
Offering Circular dated 11 October 2004



The City of Moscow

€374,000,000 6.45 per cent. Loan Participation Notes due 2011

issued by, but without recourse to, Dresdner Bank Aktiengesellschaft (a bank incorporated as a joint stock company (*Aktiengesellschaft*) under the laws of the Federal Republic of Germany), for the purpose of funding a €374,000,000 loan to The City of Moscow acting through The State Debt Committee of the City of Moscow

Issue Price: 100 per cent.

Dresdner Bank Aktiengesellschaft (the “Bank” or the “Issuer”) is issuing €374,000,000 in aggregate principal amount of 6.45 per cent. Loan Participation Notes due 2011 (the “Notes”).

The Notes are limited recourse obligations of the Bank and are being offered for the sole purpose of funding a seven year loan (the “Loan”) to The City of Moscow acting through The State Debt Committee of the City of Moscow (the “State Debt Committee”, the “Borrower”, the “City” or “Moscow”) pursuant to a credit facility agreement (the “Credit Facility Agreement”) dated 11 October 2004 between the Bank and the Borrower. The Notes will be constituted by, be subject to, and have the benefit of, a trust deed dated 12 October 2004 (the “Trust Deed”) between the Bank and The Law Debenture Trust Corporation p.l.c. as trustee (the “Trustee”), for the holders of the Notes from time to time (the “Noteholders”). In the Trust Deed, the Bank will charge by way of first fixed charge to the Trustee for the benefit of the Noteholders (a) its right to principal, interest and additional amounts (if any) as lender under the Credit Facility Agreement and (b) amounts received pursuant to the Credit Facility Agreement in an account of the Bank (as described herein), in each case other than the Reserved Rights (as defined in “Terms and Conditions of the Notes”) and any amounts relating to the Reserved Rights. The Bank will also assign its rights under the Credit Facility Agreement to the Trustee.

In each case where amounts of principal, interest and other amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Bank to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by, or for the account of, the Bank pursuant to the Credit Facility Agreement less any amount in respect of the Reserved Rights. The Bank will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the covenant to pay under the Credit Facility Agreement and the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable annually in arrear in equal instalments on 12 October in each year commencing on 12 October 2005 as described under “Terms and Conditions of the Notes—Interest”. The Notes will bear interest of 6.45 per cent. per annum. Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 12 October 2011.

Except as set forth herein (see “Tax Considerations”), payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Federal Republic of Germany. The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower upon the Borrower or the Bank being required to deduct or withhold any Russian or German taxes from payments to be made by them in respect of the Notes or pursuant to the Credit Facility Agreement. The Loan may also be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Credit Facility Agreement, and thereupon (subject to the receipt of the relevant funds from the Borrower) the principal amount of all outstanding Notes will be prepaid by the Bank, together with accrued interest.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” ON PAGE 9.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes and the Loan have not been, and will not be, registered under the United States Securities Act of 1933 (the “Securities Act”). The Notes are being offered outside the United States by the Managers (as defined in “Subscription and Sale”) in accordance with Regulation S under the Securities Act (“Regulation S”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form in the denomination of €50,000. The Notes may be held and transferred, and will be offered and sold, in the principal amount of €50,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented by a global registered certificate (the “Global Note Certificate”) registered in the name of a nominee for, and deposited on 12 October 2004 with, a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Definitive registered certificates (“Individual Note Certificates”) evidencing holdings of Notes will only be available in certain limited circumstances. See “Summary of Provisions relating to the Notes in Global Form”.

Joint Lead Managers

Citigroup

Dresdner Kleinwort Wasserstein

UBS Investment Bank

Senior Co-lead Managers

ABN AMRO

Bank Austria Creditanstalt

The City accepts responsibility for the information contained in this offering circular with respect to itself, the Credit Facility Agreement and the Notes. To the best of the knowledge and belief of the City (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, the City, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the City, the Credit Facility Agreement and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in the Offering Circular relating to the City are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular with regard to the City are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the City, the Credit Facility Agreement or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the City to ascertain such facts and to verify the accuracy of all such information and statements. The Bank accepts responsibility for all information in this Offering Circular with respect to itself (the “Bank Information”).

Information under the heading “The Russian Federation” includes extracts from information and data publicly released by official and other sources and the City accepts responsibility for accurately reproducing such information and data but accepts no further responsibility in respect of such information and data.

No representation or warranty, express or implied, is made by Citigroup Global Markets Limited (“Citigroup”), Dresdner Bank AG London Branch (“Dresdner”), UBS Limited (“UBS”) (Citigroup, Dresdner and UBS together, the “Joint Lead Managers”), the Bank (save for the above responsibility statement), the Trustee or any of their affiliates or any person acting on their behalf or any of the other Managers (as defined in “Subscription and Sale”) as to the accuracy or completeness of the information contained in this document, and none of such persons has attempted to verify such information.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Bank, the City or the Managers to subscribe or purchase any Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the City, the Bank and the Managers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered in the United States or to U.S. persons. In addition, none of the Bank, the City or the Managers has authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “Regulations”). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale”.

No person is authorised to provide any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of the City, the Bank, the Trustee or the Managers. The delivery of this offering circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of the City’s website do not form any part of this Offering Circular.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the City since the date of this Offering Circular.

In this Offering Circular, references to “Roubles”, “roubles,” “Rbs” and “RUR” are to the lawful currency for the time being of the Russian Federation, references to “U.S. dollars”, “US\$”, “U.S.\$”, “USD” and “\$” are to the lawful currency for the time being of the United States of America and references to “euro”, “€”

and “EUR” are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Community, as amended from time to time.

This Offering Circular contains conversions of certain amounts into U.S. dollars and euro at specified rates solely for the convenience of the reader. The Rouble/U.S. dollar exchange rate, published by the Central Bank of the Russian Federation (“CBR”) and expressed as a number of Roubles per U.S.\$1.00, was RUR30.14, RUR31.78 and RUR29.45 at 31 December 2001, 2002 and 2003, respectively. The rate on 30 June 2004 was RUR29.03 per U.S.\$1.00. The rate on 5 October 2004 was RUR29.22 per U.S.\$1.00. No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into Roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all. The Rouble/euro exchange rate, published by the CBR and expressed as a number of Roubles per EUR1.00, was RUR26.49, RUR33.11 and RUR36.82 at 31 December 2001, 2002 and 2003, respectively. The rate on 30 June 2004 was RUR35.29 per EUR1.00. The rate on 5 October 2004 was RUR36.14 per EUR1.00. No representation is made that the Rouble or euro amounts referred to herein could have been or could be converted into Roubles or euro, as the case may be, at these rates, at any particular rate or at all.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, Dresdner Bank AG London Branch (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the part of the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

This Offering Circular may be used only for the purposes for which it has been published.

Presentation of Financial and other information

Financial Information

Prior to the dissolution of the Soviet Union in 1991, the collection of data and production of official statistical information with respect to the economy of the City was geared to the needs of central planning. Since that time, the means employed in collecting data and methodologies used in the production of statistics have evolved significantly from year to year. Statistical information reported herein has been derived from official publications of, and information supplied by, the Department of Finance and the Department for Economic Policy and Development of the City, as well as by other departments and committees of the City.

Accounting Principles

The City maintains its books and records in roubles and prepares its budget in accordance with the *Law of the City of Moscow on Budget Composition and Budget Process in the City of Moscow No. 51* adopted by the Moscow City Duma (the “City Duma”) on 9 October 2002, as amended on 2 June 2004 (the “City Budgeting Law”), and pursuant to the procedures prescribed by the *Budgetary Code of the Russian Federation No. 145-FZ* of 31 July 1998, as amended as of 20 August 2004 (the “Budget Code”), and other laws and accounting principles, including some internal directives, which are not necessarily published, adopted by the City. The main feature of these accounting principles is that revenues are recognised in the period in which they are collected by the City and expenditures are accounted for when paid by the City. There is no system of accrual of revenue or expenditure amounts.

The financial information relating to the City presented in this Offering Circular is derived from the City’s records maintained by each of the relevant City departments and compiled by the Department of Finance in conjunction with the Department for Economic Policy and Development. The Moscow Accounting and Control Chamber (the “City Audit Chamber”) monitors various City departments, committees and other executive bodies. Although the City Audit Chamber does not audit the City’s accounts as such, the City Audit Chamber does carry out regular but unscheduled checks on the City’s executive bodies, including in relation to compliance with financial and budgetary legislation. See “City Budget and Financial Accounts—City Budget—Control over the Implementation of the Budget”.

The budgetary and accounting principles applicable to the City continue to evolve, with an increasing emphasis being placed on preparing and implementing more detailed City Budgets and on controlling the flow and use of budget funds. This process is expected to continue.

Financial Information for 2001 and 2002

The financial information set forth in this Offering Circular for the years ended 31 December 2001 and 2002 is based upon figures which have been approved by the City Government (as herein defined) and the City Duma in accordance with the *Law of the City of Moscow on Budgeting Process in Moscow No. 17* adopted by the City Duma on 6 September 1995 as amended on 29 October 1997. See “City Budget and Financial Accounts—City Budget—Budget Procedure”.

Financial Information for 2003

The information set forth in this Offering Circular with respect to the City’s budget for 2003 (the “2003 City Budget”) is derived from the *Law of the City of Moscow on the City of Moscow Budget for 2003 No. 63* of 18 December 2002, as amended (the “2003 City Budget Law”). Most financial information provided in relation to 2003 is preliminary only and subject to change pending approval of the implementation of the 2003 City Budget by the City Duma.

