrying out reforms, not petty politics and pompous empty promises. However, our Western colleagues don't seem eager to provide such assistance, while the Kiev authorities are not willing to address the challenges their people are facing.

By the way, Russia has already made a major contribution to helping Ukraine. Let me reiterate that Russian banks already invested some \$25 billion in Ukraine. Last year, Russia's Finance Ministry extended a loan worth another \$3 billion. Gazprom provided another \$5.5 billion to Ukraine and even offered a discount that no one promised, requiring the country to pay \$4.5 billion. Add it all up and you get as much as \$ 32.5-33.5 billion that were provided only recently.

Of course, we have the right to ask questions. What was this Ukrainian tragedy for? Wasn't it possible to settle all the issues, even disputed issues, through dialogue, within a legal framework and legitimately?

But now we are being told that this was actually competent, balanced politics that we should comply with unquestionably and blindfolded.

This will never happen.

If for some European countries national pride is a long-forgotten concept and sovereignty is too much of a luxury, true sovereignty for Russia is absolutely necessary for survival.

Primarily, we should realise this as a nation. I would like to emphasise this: either we remain a sovereign nation, or we dissolve without a trace and lose our identity. Of course, other countries need to understand this, too. All participants in international life should be aware of this. And they should use this understanding to strengthen the role and the importance of international law, which we've talked about so much lately, rather than bend its standards to

suit someone's strategic interests contrary to its fundamental principles and common sense, considering everyone else to be poorly educated people who can't read or write.

It is imperative to respect the legitimate interests of all the participants in international dialogue. Only then, not with guns, missiles or combat aircraft, but precisely with the rule of law will we reliably protect the world against bloody conflict. Only then, will there be no need to scare anyone with imaginary self-deceptive isolation, or sanctions, which are, of course, damaging, but damaging to everyone, including those who initiate them.

Speaking of the sanctions, they are not just a knee-jerk reaction on behalf of the United States or its allies to our position regarding the events and the coup in Ukraine, or even the so-called Crimean Spring. I'm sure that if these events had never happened – I want to point this out specifically for you as politicians sitting in this auditorium – if none of that had ever happened, they would have come up with some other excuse to try to contain Russia's growing capabilities, affect our country in some way, or even take advantage of it.

The policy of containment was not invented yesterday. It has been carried out against our country for many years, always, for decades, if not centuries. In short, whenever someone thinks that Russia has become too strong or independent, these tools are quickly put into use.

However, talking to Russia from a position of force is an exercise in futility, even when it was faced with domestic hardships, as in the 1990s and early 2000s.

We remember well how and who, almost openly, supported separatism back then and even outright terrorism in Russia, referred to murderers, whose hands were stained with blood, none other than rebels and organised high-level receptions for them. These "rebels" showed up in Chechnya again. I'm sure the local guys, the local law enforcement authorities, will take proper care of them. They are now working to eliminate another terrorist raid. Let's support them.

Let me reiterate, we remember high-level receptions for terrorists dubbed as fighters for freedom and democracy. Back then, we realised that the more ground we give and the more excuses we make, the more our opponents become brazen and the more cynical and aggressive their demeanour becomes.

Despite our unprecedented openness back then and our willingness to cooperate in all, even the most sensitive issues, despite the fact that we considered – and all of you are aware of this and remember it – our former adversaries as close friends and even allies, the support for separatism in Russia from across the pond, including information, political and financial support and support provided by the special services – was absolutely obvious and left no doubt that they would gladly let Russia follow the Yugoslav scenario of disintegration and dismemberment. With all the tragic fallout for the people of Russia.

It didn't work. We didn't allow that to happen.

Just as it did not work for Hitler with his people-hating ideas, who set out to destroy Russia and push us back beyond the Urals. Everyone should remember how it ended.

Next year, we will mark the 70th anniversary of Victory in the Great Patriotic War. Our Army crushed the enemy and liberated Europe. However, we should not forget about the bitter defeats in 1941 and 1942 so as not to repeat the mistakes in the future.

In this context, I will touch on an international security issue. There are many issues related to this. These include the fight against terrorism. We still encounter its manifestations, and of course, we will participate in the joint efforts to counter terrorism on the international level. Of course, we will work together to deal with other challenges, such as the spread of infectious diseases.