Financial Information for 2004

The information set forth in this Offering Circular with respect to the City's budget for 2004 (the "2004 City Budget") is derived from the *Law of the City of Moscow on the Budget of the City of Moscow for 2004 No. 75* adopted by the City Duma on 17 December 2003 as amended on 3 August 2004 (the "2004 City Budget Law"). The calculation of revenue and expenditure items in the 2004 City Budget was based on an assumed average annual rate of inflation of 11.0 per cent.

Restatement of Financial Information

The City's revenue and expenditure items were reclassified during each of 2001, 2002 and 2003 as the City sought to identify a consistent and accurate classification of budgetary items. Accordingly, the financial information appearing in this document for the years ended 31 December 2001 and 31 December 2002 has been restated in accordance with the classification set out by the 2003 City Budget Law.

Results on the implementation of the annual budget are ordinarily approved by the City Duma in the year following that budget year. Budget results are subject to technical adjustment during the budget year and the year following that budget year and the final figures reflecting the results of the implementation of an annual budget are therefore not normally available before the end of the year following the budget year.

Inflation

Financial information in this document relating to the City's revenue and expenditure has not been adjusted for the effects of inflation and is presented on the basis of those rouble values which applied at the time of receipt of revenue or payment of expenditure.

The following table sets forth the average annual percentage change in the consumer and producer price indices for the City and the Russian Federation (the "Russian Federation" or "Federation") for each of the years ended 31 December 1998, 1999, 2000, 2001 and 2002, preliminary data for the year ended 31 December 2003 and a forecast for the year ended 31 December 2004 (expressed as a percentage increase over the previous year).

	1998		1999		2000	
	Moscow	Federation	Moscow	Federation	Moscow	Federation
Consumer Price Index (per cent.)	109.6	84.4	46.5	36.5	22.1	20.2
Producer Price Index (per cent.)	50.8	23.2	41.4	67.3	25.9	31.6

	2001		2002		2003 (Preliminary)		2004 (Estimate)	
	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation
Consumer Price Index (per cent.)	20.4	18.6	17.2	15.1	13.0	12.0	11.0	10.0
Producer Price Index (per cent.)	18.3	10.7	10.7	17.1	10.5	13.1	9.0	9.8

Source: Goskomstat, Department of Economic Policy and Development of the City of Moscow.

Unless otherwise stated, references in this document to "inflation" in any period refer to the average annual or average annualised percentage change in the City's Consumer Price Index, as appropriate.

Rounding Adjustments

Data included in this document has been subject to rounding adjustments. Accordingly, figures which are totals may not be the arithmetical sum of their components.

Exchange rates

Since 1992, high inflation has caused a generally consistent decline in the value of the rouble in nominal terms. As a result of the events of 17 August 1998, the rouble depreciated against the U.S. dollar by 246.5 per cent. in nominal terms and by 47.6 per cent. in real terms during 1998. Nonetheless, following the CBR

tightening monetary policy, the rouble has remained relatively stable since 1999, appreciating against the U.S. dollar in real terms by approximately 4.0 per cent. while depreciating against the U.S. dollar in nominal terms by 30.8 per cent. in 1999. From January 2000 to the first half of 2004, the rouble depreciated against the U.S. dollar in nominal terms by 7.5 per cent., but appreciated against the U.S. dollar by 45.0 per cent. in real terms.

The following table sets out the high, low and period-end exchange rates of the rouble to the U.S. dollar and the euro for the periods indicated.

	Roubles per euro			Roubles per U.S. dollar		
	High	Low	Period-end	High	Low	Period-end
1998	N/A	N/A	N/A	20.99	5.96	20.65
1999	28.17	24.09	27.23	27.00	20.65	27.00
2000	29.85	23.07	26.14	28.87	26.90	28.16
2001	27.32	24.39	26.49	30.30	28.16	30.14
2002	33.11	26.30	33.11	31.86	30.14	31.78
2003	36.82	32.95	36.82	31.88	29.25	29.45
2004 (to 5 October 2004)	37.35	34.12	36.14	29.45	28.49	29.22

Source: CBR.

The following table sets out the high, low and period-end exchange rates of the rouble to the U.S. dollar and euro for each of the months of 2003 and 2004.

Year	Months	Roubles per euro			Roubles per U.S. dollar		
		High	Low	Period-end	High	Low	Period-end
2003	January	34.60	33.15	34.44	31.88	31.78	31.82
	February	34.78	33.86	34.05	31.85	31.55	31.58
	March	34.79	33.28	33.59	31.60	31.38	31.38
	April	34.42	33.19	34.14	31.38	31.10	31.10
	May	36.47	34.55	36.47	31.12	30.62	30.71
	June	36.24	34.71	34.71	30.76	30.32	30.35
	July	35.00	34.05	34.63	30.53	30.25	30.26
	August	34.58	32.95	33.20	30.50	30.28	30.50
	September	35.08	33.04	35.08	30.70	30.45	30.61
	October	35.87	34.83	34.87	30.61	29.82	29.86
	November	35.65	34.14	35.50	29.95	29.74	29.74
	December	36.82	35.57	36.82	29.70	29.25	29.45
2004	January	37.35	35.36	35.36	29.45	28.49	28.49
	February	36.73	35.51	35.51	28.62	28.49	28.52
	March	35.76	34.44	34.80	28.67	28.49	28.49
	April	35.19	34.12	34.14	29.00	28.50	28.88
	May	35.61	34.39	35.61	29.08	28.87	28.99
	June	35.81	34.79	35.29	29.09	29.00	29.03
	July	36.21	35.05	35.05	29.13	29.04	29.10
	August	36.14	35.06	35.15	29.28	29.14	29.24
	September	35.99	35.23	35.99	29.26	29.21	29.22

Since the financial crisis in August 1998, the CBR has undertaken a number of measures aimed at restricting foreign exchange speculation, reducing capital outflows and improving regulatory supervision of foreign currency transactions. These measures include:

- Requiring enterprises to make obligatory purchases of roubles with a percentage of their export revenue in a separate morning trading session of Moscow Interbank Currency Exchange ("MICEX"). As of 30 March 2004 the amount to be so converted was 25 per cent.

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- Requiring enterprises to make a 100 per cent. prepayment for any purchase of foreign exchange to pay for imports.
 - Limiting the ability of commercial banks to purchase foreign currency.

As a result of these measures and the improved macroeconomic situation in Russia, the CBR imposed relative stability on the foreign exchange market. As a result gold and foreign currency reserves of the Russian Federation increased to U.S.\$88.3 billion as of 2 July 2004. The rouble has traded within a range of 28.16 and 31.88 from 2001 to the first half of 2004. However, there can be no certainty that any recurrence of volatility in Russian financial markets will not have an adverse effect on the rouble's rate of exchange with foreign currencies. See “Risk Factors—Risks Associated with the Russian Federation—Exchange Rates, Exchange Controls and Repatriation Restrictions”.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains “forward-looking statements” which relate to, without limitation, the City's plans, objectives, goals, strategies, future operations and performance. These forward-looking statements are characterised by words such as “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or the City's actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements are inherently based on numerous assumptions regarding, among other things:

- the performance of the Russian economy;
- the City's debt and the impact of exchange rate fluctuations; and
- the City's ability to meet its obligations and develop and maintain additional sources of financing.

The City does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

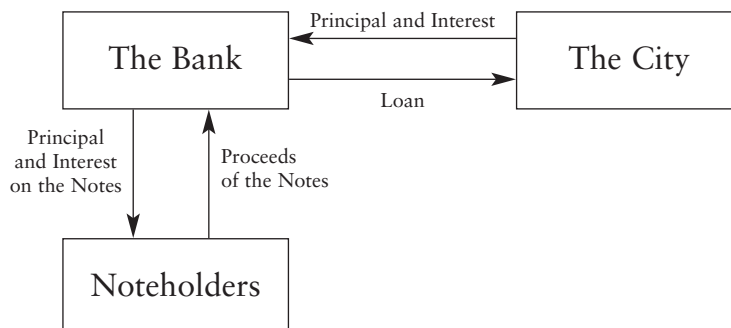
Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward-looking statements. The important factors that could cause the City's actual results, performance or achievements to differ materially from those in these forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “The City of Moscow”. These forward-looking statements speak only as at the date of this Offering Circular. The City expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectation with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based, unless required to do so by applicable law.

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Summary of Transaction Structure

The following summary description should be read in conjunction with, and is qualified in its entirety by, the Terms and Conditions of the Notes and the provisions of the Credit Facility Agreement which are set out elsewhere in this Offering Circular.



The transaction will be structured as a loan (the “Loan”) to the City by the Bank. The Bank will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to the City. The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed. The obligations of the Bank to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Bank pursuant to the Credit Facility Agreement less any amount in respect of the Reserved Rights (as defined in the Terms and Conditions of the Notes).

As provided in the Trust Deed, the Bank with full title guarantee and as continuing security for the payment of all sums under the Trust Deed and the Notes will charge by way of first fixed charge in favour of the Trustee (the “Charge”):

- (a) all its rights to principal, interest and additional amounts (if any) now or hereafter payable by the City to the Bank as lender under the Credit Facility Agreement;
- (b) the right to receive all sums which may be or become payable by the City under any claim, award or judgment relating to the Credit Facility Agreement; and
- (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Bank (the “Account”) and the debts represented thereby (including interest from time to time earned on the Account),

provided that Reserved Rights and any amounts relating to Reserved Rights are excluded from the Charge.