However, in this case I would like to speak about the most serious and sensitive issue: international security. Since 2002, after the US unilaterally pulled out of the ABM Treaty, which was absolutely a cornerstone of international security, a strategic balance of forces and stability, the US has been working relentlessly to create a global missile defence system, including in Europe. This poses a threat not only to Russia, but to the world as a whole – precisely due to the possible disruption of this strategic balance of forces.

I believe that this is bad for the US as well, because it creates the dangerous illusion of invulnerability. It strengthens the striving for unilateral, often, as we can see, ill-considered decisions and additional risks.

We have said much about this. I will not go into details now. I will only say this. Maybe I am repeating myself. We have no intention to become involved in a costly arms race, but at the same time we will reliably and dependably guarantee our country's defence in the new conditions. There are absolutely no doubts about this. This will be done. Russia has both the capability and the innovative solutions for this.

No one will ever attain military superiority over Russia. We have a modern and combat ready army. As they now put it, a polite, but formidable army. We have the strength, will and courage to protect our freedom.

We will protect the diversity of the world. We will tell the truth to people abroad, so that everyone can see the real and not distorted and false image of Russia. We will actively promote business and humanitarian relations, as well as scientific, education and cultural relations. We will do this even if some governments attempt to create a new iron curtain around Russia.

We will never enter the path of self-isolation, xenophobia, suspicion and the search for enemies.

All this is evidence of weakness, while we are strong and confident.

Our goal is to have as many equal partners as possible, both in the West and in the East. We will expand our presence in those regions where integration is on the rise, where politics is not

mixed with economy, and where obstacles to trade, to exchange of technology and investment and to the free movement of people are lifted.

Under no conditions will we curtail our relations with Europe or America. At the same time, we will restore and expand our traditional ties with South America. We will continue our cooperation with Africa and the Middle East.

We see how quickly Asia Pacific has been developing over the past few decades. As a Pacific power, Russia will use this huge potential comprehensively.

Everyone knows the leaders and the drivers of global economic development. Many of them are our sincere friends and strategic partners.

The Eurasian Economic Union will start working in full on January 1, 2015. I'd like to remind you about its fundamental principles. The topmost principles are equality, pragmatism and mutual respect, as well as the preservation of national identity and state sovereignty of its member countries. I am confident that strong cooperation will become a powerful source of development for all of the Eurasian Economic Union members.

To conclude this part of my address, I'd like to say once again that our priorities are healthy families and a healthy nation, the traditional values which we inherited from our forefathers, combined with a focus on the future, stability as a vital condition of development and progress, respect for other nations and states, and the guaranteed security of Russia and the protection of its legitimate interests.

Dear friends,

To be able to implement all our plans and to meet the basic social commitments set forth in the presidential executive orders of May 2012, we must decide what we will do in the economy, finance and social spheres. But most importantly, we must choose a strategy.

I repeat that Russia will be open to the world, cooperation, foreign investment and joint projects. But we must above all see that our development depends primarily on us.

We will only succeed if we work towards prosperity and affluence, rather than hope for an opening or a favourable situation on foreign markets.

We will succeed if we defeat disorder, irresponsibility and our habit of burying good decisions in red tape. I want everyone to understand that in today's world this is not simply an obstacle to Russia's development but a direct threat to its security.

The period ahead will be complex and difficult, when much will depend on what each one of us do at our workplaces. The so-called sanctions and foreign restrictions are an incentive for a more efficient and faster movement towards our goals.

There is much we need to do. We need to create new technologies, a competitive environment and an additional margin of strength in the industries, the financial system and in the training of personnel. We have a large domestic market and natural resources, capital and research

projects for this. We also have talented, intelligent and diligent people who can learn very quickly.

The most important thing now is to give the people an opportunity for self-fulfilment. Freedom for development in the economic and social spheres, for public initiatives is the best possible response both to any external restrictions and to our domestic problems. The more actively people become involved in organising their own lives, the more independent they are, both economically and politically, and the greater Russia's potential.