In addition, the Bank with full title guarantee will assign absolutely to the Trustee for the benefit of the Trustee and the Noteholders all the rights, title, interest and benefits, both present and future, which have accrued or may accrue to the Bank as lender under or pursuant to the Credit Facility Agreement (including, without limitation, all moneys payable to the Bank and any claims, awards and judgments in favour of the Bank in connection with the Credit Facility Agreement and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the City thereunder) other than any rights, title, interests and benefits which are subject to the Charge and other than the Reserved Rights and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Bank under the Credit Facility Agreement as set out in the relevant provisions of the Trust Deed.

The Bank will covenant not to agree to any amendments to or any modification or waiver of, or authorise any breach of, the terms of the Credit Facility Agreement unless the Trustee has given its prior written consent. The Bank will further agree to act at all times in accordance with any instructions of the Trustee

SUMMARY OF TRANSACTION STRUCTURE

from time to time with respect to the Credit Facility Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 of the Terms and Conditions relating to the Notes and shall be binding on the Noteholders.

At any time after an Event of Default (as defined in the Credit Facility Agreement), the Trustee may declare all amounts payable under the Credit Facility Agreement by the Borrower to be due and payable. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, that is, the earlier of (a) the failure by the Bank to make any payment of principal or interest or other amounts (if any) on the Notes when due; (b) the filing of an application by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) for the opening of insolvency proceedings over the assets of the Bank in Germany; (c) the taking of measures by the Federal Banking Supervisory Authority pursuant to Sections 45 *et seq.* of the German Banking Act (*Kreditwesengesetz*); or (d) the taking of any action in furtherance of the dissolution (*Auflösung*) of the Bank. For the avoidance of doubt, any reorganisation of the Bank pursuant to the German Transformation Act (*Umwandlungsgesetz*) does not constitute a Relevant Event.

Summary Description of the City of Moscow

The following summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and financial statements which are set out elsewhere in this Offering Circular. See “Risk Factors” for a discussion of certain factors that should be considered by potential investors prior to an investment in the Notes.

Overview and Governing Structure

Moscow is the capital of the Russian Federation (the “Federation”). Moscow is the largest city in, as well as the financial, commercial, scientific, educational and artistic centre of, the Russian Federation. Under the Constitution of the Russian Federation (the “Constitution”), Moscow has the status of a Subject of the Federation. Each of the 89 Subjects within the Federation is governed by its own executive and legislative branch, as well as certain local self-governing bodies.

The Constitution describes the division of authority between the Federation and its Subjects. Certain areas of governance are reserved by the Constitution exclusively for the Federal authorities, including management of Federal state property, the issuance of currency, foreign relations (including foreign economic relations) and defence. The Constitution confers joint jurisdiction on each Subject and the Federation over a number of other areas, including tax administration, ownership and use of land and natural resources, and the appointment of certain court and law enforcement officials within the relevant Subject. In these areas Subjects adopt their own laws and regulations in accordance with the framework provided by Federal law. The Constitution also confers jurisdiction on the Subjects over all matters not specifically reserved to the Federation or to the joint jurisdiction of the Federation and its Subjects.

The City’s administrative structure is prescribed by the Charter of the City, as adopted on 28 June 1995, as amended and restated as of 14 July 2004 (the “City Charter”), which is the main constitutive document of the City. The City is governed by an executive branch and a legislative branch. The executive branch is headed by the Mayor who is the City’s highest official and whose office comprises various departments, committees, branches and their respective subsidiary organisations responsible for the administration and operation of the City (the “City Executive Authorities”) under the supervision of senior officials who constitute the City’s government (the “City Government”). The City Government is accountable to the Mayor. The legislature is the City Duma which is a unicameral parliament composed of elected Deputies. The City Duma enacts City laws, including laws pertaining to the City budget (the “City Budget”), monitors the activities of the City Government and exercises certain other powers in accordance with the City Charter and Federal law. The City Charter may be amended by City laws approved by the City Duma within the limits set by applicable Federal law.

City Economy

According to the results of the national census in 2002, Moscow is the largest city in the Federation with a population of 10.4 million, or approximately 7.2 per cent. of the Federation’s total population of 145.3 million.

In 2003, the service sector accounted for approximately 75 per cent. of the City’s Gross City Product (“GCP”). Approximately 70 per cent. of the service sector is comprised of retail and catering services. In 2003, the industry sector accounted for approximately 14 per cent. of the City’s GCP.

Employment levels in the City have remained relatively stable over the last five years. In 2003 the average employment level was approximately 82 per cent. of the City’s labour force, a slight decrease from 2002. In 2003 there were 5.5 million people working in the City (53 per cent. of Moscow’s total resident population). In 2003 the public sector of the economy employed 1.8 million people and the private sector employed 3.7 million people.

In January 2004 the average monthly nominal wage in large and medium-sized enterprises in Moscow equalled Rbs 9,511, an increase of 32 per cent. by comparison with the level of January 2003, while the

average monthly real wage, adjusted to take into account increases in the consumer price index, was 9.9 per cent. higher than in January 2003.

Activities of the City and the City Budget

The City Budget is an itemised summary of proposed revenue and expenditure which in recent years has become increasingly detailed. By virtue of the City's status as a city of Federal significance, the City performs all of the functions that fall to Subjects of the Federation and retains revenue assigned by Federal legislation for the undertaking of such functions. The revenue base of the City Budget is estimated by taking into account the expected tax and non-tax revenues for the current year, forecasts regarding the level of inflation and forecasts of the economic development in the City, such as forecasts of the employment level, the development of the taxable base and price indices within the City. Expenditure is estimated according to expected revenues and planned social and economic programmes of the City.

The City's primary functions are to perform regional governance and administration and to provide basic services to residents. In 2003, approximately 68 per cent. of total expenditure of the City Budget was spent on seven primary activities: housing and utilities; healthcare; education; social services; transport and communications; industry, energy and construction; and law enforcement. In 2000, 2001, 2002 and 2003 approximately 52 per cent., 60 per cent., 66 per cent. and 68 per cent., respectively, of the total City Budget was allocated for these activities. In 2004, the City has budgeted approximately 71 per cent. of the City Budget for these activities. The City budget funds are also used to service and repay the City's debts.

The main sources of revenue for the City are: (i) tax revenues, (ii) non-tax revenues, and (iii) revenues from Designated Purpose Funds ("DPFs"). Non-tax revenues are comprised of primarily lease payments for the use of City property, income from the City's participation in various state and private enterprises and administrative charges and fines. DPFs are specified accounts within the City Budget that are allocated certain amounts of City tax, non-tax and other revenues and are used to fund special purpose projects, including, for example, the construction and maintenance of roads within the City, which are excluded from general revenue and expenditure in the City Budget.

In accordance with the 2004 City Budget, the City's revenue and expenditure for 2004 are budgeted at Rbs 374 billion and Rbs 420 billion, respectively, which is expected to result in a deficit of Rbs 46 billion. The City is projecting revenues of Rbs 389.7 billion, Rbs 418.0 billion and Rbs 464.9 billion for 2005, 2006 and 2007, respectively. The City is projecting expenditure of Rbs 416.0 billion, Rbs 436.5 billion and Rbs 485.3 billion for 2005, 2006 and 2007, respectively, resulting in projected deficits of Rbs 26.2 billion, Rbs 18.5 billion and Rbs 20.5 billion for the same years.

Summary of Provisions of the Notes and the Loan

Issuer	Dresdner Bank Aktiengesellschaft
The City (as Borrower)	The City of Moscow acting through The State Debt Committee of the City of Moscow
Offering	€374,000,000 6.45 per cent. Loan Participation Notes due 2011
Trustee	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent and Transfer Agent	Citibank, N.A.
Registrar	Citibank, N.A.
Principal Paying Agent and Transfer Agent	Dexia Banque Internationale à Luxembourg, société anonyme
Issue Price of Notes	100 per cent. of the principal amount of Notes
Issue Date	12 October 2004
Maturity Date	12 October 2011
Interest	On each Interest Payment Date (being 12 October in each year commencing on 12 October 2005) the Bank shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Bank pursuant to the Credit Facility Agreement, which interest under the Loan is equal to 6.45 per cent. per annum (as set out in Clause 5 of the Credit Facility Agreement) payable annually in arrear.
Status	The Notes will constitute the obligation of the Bank to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Credit Facility Agreement, less any amount in respect of Reserved Rights, all as more fully described in “Terms and Conditions of the Notes—Status.”
Security	<p>The Notes will be secured by a first fixed charge on:</p> <ul style="list-style-type: none">• all the Bank’s rights to principal, interest and additional amounts payable by the City to the Bank as lender under the Credit Facility Agreement and the right to receive all sums which may be or become payable by the City under any claim, award or judgment relating to the Credit Facility Agreement; and• all of the Bank’s rights, title and interest in and to all sums of money deposited from time to time in an account specified in the Credit Facility Agreement, together with the debts represented thereby (including interest from time to time earned thereon, if any), <p>pursuant to the Trust Deed, in each case, other than certain Reserved Rights and its right to any amounts in respect of such Reserved Rights.</p>
Assignment of Rights	The Bank with full title guarantee will assign absolutely its rights, title, interests and benefits under the Credit Facility Agreement (save for those rights charged or excluded as described above) to the Trustee upon the closing of the offering of the Notes.

SUMMARY OF PROVISIONS OF THE NOTES AND THE LOAN

Form	The Notes will be issued in registered form in the denomination of €50,000 and will be represented by the Global Note Certificate. The Notes may be held and transferred, and will be offered and sold, in the principal amount of €50,000 and integral multiples of €1,000 in excess thereof. The Global Note Certificate will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate.
Initial Delivery of Notes	On or before the Issue Date, the Global Note Certificate will be deposited with Citibank, N.A. as a common depository for Euroclear and Clearstream, Luxembourg. The Notes will be registered in the name of Citivic Nominees Limited as common nominee for such clearing systems.
Optional Redemption by the Bank in Limited Circumstances	In limited circumstances as more fully described in the Credit Facility Agreement, the Bank may at its option require the Loan to be repaid by the Borrower, in which case the Notes will be redeemed at the option of the Bank in whole, but not in part, at any time, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts (if any) to the date of redemption in the event that it becomes unlawful for the Bank to fund the Loan or allow the Loan to remain outstanding under the Credit Facility Agreement or allow the Notes to remain outstanding. In such a case, the Bank would require the Loan to be repaid in full.
Mandatory Redemption	The Bank is required to redeem the Notes in whole, but not in part, at 100 per cent. of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if the Loan should become repayable and be repaid pursuant to the Credit Facility Agreement prior to the Maturity Date, including in the event it is required to pay additional amounts on account of withholding taxes or certain costs incurred by the Bank pursuant to the Credit Facility Agreement.
Relevant Events	In the case of certain events in relation to the Bank (as defined in the Trust Deed), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Trustee and the Noteholders.
Withholding Tax	<p>All payments of principal and interest by or on behalf of the Bank in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Federal Republic of Germany or any jurisdiction of residence of any holding company of the Bank or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall, subject to certain exemptions, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made.</p> <p>The sole obligation of the Bank in this respect will be to account to the Noteholders for sums equivalent to the sums received from the City.</p>
Certain Restrictions and Covenants	The Bank will have the benefit of certain covenants made by the City, including a negative pledge, as more fully described in the Credit Facility Agreement.
Events of Default	In the case of an Event of Default (as defined in the Credit Facility Agreement), the Trustee may, subject as provided in the Trust Deed, declare

SUMMARY OF PROVISIONS OF THE NOTES AND THE LOAN

	all amounts payable under the Credit Facility Agreement by the City to be due and payable.
Use of Proceeds	The Bank will lend an amount equivalent to the net proceeds of the Notes to the City. The City intends to use the net proceeds for financing budgetary expenditures of the City.
Further Issues	The Bank may from time to time, without the consent of the Noteholders, create and issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single series with such existing Notes.
Ratings	<p>The Notes have been rated BB+ by Standard & Poor's Rating Services, Ba1 by Moody's Investors Service, Inc. and BB+ by Fitch Ratings Ltd.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p>
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Governing Law	The Notes will be governed by English law.
Selling Restrictions	United Kingdom, United States, Germany, Russian Federation, Italy, Austria and Switzerland. See "Subscription and Sale".

Summary Financial Information

The following table sets out certain selected financial and economic data for the City and the Federation, including Gross City Product ("GCP") and Gross Domestic Product ("GDP") data for the Federation for the periods indicated.

	Year ended 31 December				
	2000	2001	2002	2003 ⁽¹⁾	2004 ⁽²⁾
	<i>(billions of roubles)</i>				
City Financial Data:					
Revenue:					
Total Budget revenue, including:.....	195.851	233.396	281.855	320.637	373.806
Tax revenue.....	132.295	165.225	236.374	259.290	295.034
Non-tax revenue	26.967	30.248	36.869	44.694	64.125
Reconciliation item ⁽³⁾	(20.209)	(20.102)	(54.731)	(33.529)	(46.887)
DPF revenues	56.798	58.025	63.343	50.182	61.534
Expenditure:					
Total Budget expenditure, including:.....	173.217	228.744	303.929	360.991	419.953
DPF expenditure	56.551	59.709	61.370	54.040	65.287
Budget surplus (deficit)	22.634	4.652	(22.074)	(40.354)	(46.146)

Source: City Department of Finance

Notes:

- (1) Preliminary data. Final budget figures for 2003 will not be available until the adoption of the law on the implementation of the 2003 City Budget, which is expected to be published at the end of 2004.
- (2) Figures reflect the amended City Budget as approved by the City Duma and published in June 2004 as well as subsequent amendments as of 3 August 2004. Figures are subject to finalisation and further amendment, and final budget figures for 2004 (i.e. the data on implementation of the budget) are not expected to be published until the end of 2005.
- (3) This reconciliation item has been created to avoid the double counting of revenues which (i) constitute both tax or non-tax revenue and (ii) are attributed to Designated Purpose Funds ("DPFs") (as described below under "City Budget and Financial Accounts — Designated Purpose Funds") and subsidies and subventions received from the Federal budget.

	Year ended 31 December			
	2000	2001	2002	2003 ⁽¹⁾
	<i>(billions of roubles except per capita GCP and GDP, population and inflation rates)</i>			
City Economic Data:				
GCP at current prices:				
Industry	182.145	241.195	289.527	352.195
Services.....	976.889	1,128.988	1,506.107	1,879.295
Net taxes	149.867	180.996	204.361	252.864
Total GCP at current prices	1,308.901	1,551.179	1,999.995	2,484.354
Population (millions)	8.540	8.540	10.400	10.400
GCP per capita at current prices (in thousands of roubles)	153.267	181.637	192.307	238.880
City average annual rate of inflation:				
Consumer Price Index (per cent.)	22.1	20.4	17.2	13.0
Producer Price Index (per cent.)	25.9	18.3	10.7	10.5
Federation Economic Data:				
GDP at current prices.....	7,305.600	8,943.600	10,834.200	13,285.200
GDP per capita at current prices (in thousands of roubles)	50.064	61.606	74.571	92.061

Source: Department of Economic Policy and Development of the City of Moscow and Goskomstat.

Note:

- (1) Preliminary data. Final data will become available no earlier than 2005.

Risk Factors

An investment in the Notes involves a high degree of risk. Accordingly, prospective investors should consider carefully certain factors, including those set out below, in evaluating the Notes prior to making any investment decision.

Risk Factors Relating to the City

Enforceability of Civil Liabilities

The City has not waived any rights to sovereign or other immunity it may have in any jurisdiction. Accordingly, the City may be entitled to immunity from suit in any action or proceeding arising out of the Credit Facility Agreement or any other of the agreements entered into in connection with the Notes to which the City is a party (the “City Agreements”) and the City and its assets, properties and revenues may be entitled to immunity in any attachment or enforcement action. In addition, the City has not submitted to the jurisdiction of any court, or appointed any agent for service of process in any jurisdiction in connection with any action or proceeding arising out of the Credit Facility Agreement or any of the other agreements entered into in connection with the Notes to which the City is a party. Substantially all of the assets of the City are located within Russia. Accordingly, the Issuer, the Trustee and the Noteholders may have difficulty obtaining effective legal redress in connection with the City’s obligations under the Credit Facility Agreement or any of the other agreements entered into in connection with the Notes to which the City is a party.

In the event that a Noteholder nevertheless obtains a final judgment for a sum of money rendered by a court in any jurisdiction other than the Federation, enforceability in the Federation of such final judgment will be recognised by a court of the Federation as a basis upon which to approve enforcement of a judgment against the City or its assets, properties or revenues in the Federation, provided that there exists an international treaty between the Federation and the country where the foreign judgment was rendered concerning the recognition and enforcement of judgments in civil cases and, unless such international treaty otherwise provides, provided that the relevant requirements set forth in Chapter 31 of the Arbitration Procedure Code and any other relevant law, decree or regulation of the Federation are met. No such international treaty exists between the Federation, the United Kingdom or the Federal Republic of Germany concerning the recognition and enforcement of judgments in civil cases. Accordingly, it is unlikely that a court of the Federation would recognise or enforce a judgment from such a country without re-examination of the case on its merits. A court of the Federation may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds and may seek to decline jurisdiction over a dispute arising out of an agreement governed by foreign law. The City has agreed that, in relation to any claim by the Issuer (or, following the assignment of its rights, under the Credit Facility Agreement pursuant to the Trust Deed, by the Trustee) in respect of any dispute or difference of whatever nature howsoever arising under, out of or in connection with the Credit Facility Agreement, such claimant may elect, by notice in writing to the City, to settle such claims by arbitration in accordance with the International Chamber of Commerce Rules (the “Rules”) as at present in force by a panel of three arbitrators appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards dated 10 June 1958 (the “Convention”). An arbitral award in a country which is a party to the Convention should be recognised and enforced by the courts of the Federation without re-examination of the case on its merits, subject to certain qualifications, including, for example, a Federation court’s refusal to enforce, or limiting the enforcement of, such award on public policy grounds.

Under the laws of the Russian Federation and the City, certain assets of the City are not available to satisfy the claims of creditors, including claims of creditors under the Credit Facility Agreement. In particular, Article 126 of the Civil Code of the Russian Federation (the “Civil Code”) provides that certain assets which may only be owned by the City are not available to satisfy the claims of creditors and that land and natural resources owned by the City may be available for such purposes only to the extent provided by law. Article 21 of the City Charter provides that certain assets, including land of common use (for example, squares, roads and parks), historic monuments, buildings donated to the City and areas of recreational or historic significance, may not be disposed of by the City. In accordance with the *Law of the City of Moscow*

on the State Debt of the City of Moscow No. 15 of 18 April 2001, the City's debt is serviced by reference to the assets of the City's "treasury". In accordance with Article 20 of the Charter of the City, as adopted on 28 June 1995 (the "City Charter"), the City's "treasury" consists of the budget funds of the City and assets not transferred to entities established by the City.