In this context, I will cite one quote: "He who loves Russia should wish freedom for it; above all, freedom for Russia as such, for its international independence and self-sufficiency; freedom for Russia as a unity of Russian and all other ethnic cultures; and finally, freedom for the Russian people, freedom for all of us: freedom of faith, of the search for truth, creativity, work, and property." Ivan Ilyin. This makes a lot of sense and offers a good guideline for all of us today.

Ladies and gentlemen,

Conscientious work, private property, the freedom of enterprise – these are the same kind of fundamental conservative values as patriotism, and respect for the history, traditions, and culture of one's country.

We all want the same thing: wellbeing for Russia. So the relations between business and the state should be built on the philosophy of a common cause, partnership, and equal dialogue.

Naturally, responsibility and compliance with the law and obligations are essential in the business world, as it is in other areas of life. And this is exactly how the overwhelming, absolute majority of our business people work. They value their business and social reputation. Like genuine patriots, they want to be a benefit to Russia. These are the kind of people to look to, providing conditions for their productive work.

This is not the first time we are speaking about the need for new approaches to the activities of oversight, supervisory, and law enforcement agencies. Nevertheless, things are changing very slowly here. The presumption of guilt is still very much alive. Instead of curbing individual violations, they close the path and create problems for thousands of law-abiding, self-motivated people.

It is essential to lift restrictions on business as much as possible, free it from intrusive supervision and control. I said intrusive supervision and control. I will consider this in more detail later. I propose the following measures in this regard.

Every inspection should become public. Next year, a special register will be launched, with information on what agency has initiated an inspection, for what purpose, and what results it has produced. This will make it possible to stop unwarranted and, worse still, 'paid to order' visits from oversight agencies. This problem is extremely relevant not only for business, but also for the public sector, municipal institutions and social NGOs.

Finally, it's crucial to abandon the basic principle of total, endless control. The situation should be monitored where there are real risks or signs of transgression. You see, even when we have already done something with regard to restrictions, and these restrictions seem to be working well, there are so many inspection agencies that if every one of them comes at least once, then that's it, the company would just fold. In 2015, the Government should make all the necessary decisions to switch to this system, a system of restrictions with regard to reviews and inspections.

Concerning small business, I propose establishing 'holidays from inspections'. If a company has acquired a good reputation and if there have not been any serious charges against it for three years, then for the next three years it should be exempted from routine inspections by government or municipal supervisory agencies. Of course, this does not apply to emergencies, when there is a danger to people's health and life.

Business people talk about the need for stable legislation and predictable rules, including taxes. I completely agree with this. I propose to freeze the existing tax parameters as they are for the next four years, not revisit the matter again, not change them.

Meanwhile, it is important to implement the decisions that have already been made to ease the tax burden. First of all, for those who are just setting up their operations. As we have agreed, two-year tax holidays will be provided to small businesses registering for the first time. Production facilities that are starting from scratch will be entitled to the same exemptions.

Another thing. I propose a full amnesty for capital returning to Russia. I stress, full amnesty.

Of course, it is essential to explain to the people who will make these decisions what full amnesty means. It means that if a person legalises his holdings and property in Russia, he will receive firm legal guarantees that he will not be summoned to various agencies, including law enforcement agencies, that they will not "put the squeeze" on him, that he will not be asked about the sources of his capital and methods of its acquisition, that he will not be prosecuted or face administrative liability, and that he will not be questioned by the tax service or law enforcement agencies. Let's do this now, but only once. Everyone who wants to come to Russia should be given this opportunity.

We all understand that the sources of assets are different, that they were earned or acquired in various ways. However, I am confident that we should finally close, turn the "offshore page" in the history of our economy and our country. It is very important and necessary to do this.

I expect that after the well-known events in Cyprus and with the on-going sanctions campaign, our business has finally realised that its interests abroad are not reckoned with and that it can even be fleeced like a sheep.

And that the best possible guarantee is national jurisdiction, even with all of its problems. We will continue to deal with those problems with conviction, together with our business community, of course.

Russia has already made significant headway in improving its business climate. A new legislative framework has for the most part been developed on the federal level. Now the focus should be shifted to the quality of law enforcement, promoting so called best practices in the regions in partnership with business, using the national investment climate ratings to this end. From next year, the ratings system will be introduced in all the regions. We will review the progress at a State Council meeting without fail.