Article 126 of the Civil Code provides that assets which have been transferred to legal entities established by the City and held under "economic management" or "operational management" by such entities are not available to satisfy claims of creditors of the City. The laws of the Russian Federation and the City do not restrict the City from transferring any of its assets to such legal entities.

In addition, enforcement against the City's budget funds is subject to the procedures provided by budget legislation, as interpreted by the courts, and may be limited or refused on the basis of "budget immunity" provided by Article 239 of the Budget Code or because the relevant payment is not envisaged, or is not given the requisite priority, in the City's budget for the relevant year.

Budget funds that may not be available to satisfy the claims of creditors, including the City's obligations under the Loan, include those in specified accounts within the City's budget called "Designated Purpose Funds" or "DPFs". DPFs are only authorised to make the expenditures provided for in the City's budget and, because each City budget provides that each DPF shall be in fiscal balance, DPFs cannot incur deficits or, consequently, be used to service debt obligations of the City.

Non-Payment of Financial Obligations Owed to the City

In the past, the Russian financial system has suffered from chronic and endemic problems related to the non-payment of financial obligations. At any one time, the City, like most other constituent member states ("Subjects of the Federation", or "Subjects"), is owed considerable amounts of unpaid taxes. As at 1 January 2004 approximately Rbs 12.2 billion of taxes (which comprised 3.8 per cent. of the total City Budget revenues for 2003) due to the City budget remained unpaid. Non-payment of taxes owed to the City may have a material effect on the City's cash flow and, consequently, on the ability of the City to comply with its obligations under the Credit Facility Agreement. See "City Budget and Financial Accounts—Tax Collection".

Division of Tax Revenue with the Federation

The division of tax revenue between the budgets of the Federation and of the City is governed by Federal law. In recent years, the Federation's share of tax revenue has increased and the City's share has decreased. This trend may continue with the further reform of Federal tax and budgetary legislation. The City's tax discretionary powers are limited because, like other Subjects of the Federation, the City has no authority to set federal tax rates or to alter the rates on regional and local taxes above the limits set by federal legislation (otherwise than through its representation in the Federation Council, i.e. the upper chamber of the Federal Assembly). The abolition of regional or local taxes or the reduction in rates by which the regions share in federal taxes by tax and budgetary legislation has been in some instances accompanied by revenue compensation measures, though such measures historically have not always been sufficient to make up for lost tax revenue. The City estimates that the net loss from the abolition and redistribution of certain taxes will amount to RUR 20.4 billion. As a result, the City has had to take special measures, such as the reduction of certain tax rebates and subsidies, to maintain its budget revenue. The increasing share taken by the Federation of the tax revenue collected in the City may reduce the City's capacity to meet its spending commitments and may adversely affect the ability of the City to comply with its obligations under the Credit Facility Agreement. See "City Budget and Financial Accounts—Budgetary Relations between the Federation and its Subjects".

Litigation

The City is or may become party to certain legal disputes and proceedings which may adversely affect the ability of the City to comply with its obligations under the Credit Facility Agreement or potentially adversely affect its obligations to other creditors under other forms of indebtedness. See "The City Economy—Litigation".

Foreign Exchange Risk

At 1 August 2004 approximately 46 per cent. of the City's total debt of RUR 83.7 billion was denominated in foreign currencies whereas the City's revenues are generally denominated in roubles. Appreciation of any of these foreign currencies against the rouble will increase the debt servicing burden of the City and may undermine the City's ability to satisfy in a full and timely manner its obligations under the Loan.

Risk Factors Relating to Russia

The majority of the City's assets are located in Russia. There are certain risks associated with an investment in Russia. The following are some non-exhaustive examples:

Political Risks

Political conditions in Russia were highly volatile in the 1990s, which negatively impacted Russia's business and investment climate. However, Russia's current president, Vladimir Putin, was inaugurated for his second four year term of office on 7 May 2004 following his re-election as president on 14 March 2004. President Putin has maintained Russian federal government (the "Government") stability and policies generally oriented towards the continuation of economic reforms. State Duma elections held in December 2003 resulted in an increase in the percentage of the aggregate vote received by United Russia and other members of the parliament allied with the President. The City's operations could be harmed if political instability recurs or if reform policies are reversed or become ineffective. Such instability could lead to a deterioration of Russia's investment climate, which could adversely affect the City.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military, police and security forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. In addition, groups associated with the Chechen separatists have committed various acts of terrorism in population centres within Russia (both inside and outside Chechnya, including Moscow), resulting in significant loss of life, injury and damage to property. In particular, during the years 1999-2004 the City has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including bombings of residential buildings and metro stations and the taking of hundreds of hostages at a Moscow theatre in 2002.

Following the terrorist attacks in Moscow, victims of the terrorist acts and their relatives filed court claims against the City Government requesting compensation for moral harm and material losses. These claims are based on Article 17 of the *Federal Law On Combating Terrorism No. 130-FZ* dated 25 July 1998 (as amended). Pursuant to this Article, a Subject of the Russian Federation on whose territory the terrorist act was committed must generally pay damages resulting from a terrorist act, although such compensation may be subsequently recovered from the actual perpetrator of the terrorist act. Although claims with respect to compensation of moral harm have been rejected by the courts, a number of claims with respect to compensation of material losses have been upheld and others are currently being considered. See "City Economy – Litigation".

The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts or throughout the Russian Federation. These events could lead to significant financial losses to the Federation and its Subjects and could materially and adversely affect the investment environment in the City and Russia as a whole.

Material Economic Risks

Since the dissolution of the former Soviet Union in the early 1990s, Russia's society and economy have been undergoing a rapid transformation from a one party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of significant instability and the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;

RISK FACTORS

- an unstable currency;
- high levels of state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- vulnerability of overall economy due to reliance on export of oil and gas and consequent dependence on international oil and gas prices;
- significant increases in unemployment; and
- the impoverishment of a large portion of the Russian population.

In particular, the state's decision temporarily to stop supporting the rouble in August 1998 caused the currency to collapse. At the same time, the state defaulted on much of its short-term domestic debt and imposed a 90 day moratorium on foreign debt and other payments by Russian companies. These actions resulted in an immediate and severe devaluation of the rouble, a near collapse of the Russian banking system, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

There can be no assurance that recent positive trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable rouble and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, the fluctuations in international commodities prices, the strengthening of the rouble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and the City's operations in the future.

Although economic conditions in Russia have recently improved, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented or that, if implemented, they will be successful, that Russia will remain receptive to foreign trade and investment, or that the economy in Russia will continue to improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of the City.

Fluctuations in the Global or Russian Economy

Russia's economy could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside Russia or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is particularly sensitive to the price of oil on the world market, and a decline in the price of oil could slow or disrupt the Russian economy and thus the City's financial condition.

Recent international terrorist activity and the recent armed conflicts in the Middle East region have had a significant effect on international finance and commodity prices. Any future acts of terrorism or armed conflicts could have an adverse effect on the international financial and commodities markets, the global economy and world crude oil prices. Because Russian companies produce and export large amounts of crude oil and natural gas, any of these developments could affect their business and reduce the amount of taxes payable by them to respective budgets, including the budget of the City, which in turn could adversely affect the City's financial condition.

Exchange Rates and Exchange Controls

There was significant instability in the rouble exchange rate following the financial crisis of August 1998, although the rouble appreciated against the U.S. dollar in real terms during 2001, 2002 and 2003. The ability of the Government and the CBR to reduce any further volatility of the rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency. According to Government estimates, inflation in Russia was 19 per cent. in 2001, 15 per cent. in 2002 and 12 per cent. in 2003.

The Government expects inflation to be approximately 10 per cent. in 2004. Although the rate of inflation in Russia has been declining, any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer buying power and erosion of consumer confidence. Any one of these events could have a material adverse effect on the ability of the City to comply with its obligations under the Credit Facility Agreement.

The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Currently, 25 per cent. of foreign currency revenues from export sales must be converted into roubles. The relative stability of the exchange rate of the rouble against the U.S. dollar since 1999 has mitigated risks associated with forced conversion. There can be no assurance that a relatively stable market will continue indefinitely. Current Russian law permits the City to convert its roubles into foreign currency to make payments to meet certain of its financial obligations, but there can be no guarantee that such conversion will be permitted in the future.

The City's revenues are generally denominated in roubles. See "City Budget and Financial Accounts—Budget Revenues". Any significant devaluation in the value of the rouble or the introduction of further exchange controls or repatriation restrictions could have a material adverse effect on the ability of the City to comply with its obligations under the Credit Facility Agreement.

Exchange Control

A new *Federal Law on Currency Regulation and Currency Control No. 173-FZ* published on 17 December 2003 (the "New Currency Control Law") introduced a new currency control regime which came into force in June 2004. According to this new regime, which appears to be more liberal than the previous one, only a limited number of limitations and restrictions can be imposed in respect of currency operations (such as, for instance, reservation requirements or requirements to effect relevant operations through special accounts). However, the New Currency Control Law authorises the CBR and the Government to develop various regulations on the implementation of this new law. Those regulations which have already been adopted by the CBR do not restrict the ability of the City to receive and repay the Loan. Should future regulations adopted by the CBR impose additional restrictions on the City's foreign currency operations, the regulations may have negative effects on the operations and business of the City. See "Risk Factors Related to the Notes—Payments under the Loan" and "THE RUSSIAN FEDERATION – Economic Conditions and Recent Economic Developments – Exchange Controls and Repatriation".