We need properly developed construction sites and transport infrastructure in order to be able to expand businesses and accommodate new production sites. Our regions must focus on fixing regional and local roads. To enable them to do so, we have introduced additional sources for regional road funds. Overall, we should seek to double the volume of road construction across Russia.

Of course, what I have just said has been verified by the relevant government agencies. They all confirmed that this is a feasible project. We'll be expecting to see the results of your work, colleagues.

In 2015, we will launch a programme to reimburse the regions' expenses involved in creating technology parks. I hope that the regions will make good use of this opportunity to develop their own industrial capacity. These additional measures are being taken in order to support economic and industrial growth in strategically important Russian regions.

The law on a special economic zone in Crimea has been adopted. Favourable conditions will be created here for businesses, agriculture and tourism, manufacturing industries and maritime transport, including taxation, customs and other procedures.

As you may be aware, customs preferences for Kaliningrad Region will expire in 2016. It is imperative that alternative measures to support this region, which have already been prepared, be implemented in order to maintain a comfortable entrepreneurial climate.

I'd like to ask the Government to complete this work as soon as possible. I'd also like to ask the deputies not to delay their review of the law on priority development areas (PDA).

In addition, I propose extending PDA regulations to new projects in a number of single-industry cities with the most difficult socioeconomic situations, rather than waiting three years, as provided by the draft law (I believe it has passed its first reading). Instead, we should amend it and start working on single-industry cities right away.

Of course, PDAs should play a key role in developing the Russian Far East. We have announced ambitious plans for developing this region, and we will, of course, implement them. I'd like to ask the Government to consider recapitalising the Far East Development Fund. We can allocate a portion of federal tax increments, which will be obtained from new businesses opening in the region, for these purposes.

As is often the case in such matters, we had a tough conversation on this issue with the Finance Ministry. We agree that initially this can be done with an exception for VAT. Then, we'll see how well this system works.

I propose providing a free port status to Vladivostok, with an attractive and easy customs regime. As you may be aware, Sevastopol and other Crimean ports have already been given this status.

We also need a comprehensive project for modern and competitive development of the Northern Sea Route. It must operate not just as an effective transit route, but also promote business activity on the Russian Pacific coast and the development of Arctic territories.

Colleagues, the quality and the size of the Russian economy must be consistent with our geopolitical and historical role. We must escape the trap of zero-level growth and achieve an above-average global growth rate within the next three to four years. This is the only way to increase Russia's share in the global economy, and thus strengthen our influence and economic independence.

The national economy should also be more effective. It's imperative that labour productivity be increased by no less than five percent annually. The Government should find reserves for this and come up with a plan for the best way to use them. At the same time, it's important to maintain a stable macroeconomic environment and reduce inflation in the medium term to four percent, but, importantly, not through suppressing business activity. We must at last learn to harmonise two goals: containing inflation and stimulating growth.

Today we are faced with reduced foreign exchange proceeds and, as a consequence, with a weaker national currency, the ruble. As you are aware, the Bank of Russia has switched to a floating exchange rate, but this does not mean that the Bank of Russia has withdrawn from controlling the exchange rate, and that the ruble may now be the object of unchecked financial speculation.

I'd like to ask the Bank of Russia and the Government to carry out tough and concerted actions to discourage the so-called speculators from playing on fluctuations of the Russian currency. In this regard, I'd like to point out that the authorities know who these speculators are. We have the proper instruments of influence, and the time is ripe to use them.

Of course, a weaker ruble increases the risk of a short-term surge in inflation. It's imperative that we protect the interests of our people, first and foremost, those with low incomes, and the Government and the regions must ensure control over the situation on the food, medicine and other basic goods markets. I'm sure this can be done without any problem, and it must be done.

A weaker national currency also increases the pricing environment and the competitiveness of our companies. We take this factor into account in our policy of import substitution (at least, where it's appropriate and necessary). Within three to five years, we must provide our customers with high-quality and affordable medicines and food that are produced mostly in Russia.

The grain crop in Russia in 2014 was one of the best in recent history. The overall output growth across our agro-industrial complex currently stands at about 6 percent. We now have

efficient large agricultural enterprises and farms, and we will support them. Let's thank our agricultural workers for their performance this year.

We must also lessen our critical dependence on foreign technology and industrial goods, including in the machine-tool building and instrument-making industries, power engineering, and the production of equipment for field development, including on the Arctic shelf. Our commodities and infrastructure companies can seriously help our producers in this sphere. When implementing large oil, energy and transport projects, they must rely above all on domestic producers and promote demand for their products.

At this point, it's mostly the other way around: we buy everything abroad, leaving the domestic industries and science empty-handed. I suggest creating a special governmental coordination centre and giving the Government more authority in this sphere. This centre would dovetail the implementation of large projects with placement of contracts at Russian companies, with further development of the national production and research facilities, and production localisation.

As for imports, we must only buy distinctly unique equipment and technology abroad. I'd like to add that we must also cooperate with domestic producers when upgrading the housing and utility sector, public transport, agriculture and other industries.

I am instructing the Government to take the necessary decisions to expand small and medium-sized businesses' access to purchases by state companies, and in particular to determine the volume of state-owned companies' mandatory annual purchases from small and medium firms. This is tens and hundreds of billions of rubles that must be used to boost the development of national businesses.

It goes without saying that their products must satisfy the strictest quality and price conditions. Next, we must prevent internal monopolism. I want to stress that reasonable import substitution – reasonable is the key word here – is a long-term priority, irrespective of external conditions.

Moreover, import substitution programmes must encourage the creation of a large group of industrial companies that can be competitive not only domestically but also on foreign markets. These companies exist in Russia. They are highly efficient and have export potential – very good potential. But they are short of capital, technology, personnel and equipment. We must remove as many of these restrictions as possible. We must provide investment incentives so that these companies can increase growth, increase their capitalisation and production severalfold and become established on foreign markets.

I am instructing the Agency for Strategic Initiatives to join forces with Vnesheconombank, the Russian Direct Investment Fund and other development institutions to draft a relevant programme and system. The first pilot programme for the support for non-commodity companies must be launched already next year.

The integrated credit and insurance export support centre, which will start operating in 2015, will stimulate domestic exports. Its services will be available to all non-commodity companies, both big and small.

In the next three years the capitalisation of Roseximbank, which was created for this purpose, should reach approximately 30 billion rubles. In the next three years, the volume of Russian high value-added exports should grow by 50 percent.

Of course, considerable funds will be needed for the development of the non-commodity and other economic sectors. Russia has these funds. We have large domestic savings, which must be used for this.

Despite any external restrictions, we must increase our annual investment to 25 percent of GDP by 2018. What does this mean? I'll explain it with just a few words.

It means that we must invest as much as we save. Our savings must work for the national economy and development, rather than the export of capital. To be able to do this, we must seriously strengthen the stability of our banking system – the Central Bank has been working towards this end quite persistently – and also reduce the dependence of the national financial market on external risks.

I propose using our reserves (above all, the National Welfare Fund) to implement a programme for recapitalisation of leading domestic banks, with funding to be provided under clearly specified conditions to be funnelled into the most significant projects in the real economy at affordable interest rates. Furthermore, banks will have to introduce project financing mechanisms.

Regarding budget spending, the key requirements here should be thrift and maximum return, the correct choice of priorities and factoring in the current economic situation. For the next three years, we should set the goal of cutting costs and ineffective budget spending by at least five percent of total spending in real terms.

A huge economic reserve is lying on the surface. It is enough to look at government-financed construction projects to see this. At a recent forum of the Russian Popular Front, examples were cited of funds being invested in grandiose buildings or the construction costs of same-type – I want to emphasise this point – facilities, differing several times over, even in neighbouring regions.

I believe that it is necessary to phase in a system of a single technical contracting authority, and centralise the preparation of standard projects, construction documentation and the choice of subcontractors. This will make it possible to overcome the existing disparity in construction costs and ensure significant saving of public funds spent on capital construction projects, between 10 percent and 20 percent. This practice should be extended to all civil construction projects financed from the federal budget. I instruct the Government to submit relevant proposals.

Yesterday, the Prime Minister and I discussed this topic. Of course, there are some pitfalls here, and knowing what they are, it is important to avoid them, move with caution, implement several pilot projects in several regions and see what happens.