Banking Transactions

The City holds a majority of its funds and, in particular, all tax proceeds, in an account opened with the CBR. Although to a lesser extent than other Russian entities, the City is still dependent on the general condition of Russia's banking and other financial systems. Such systems are not well developed or regulated and legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent

applications. There are currently a limited number of creditworthy Russian banks through which the City can conduct banking transactions, as the August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks. Another prolonged or more serious banking crisis or the bankruptcy of a number of banks to which the City transfers funds could adversely affect the City's operations and its ability to complete banking transactions in Russia.

Lack of Reliable Official Data

Official statistics and other data published by the CBR, federal, regional and local governments, and federal agencies are substantially less complete or transparent than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases from those used in Western countries. Any discussion of matters relating to Russia herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Physical Infrastructure

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity. Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are road, pipeline and rail networks, power generation and transmission, and communication systems. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements. The Government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure will harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations, all of which could have a material adverse effect on the City's financial condition.

Social Risks

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and official corruption in Russia and other countries of the former Soviet Union, including the bribing of officials. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. The City's financial condition and results of operations could be adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in Russia, coupled with difficult economic conditions, the failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could affect the City and lead to losses for the City's budget.

Legal and Regulatory Risks

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. The following aspects of Russia's legal system create uncertainty with respect to many of the legal and operational decisions that the City's government make. Many of these risks do not exist in countries with more developed legal systems:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code and by other federal laws, and by decrees, orders and regulations issued by the President, the Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, government resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies without clear constitutional or legislative basis and with a high degree of discretion. There is a risk that the state may nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, criminal prosecutions and civil actions and use common defects in accounting or share issuances and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issuances and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- Russia has a judiciary with limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- Russia has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor will obtain effective redress in a Russian court.

The current status of the Russian legal system makes it uncertain whether the City would be able to enforce its rights in disputes with other parties. Furthermore, the dispersion of regulatory power among a number of state agencies in Russia has resulted in inconsistent or contradictory regulations and unpredictable enforcement. Various new laws and regulations have been adopted and the legal structures of the state executive authorities have been reformed in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. The City's ability to operate in Russia could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce its rights is dependent on the Russian courts, which are under-resourced, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is understaffed and underfunded. Judges and courts in Russia are generally inexperienced in the area of business and corporate law.

In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The City may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or strictly followed by law enforcement agencies.

Compliance with Applicable Laws, Decrees and Regulations

No assurance can be given that regulators, judicial authorities or third parties will not challenge the City's compliance with applicable laws, decrees and regulations. Russian authorities have the right to, and do, conduct periodic inspections of the City's operations throughout the year. Such future inspections may find that the City has violated laws, decrees or regulations, and the City may not be able to cure such violations within any grace periods permitted by such authorities. Such findings could result in the imposition of fines or penalties or more severe sanctions, any of which could increase estimated costs and adversely affect the City's business.

Securities Laws

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in Western countries. Disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new to Russia and are unfamiliar to most Russian companies and managers. In addition, Russian securities rules and regulations can change rapidly, which may adversely affect the City's ability to conduct securities related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations and decisions issued by the various regulatory authorities apply to the City. As a result, the City may be subject to fines or other enforcement measures despite its best efforts at compliance, which could cause the City's financial results to suffer.

State Action

Federal authorities have a high degree of discretion in Russia and at times have been seen by many commentators to exercise their discretion selectively and disproportionately. Moreover, the federal authorities also have the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. State actions that may be subject to a high degree of discretion could include administrative sanctions, criminal prosecutions and civil actions. Such action by federal authorities, if directed at the City, could have a material adverse effect on the value of the Notes.

On 13 September 2004 the President of the Federation announced a proposed reform of the sub-federal election system. Pursuant to the proposed reform, the heads of the executive authorities in the Subjects will be elected by the legislatures of the respective Subjects from a list of candidates nominated by the President of the Federation (instead of, as is currently the case, by direct election by the electorate of the respective Subject without the participation of federal authorities in the nomination process). The proposed amendments to the existing election system will be provided for in a draft law which is expected to be submitted by the President for the consideration of the State Duma by the end of 2004. If these amendments are adopted or the new Mayor of the City is elected under the new procedure, the political and economic autonomy of the City may be affected, although such effects cannot be determined at this time. In particular, the amendments may have the effect of strengthening the control of the federal authorities over the Subjects and correspondingly reduce the autonomy of the Subjects.

Risk Factors Related to the Notes

Limited Recourse to the Bank

The Bank is only obliged to make payments under the Notes to the Noteholders in an amount equivalent to sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Bank under the Credit Facility Agreement, less any amount in respect of Reserved Rights. Consequently, if the City fails to fully satisfy its obligations under the Credit Facility Agreement, the Noteholders will receive less than the scheduled amount of principal, interest and/or additional amounts (if any) on the relevant due date.

Repayment

At maturity, the City may not have the funds to fulfil its obligations under the Credit Facility Agreement and may not be able to arrange for additional financing. If the maturity date of the Loan occurs at a time when other arrangements prohibit the City from repaying the Loan, the City would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the City could attempt to refinance the borrowings that contain the restrictions. If the City could not obtain the waivers or refinance these borrowings, the City would be unable to repay the Loan.

No Direct Recourse to the City

Except as otherwise disclosed in "Terms and Conditions of the Notes" and in the Trust Deed, no proprietary or other direct interest in the Bank's rights under or in respect of the Credit Facility Agreement

or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Credit Facility Agreement or have direct recourse to the City, except through action by the Trustee under the Security Interests (as defined in “Terms and Conditions of the Notes”). Neither the Bank nor the Trustee under the Assigned Rights (as defined in “Terms and Conditions of the Notes”) shall be required to monitor the financial performance or status of the City or to enter into proceedings to enforce payment under the Credit Facility Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest and/or additional amounts (if any) by the City under the Credit Facility Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Bank’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Bank or the City after such payment is made.

Existing Covenants

The agreements that govern the City’s debt instruments, including the Credit Facility Agreement, contain certain restrictions limiting its operational flexibility. Such restrictions limit its ability to, *inter alia*, create liens.

These restrictions could hinder the City’s ability to carry out its operations and the City’s ability to make payments on the Loan.

In addition, a breach of the Credit Facility Agreement or the terms of other debt instruments could cause a default under the terms of the City’s other financing arrangements, causing all debt under those financing arrangements to become due. No assurance can be given that if the indebtedness under the Credit Facility Agreement were to be accelerated, the assets of the City would be sufficient to generate the funds necessary to repay the Loan, and thus the Notes, in full in satisfaction of its obligations under the Credit Facility Agreement.

Prepayment of the Loan

Under the terms of the Credit Facility Agreement, the City may, subject to certain conditions, prepay the Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. The City may also prepay the Loan if it is required to indemnify the Bank in respect of certain increased costs to the Bank (as set out in the Credit Facility Agreement). In the event that it becomes unlawful for the Bank to allow the Loan to remain outstanding under the Credit Facility Agreement, to allow the Notes to remain outstanding, to maintain or give effect to any of its obligations under the Credit Facility Agreement and/or to charge or receive or be paid interest at the rate then applicable to the Loan, the City may be required by the Bank to prepay the Loan in full. In case of any such prepayment, all outstanding Notes would be redeemable at par together with accrued interest.

Payments under the Loan

Under the New Currency Control Law, special account and mandatory reserve requirements may be imposed by the CBR and the Government on certain types of currency operations such as loans, including those involving the City. The relevant regulations have not yet been enacted by the CBR. Under the CBR Directive No. 1465-u adopted on 29 June 2004, mandatory reserve requirements do not apply to loans with a tenure of more than three years, including the Loan.

No Active Trading Market

Prior to their issue, there was no public market for the Notes. Although application has been made to list the Notes on the Luxembourg Stock Exchange, an active trading market in the Notes may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could

have a material adverse effect on the liquidity and the trading price of the Notes. In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Risk Factors Relating to Taxation of the Notes

Interest Payments under the Loan — Availability of Treaty Relief

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident legal entity are subject to Russian withholding tax at a rate of 20 per cent. unless such withholding is reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, the City believes that interest payments on the Loan made to the Bank will not be subject to withholding tax under the terms of the applicable double taxation treaty between the Russian Federation and the Federal Republic of Germany. However, there can be no assurance that such double taxation treaty relief will be available.

Specifically, for the purposes of the applicable double tax treaty between the Russian Federation and the Federal Republic of Germany, the Bank must be the beneficial owner of the interest payments being received in the Federal Republic of Germany. While the City believes that the Bank will be treated as the beneficial owner of the income in question, the notion of beneficial ownership is not well defined, either in Russian law or in international tax law. As a consequence, different interpretations are possible and the position could be taken that the Bank should not be viewed as the beneficial owner of the interest payments being received in the Federal Republic of Germany. However, the City believes that it is unlikely that the Russian authorities will adopt this view.

Consequences of Russian Withholding

If any payments including payments of interest under the Loan are subject to any withholding tax, subject to its option to prepay the Loan referred to in the following paragraph, the City will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount that will be equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of German taxes except as required by law. In such event, the Bank will only be required to pay additional amounts to the extent that it receives corresponding amounts from the City under the Credit Facility Agreement. Based on professional advice it has received, the City believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of German taxes as described in “Tax Considerations—Federal Republic of Germany”. The Credit Facility Agreement provides for the City to pay corresponding amounts in these circumstances. There are some doubts as to whether the gross-up clauses contained in the Credit Facility Agreement are enforceable under Russian law.