However, leaving the situation as it is today is no longer an option. As I said earlier, construction costs of similar facilities in neighbouring regions differ many times over. What is this?

Diversion or embezzlement of budget funds allocated for federal defence contracts should be treated as a direct threat to national security and dealt with seriously and severely, as in the suppression of the financing of terrorism. I mention this for a reason.

I don't think there is anything to hide or gloss over here. We have just held our regular meeting in Sochi with the leadership of the Defence Ministry, combat arms and services commanders and leading defence company designers.

On certain positions, prices double, triple or quadruple, and in one case they grew 11 times. You realise that this has nothing to do with inflation or with anything, considering that practically 100 percent of funding is provided in advance.

I would like to reiterate, and I'm bringing this to the attention of law enforcement agencies. I instruct the Defence Ministry, the Federal Service for Financial Monitoring and other relevant agencies to develop a system of strict, effective oversight over the use of funding allocated for federal defence contracts. This system should operate along the entire supply chain. Tougher penalties should be imposed on those in charge of federal defence contract implementation for mispending every ruble from the budget.

It is also crucial to streamline state-owned company budgets. To this end, unified financial settlement centres should be established therein, something like the treasury, to ensure the transparency and optimisation of financial flows and their effective management. Parent companies should also clearly see how funds are used in their subsidiaries.

Key efficiency parameters should be introduced in all companies where the state holds over 50 percent of stock, including the requirement to reduce operating expenses by at least 2-3 percent a year. I should add that compensations to state company management should be directly related to performance and economic realities.

Colleagues,

I'm confident that Russia is capable not only of carrying out a large-scale effort to upgrade its industrial sector, but also of becoming a supplier of ideas and technology for the whole world, emerging as a leading producer of goods and services that would shape the global technology agenda. Russian companies will embody national success and pride, just as our nuclear and space projects once did.

We have already adopted legislative amendments to introduce strict environmental standards. Their purpose is to push companies to implement the so-called best available technology, so that the key industries benefit from continuous upgrades.

That said, we should also be mindful of future challenges. In this regard, I propose implementing a national technology initiative. Long-term forecasts should provide us with insight into the tasks Russia could face in the next 10-15 years, what state-of-the-art solutions will be needed to ensure national security, improve quality of life, and promote industries operating in a new technological environment.

Promoters of promising creative projects should join efforts with vibrant companies that are ready to implement cutting-edge solutions. The leading universities, research centres, the Russian Academy of Sciences and major business associations should also be involved in this effort. And of course, our compatriots working abroad as academics or in high-tech sectors should also be invited to join in, but only those of them who actually have something to contribute.

I propose that the Government make the necessary arrangements, with assistance from the Agency for Strategic Initiatives. It is important that business representatives, academics and developers tell us what barriers need to be removed and what additional assistance they require. The most advanced technologies will yield results only if there are people who are ready to develop and use them.

Unfortunately, engineers are still mostly educated at universities that are no longer linked to the actual producers, and lack access to the latest research and solutions. It is high time that we focus on the quality of education, not sheer enrolment numbers, and ensure that engineers are trained by top higher education institutions with strong industry connections, and preferably in the same regions where the future engineers will live.

This quality requirement should also be applied to regular labour force. By 2020, at least half of Russia's vocational training colleges are expected to offer education in 50 of the most relevant and promising labour professions, in accordance with the highest international standards and using advanced technology. Contests among workers and engineers should also become an important indicator of the changes in vocational training. The system of professional contests is not new, and Russia has joined it and has become a proactive member. This is not just about enhancing the prestige of engineering and labour jobs, but also an opportunity to be guided by the best practices in the training of such professionals. Building on this experience, professional and educational standards can be devised.

As you know, Russia competes in various international professional contests. I don't have the data on hand, so I'll cite them by memory, since they are worth mentioning. Three teams have been created: one with experts from leading enterprises, one with students and a third with 14 to 17 year old school students. They have trained to perform various tasks of the same kind. The team of 14 to 17 year old school students was able to find the best solutions for the most complex tasks in the space industry, where they worked on spacecraft, as well in traditional industrial tasks, despite the fact that such tasks were designed for highly-skilled workers.

School students beat university students, as well as workers from the leading companies, by a wide margin. What this means is that, first, we have great potential, a lot of young promising talent. It also means that a lot has to be done to change the professional training system. It's what I spoke about. We just need to avoid acting formally here. There is now a clear understanding of what should be done, so now we must just start doing it. Once we engage in this effort, we must keep up the momentum, since despite the changes in labour professions and training, the key economic driver always was and will continue to be the availability of highly-skilled qualified workforce and engineers. A network of certification centres should be created so that workers can prove that they meet professional requirements.

Colleagues,

I'll move on to the next topic, which is demographics. In the early 2000s, UN experts predicted further demographic decline in Russia. According to UN forecasts, the population of our country was supposed to shrink to 136 million people by the end of 2013. On January 1, 2014, the population of Russia was almost 144 million people, 8 million more than forecast by the United Nations.

In addition, as you know, Russia registered natural population growth for two years in a row in 2013 and 2014. It is expected that by late 2014, with Crimea and Sevastopol included, Russia's population will exceed 146 million people. Our demographic programmes have proved their effectiveness, and we will continue to implement them, with full coverage for the people of Crimea and Sevastopol. Families in Crimea and Sevastopol that have had a second or subsequent child since 2007 will receive the full amount of maternity capital.

I would like to draw your attention to another important and meaningful fact. This year, Russia was for the first time recognised as a successful country in world health rankings. The average life expectancy in such countries exceeds 70 years. Currently, this indicator in Russia is over 71. I believe that we have every opportunity to increase average life expectancy to 74 years in the near future and achieve a drastic reduction in mortality. That's why I propose declaring 2015 the National Year of Fighting Cardiovascular Diseases, which is the leading cause of death, and combining the efforts of healthcare workers, representatives of culture, education, media, civic and sports organisations in order to resolve this problem.

The 2014 Winter Olympics in Sochi played an enormous role in promoting a healthy lifestyle. Once again, I'd like to congratulate our Olympians on their success.

Of course, the kindest words go to the Paralympic athletes. Friends, you have become true heroes of Russia. Largely thanks to you, attitudes towards people with disabilities have undergone a dramatic change. I'm convinced that our society will become truly united when we provide equal opportunities to everyone.

Government programmes must include measures to provide vocational training and employment opportunities to people with disabilities and create a barrier-free environment in all spheres of life. I suggest extending the Accessible Environment programme to 2020. We

also need to create a modern domestic industry to manufacture goods for people with disabilities, including devices for physical therapy and rehabilitation.

With regard to healthcare, it is imperative to complete the transition to an insurance-based system and to make sure all its mechanisms are working without a fault. We have been talking about it and working on it for quite a while now, but insurance-based medicine still isn't working properly. Importantly, both patients and medical staff should have a clear understanding of how health insurance works. We must create a centralised system of public oversight over the quality of healthcare organisations with corresponding powers and levers. I'd like to ask the Government to amend the legislation accordingly.

I also propose providing a special training certificate to doctors. They will use it to choose the best educational programme for them in order to take advanced courses and improve their skills. The hours and methods of such training should be convenient for the doctors.

Even with the most advanced technological innovations in medicine, a doctor's personal qualities remain important. That includes a focus on the patient, a noble attitude and commitment to their professional and moral duty. Such medical professionals are the backbone of our healthcare system. And we must create all the conditions for them to be able to do their job properly.

Colleagues, yesterday, for the first time in many years, students in Russian schools wrote graduation compositions. This is another step towards a more objective system of evaluating the academic progress, knowledge, perspective and intellect of the younger generation and, importantly, the quality of the teachers' work.

I'd like to ask the Ministry of Education and Science in conjunction with the professional community to review the results of these compositions and the national final school exam and come up with solutions aimed at increasing teachers' accountability and motivating children to learn new skills.

It should be noted that the national final school exam has allowed gifted children from remote towns and villages and low-income families to apply to the nation's best universities.

Talented children are a valuable asset of the nation, and we need to provide additional support to young people who show an aptitude for technology, liberal arts or inventing at an early age, who have achieved success in national or international academic and professional contests, and have patents or publications in academic journals. We have many such young people.

I propose establishing 5,000 annual presidential grants for talented young people who study at higher education institutions. Each grant will be for 20,000 rubles a month.