Because of the limited recourse nature of the Notes, if the City fails to pay any such gross-up amounts, the amounts payable by the Bank under the Notes will be correspondingly reduced. Any failure by the City to increase such amounts would constitute an Event of Default under the Credit Facility Agreement. In certain circumstances (including following enforcement of the security upon the occurrence of a Relevant Event as defined in the Trust Deed), in the event that the City is obliged to increase the amounts payable, it may prepay the principal of the Loan together with accrued interest, and all outstanding Notes would be redeemed by the Bank (to the extent that the Bank has actually received the relevant funds from the City).

Withholding Tax Risk — Enforcement of the Security under the Trust Deed

The Bank has granted security over certain of its rights in the Credit Facility Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in “Terms and Conditions of the Notes”. In these circumstances, payments under the Credit Facility Agreement (other than in respect of Reserved Rights)

would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments, other than the principal, made by the City to the Trustee would in general be subject to Russian withholding income tax at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double taxation treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double tax treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund. As indicated above, it is currently unclear whether the provisions obliging the City to gross-up payments will be enforceable in the Russian Federation. If, in the case of litigation in the Russian Federation, a Russian court does not rule in favour of the Bank or the Trustee and Noteholders, there is a risk that gross-up for withholding tax will not take place and that payment made by the City under the Credit Facility Agreement will be reduced by Russian income tax withheld by the City at a rate of 20 per cent. See also “The Credit Facility Agreement—Prepayment”, “The Credit Facility Agreement—Taxes”, “Terms and Conditions of the Notes—Redemption and Purchase”, “Terms and Conditions of the Notes—Taxation” and “Russian Federation”.

Withholding Tax Risk — Circumstances where the Bank Ceases to be Resident in a Qualifying Jurisdiction

Payments of interest under the Credit Facility Agreement will be subject to Russian withholding tax at the rate of 20 per cent. in circumstances where the Bank ceases to be resident in the Qualifying Jurisdiction (as defined in Clause 1.1 of the Credit Facility Agreement). Where this is the case, the City will only be required to gross up payments in the event that the Bank ceases to be resident in a Qualifying Jurisdiction by reason of a change of law after the date of the Credit Facility Agreement. Consequently, should the Bank cease to be resident in a Qualifying Jurisdiction in any other circumstances, Noteholders will receive payments under the Notes net of such withholding and will have no right to require their Notes to be prepaid.

Disposals of the Notes in Russia

If a non-resident Noteholder that is a legal person or organisation sells Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to 20 per cent. Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within Russia by an individual non-resident Noteholder, a withholding tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Tax Considerations – The Russian Federation”.

Risk Factors Relating to the German Insolvency Code

Clause 4 of the Trust Deed provides for, among other things, an English law charge in favour of the Trustee for the benefit of the Noteholders over certain receivables of the Bank under the Loan. Section 166(2) of the German Insolvency Code provides that receivables assigned for security purposes may not, after the commencement of insolvency proceedings, be enforced by the assignee but only by the insolvency administrator, who will be entitled to deduct from the enforcement proceeds a lump sum of 9 per cent. (including VAT, if applicable) consisting of 4 per cent. as costs of determination and 5 per cent. as costs of realisation. However, the 5 per cent. component may be increased or decreased by any substantial amount by which the actual costs of realisation exceed or fall below 5 per cent. of the enforcement proceeds. Value added tax will be deducted to the extent payable by the insolvent estate in connection with the realisation. Should the Bank become unable to make payments with respect to the Notes, the proceeds that are available for distribution to Noteholders under the security given pursuant to Clause 4 of the Trust Deed might therefore be reduced by 9 per cent. as calculated above and as increased or decreased by an amount reflecting the actual costs of realisation and value added tax, since a court could hold that an English law charge should be subject to Section 166(2).

The same may apply if the secured property becomes enforceable by the Trustee, but the Trustee fails to enforce the security interests within the certain limit set by the insolvency court. Where the insolvency administrator waives his right of realisation in favour of the Trustee, the Trustee is nevertheless obliged to

RISK FACTORS

transfer to the estate out of the enforcement proceeds an amount equal to the costs of determination (which may amount to up to 4 per cent.), as well as the amount of any value added tax, if applicable.

Use of Proceeds

The proceeds from the Loan (expected to be €374,000,000 before taking account of fees, commissions and expenses), which is being funded in full by the issue of the Notes, will be used by the City for the purpose of funding budgetary expenditures of the City. The fees, commissions and expenses relating to the offering of the Notes that the Bank is entitled to deduct from a single advance under the Credit Facility Agreement are expected to be €1,297,609.02. The net proceeds of the Loan pertaining to the City are expected to be €372,702,390.98.

The City of Moscow

Introduction and History

Moscow is the capital of the Russian Federation (the “Federation”). Moscow is an ancient city, which celebrated its 850th anniversary in 1997. Moscow is the largest city in, as well as the financial, commercial, scientific, educational and artistic centre of, the Russian Federation. Under the Constitution of the Russian Federation (the “Constitution”), Moscow has the status of a Subject of the Federation. Each of the 89 Subjects within the Federation, which comprises 21 republics, 6 provinces, 49 regions, 1 autonomous region, 10 autonomous districts and 2 cities of Federal significance, Moscow and St. Petersburg, is governed by its own executive and legislative branch, as well as certain local self-governing bodies. From 1 December 2005, as a result of unification of two currently existing Subjects of the Federation to create the Perm province, the number of Subjects will be reduced to 88.

Moscow lies within the central part of the most highly developed and densely populated area of the Russian Federation and is traversed by the Moskva River, a tributary of the Oka River, which is in turn a tributary of the Volga River, the longest river in European Russia.

The Moscow region was settled by the Eastern Slavs in the 10th and 11th centuries. From the mid-14th century, Moscow has been the centre of the Russian Orthodox Church and, despite prolonged struggles against invaders, became the undisputed economic and cultural centre of unified Russia. Moscow was the capital of Russia until 1712. Between 1712 and 1918, the capital was moved to St. Petersburg. In 1918 Moscow regained its status as the capital. From 1922 to 1991, Moscow was the capital city of the Union of Soviet Socialist Republics (the “Soviet Union”). With the dissolution of the Soviet Union, Moscow remained the capital of the Russian Federation and the seat of the Federal Government. Its status as the capital is established by the Constitution and the *Federal Law on Status of the Capital of the Russian Federation No. 4802-I* enacted on 15 April 1993 as amended (the “Federal Capital Law”).

Selected Financial and Economic Data

The following table sets out certain selected financial and economic data for the City and the Federation, including Gross City Product (“GCP”) and Gross Domestic Product (“GDP”) data for the Federation for the periods indicated.

	Year ended 31 December				
	2000	2001	2002	2003 ⁽¹⁾	2004 ⁽²⁾
	<i>(billions of roubles)</i>				
City Financial Data:					
Revenue:					
Total Budget revenue, including:.....	195.851	233.396	281.855	320.637	373.806
Tax revenue.....	132.295	165.225	236.374	259.290	295.034
Non-tax revenue	26.967	30.248	36.869	44.694	64.125
Reconciliation item ⁽³⁾	(20.209)	(20.102)	(54.731)	(33.529)	(46.887)
DPF revenues	56.798	58.025	63.343	50.182	61.534
Expenditure:					
Total Budget expenditure, including:.....	173.217	228.744	303.929	360.991	419.953
DPF expenditure	56.551	59.709	61.370	54.040	65.287
Budget surplus (deficit)	22.634	4.652	(22.074)	(40.354)	(46.146)

Source: City Department of Finance

Notes:

- (1) Preliminary data. Final budget figures for 2003 will not be available until the adoption of the law on the implementation of the 2003 City Budget, which is expected to be published at the end of 2004.
- (2) Figures reflect the City Budget as approved by the City Duma and published in June 2004 as well as subsequent amendments as of 3 August 2004. Figures are subject to finalisation and further amendment, and final budget figures for 2004 (i.e. the data on implementation of the budget) are not expected to be published until the end of 2005.
- (3) This reconciliation item has been created to avoid the double counting of revenues which (i) constitute both tax or non-tax revenue and (ii) are attributed to Designated Purpose Funds (“DPFs”) (as described below under “City Budget and Financial Accounts–Designated Purpose Funds”) and subsidies and subventions received from the Federal budget.

	Year ended 31 December			
	2000	2001	2002	2003 ⁽¹⁾
	<i>(billions of roubles except per capita GCP and GDP, population and inflation rates)</i>			
City Economic Data:				
GCP at current prices:				
Industry	182.145	241.195	289.527	352.195
Services.....	976.889	1,128.988	1,506.107	1,879.295
Net taxes	149.867	180.996	204.361	252.864
Total GCP at current prices	1,308.901	1,551.179	1,999.995	2,484.354
Population (millions)	8.540	8.540	10.400	10.400
GCP per capita at current prices (in thousands of roubles)	153.267	181.637	192.307	238.880
City average annual rate of inflation:				
Consumer Price Index (per cent.)	22.1	20.4	17.2	13.0
Producer Price Index (per cent.)	25.9	18.3	10.7	10.5
Federation Economic Data:				
GDP at current prices.....	7,305.600	8,943.600	10,834.200	13,285.200
GDP per capita at current prices (in thousands of roubles)	50.064	61.606	74.571	92.061

Source: Department of Economic Policy and Development of the City of Moscow and Goskomstat.