Of course, certain conditions will apply for the duration of their studies at a higher education institution. First, such students must make a commitment to work for a certain time in Russia, as targeted training programmes currently require. Second, they would have to confirm their eligibility each year by demonstrating the necessary academic and personal achievements for the duration of their studies.

Every child and teenager in our country should be able to find something to do outside the classroom. Any curtailment of extracurricular, supplemental education is unacceptable. Art, technology and music centres help create well-rounded people.

I'd like to ask the Government and the regions to focus on this issue and come up with financial and organisational approaches to address it. Most importantly, children and their parents should have a choice between getting additional education at school, a municipal centre of creativity, or a non-governmental educational organisation. Importantly, all these options must be affordable and children must have access to classes taught by properly trained professionals.

Another important issue that I spoke about in last year's address is overcrowded schools and classrooms. We have crunched the numbers and found that we need to create an additional 4.5 million spots at schools.

How did we arrive at this number? Today, nearly two million schoolchildren attend the second shift. There are schools with three shifts. In the coming years, with a growing birth rate (which we hope will continue), the number of pupils will increase by another 2.5 million.

Naturally, we also have to solve the issue highlighted in the executive orders signed in 2012, that of increasing the number of preschools, something we spoke about with our colleagues from the Government yesterday. This is the way it should be. We have to consider all our opportunities and remember that one problem will intensify – that of spots at schools. I ask the Government, together with the regional authorities, to develop a comprehensive approach to resolving these issues.

Colleagues,

Education, healthcare, and the social welfare system should become a true public benefit and serve all citizens of the country. Attention to the people cannot be faked. You cannot simulate teaching, medical assistance or social care. We have to learn to feel respect for ourselves and honour reputation. It's the reputation of individual hospitals, schools, universities and social institutions that form the country's overall reputation.

Citizens don't have to think about where to apply for a social service: at a state, municipal or private organisation. They have the right to come to those who can provide professional assistance, with full dedication, putting their soul in their work. All the other things – including technical, organisational and legal issues concerning the provision of services – is the responsibility of the state, the responsibility to properly organise the work.

We will continue to support socially oriented non-commercial organisations. Such NGOs, as a rule, bring together people who feel their civil duty and who are aware of how much mercy, attention, care and kindness mean. We should use their proposals and experience, especially when implementing social initiatives.

We must not allow discrimination of the non-governmental sector in the social sphere and eliminate all barriers to it: not only legal ones, which have been mostly abolished, but also

those that persist, I mean organisational and administrative barriers. Equal access should be provided for the non-governmental sector to financial resources.

Competition is a crucial factor to boost the quality of services in the social sphere. Also, it is necessary to launch a mechanism of independent assessment of the quality of services and to ensure transparency of information on the work of agencies providing social services. I ask the Russian Popular Front, together with civic associations, to assist the reforms in the social sector.

Following next year's results, I plan to meet with representatives of the non-governmental sector. We will discuss what changes we have succeeded in achieving lately. Overall, we should considerably expand the opportunities for dialogue, for exchange of ideas between the Government and the public, particularly the Civic Chamber and its regional branches.

These structures should be incorporated, both at the federal and regional level, into a comprehensive expert examination of draft laws and government decisions, including at the level of the so-called initial reading, which should serve as an efficient feedback mechanism.

We can see how active citizens are and what constructive efforts they are taking. Not only are they highlighting issues for the authorities to tackle, they also actively participate in settling issues and problems. They realise full well that much depends on their personal efforts. The will, deeds and generosity of these people make up the invaluable social potential of the nation.

Everyone who is prepared to take responsibility has to be involved in the implementation of the plans of developing the country, certain regions and municipalities. If the state and the public act as one, in an atmosphere of cooperation and mutual trust, success is guaranteed.

I would like to address representatives of all political parties and social forces. I am counting on our joint consolidated work. Russia's interests demand this unity and this work.

Friends, citizens of Russia,

I will conclude my address where I began it. This year, as has been the case many times during crucial historical moments, our people have demonstrated national enthusiasm, vital endurance and patriotism. The difficulties we are facing today also create new opportunities for us. We are ready to take up any challenge and win.

Thank you.