Note:

(1) Preliminary data. Final data will become available no earlier than 2005.

Overview of Legislative, Executive and Administrative Structure

The Constitution describes the division of authority between the Federation and its Subjects. Certain areas of governance are reserved by the Constitution exclusively for the Federal authorities, including management of Federal state property, the issuance of currency, foreign relations (including foreign economic relations) and defence. The Constitution confers joint jurisdiction on each Subject and the Federation over a number of other areas, including tax administration, ownership and use of land and natural resources, and the appointment of certain court and law enforcement officials within the relevant Subject. In these areas Subjects adopt their own laws and regulations in accordance with the framework provided by Federal law. The Constitution also confers jurisdiction on the Subjects over all matters not specifically reserved to the Federation or to the joint jurisdiction of the Federation and its Subjects.

The City's administrative structure is prescribed by the Charter of the City, as adopted on 28 June 1995, as amended and restated as of 14 July 2004 (the "City Charter"), which is the main constitutive document of the City. The City is governed by an executive branch and a legislative branch. The executive branch is headed by the Mayor who is the City's highest official and whose office comprises various departments, committees, branches and their respective subsidiary organisations responsible for the administration and operation of the City (the "City Executive Authorities") under the supervision of senior officials who constitute the City's government (the "City Government"). The City Government is accountable to the Mayor. The legislature is the City Duma which is a unicameral parliament composed of elected Deputies. The City Duma enacts City laws, including laws pertaining to the City budget (the "City Budget"), monitors the activities of the City Government and exercises certain other powers in accordance with the City Charter and Federal law. The City Charter may be amended by City laws approved by the City Duma within the limits set by applicable Federal law.

Currently the heads of the executive authorities in each of the Subjects (governors, presidents, mayors, etc.) are elected by the population of the respective Subjects as well as the deputies of the territorial legislatures without the participation of federal authorities in the nomination process. However, on 13 September 2004 the President of the Federation announced a proposed reform of the sub-federal election system which may have the effect of reducing the autonomy of the Subjects. Under the proposed reform the heads of the executive authorities in the Subjects will be elected by the legislatures of the respective Subjects from a list of candidates nominated by the President of the Federation. The proposed amendments to the existing election system will be provided for in a draft law which is expected to be submitted by the President for consideration of the State Duma by the end of 2004. The proposed reform, if adopted, is expected to affect the forthcoming elections in the Subjects but not to trigger the early termination of the authority of those heads of the Subjects elected prior to this reform.

The Mayor of Moscow

The Mayor is elected by citizens of Moscow for a term of four years, but for no more than two terms beginning as of October 1999, not taking into account terms that started to run before October 1999. Within the limits set by Federal and City law the Mayor appoints the City Government, defines the authority of the various departments within the City Executive Authorities and directs their activities. Pursuant to the City Charter, the Mayor may present legislative proposals to the City Duma which can debate such proposals. The Mayor also has the power to veto any legislation promulgated by the City Duma and may re-submit laws to the City Duma for consideration with or without amendments. The current Mayor is Mr. Yuri M. Luzhkov who was re-elected on 7 December 2003 for a new four-year term. Current Federal and City law does not allow Mr. Luzhkov to be re-elected for a further four-year term. The Mayor can be removed from office upon his resignation, becoming physically disabled, dismissal by the President of the Russian Federation in certain circumstances established by Federal law, impeachment, conviction of a criminal offence, loss of legal capability, loss of Russian citizenship or relocation of permanent residence outside Russia.

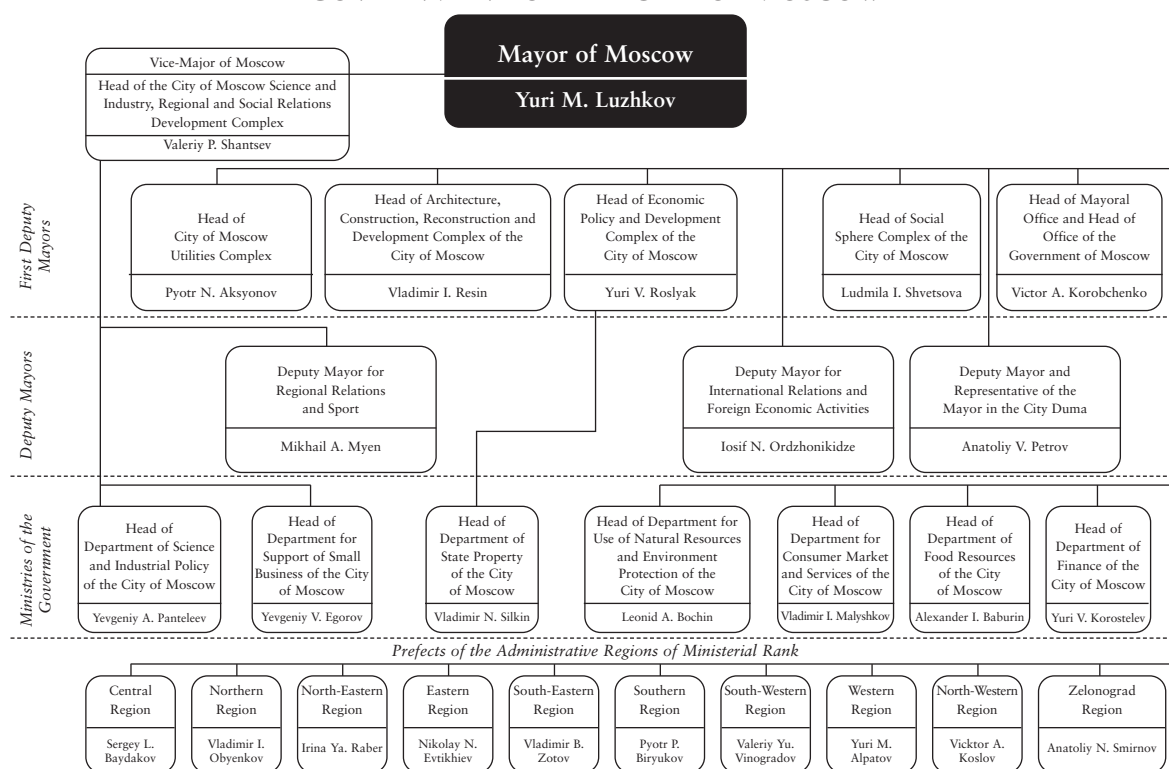
The City Executive Authorities

The City Executive Authorities comprise various departments, committees, directorates, inspectorates and their respective subsidiary organisations primarily established pursuant to the City Charter.

Pursuant to the *Mayor's Decree No. 103-UM* dated 30 December 2003 as amended as of 29 March 2004, the City Executive Authorities are primarily engaged in the administration and operation of five principal divisions, or complexes, of the City: (i) the Science and Industry, Regional and Social Relations Development Complex, (ii) the Economic Policy and Development Complex, (iii) the City Utilities Complex, (iv) the Architecture, Construction, Reconstruction and Development Complex and (v) the Social Sphere Complex. Each Complex is run by a First Deputy Mayor. Certain other departments and branches of the City Executive Authorities, such as the Finance Department, fall outside these five principal sectors. The City Government approves the regulations of certain constituent bodies within the City Executive Authorities and may appoint and remove the Heads of such bodies.

The City Government

GOVERNMENT OF THE CITY OF MOSCOW



The City Government is, in accordance with the City Charter and the *City Law On the Government of Moscow No. 5* dated 26 February 1997 as amended as of 6 November 2002, the highest executive body of the City and is headed by the Mayor, who appoints and removes the other members of the City Government.

The primary spheres of activity of the City Government relate to: (i) the economy and infrastructure of the City, including the City's public utilities, public transport, communications and engineering infrastructure; (ii) construction activities within the City; (iii) the management, sale and leasing of the City's real estate and other assets, including the transfer of property as part of the City's privatisation process, and the development of economic policy for the City and (iv) the development of the City's social infrastructure, including the provision of services such as public health, education, culture and sport as well as providing support for the more vulnerable groups within the population of the City, such as the aged and the handicapped.

Each such primary sphere of activity is managed by various elements of the City Executive Authorities and enterprises that are either controlled by the City or under contract with the City.

The members of the City Government include:

- The Mayor;
- The Vice-Mayor;
- First Deputy Mayors, who are responsible for the primary spheres of activity of the City Government;
- Deputy Mayors;
- Head of the Office of the City Government;
- Ministers of the Government;
- Prefects of the City's 10 administrative regions, such regions being territorial subdivisions of the City created to enhance effectiveness of governance and performance of other City activities (the "Administrative Regions").

As of the date hereof, the senior members of the City Government are as follows:

Yuri M. Luzhkov is the Mayor of Moscow and the Head of the Government of Moscow, the highest executive authority within the City. Mr. Luzhkov is responsible for the general co-ordination of the activities of the City Government and activities of the City Executive Authorities, including: the general social and economic development of the City, the financial, economic and industrial policy of the City and the development and realisation of the City's special programmes, such as programmes for the development of housing and utilities, industry, construction, wholesale trade, public transport, education, healthcare and sport. Mr. Luzhkov was born in 1936 and is a graduate of the Gubkin Oil and Gas Institute in Moscow.

Valeriy P. Shantsev is the Vice-Mayor of Moscow. If the Mayor is temporarily absent, the Vice-Mayor carries out the Mayor's responsibilities. Mr. Shantsev is the Head of the Science and Industry, Regional and Social Relations Development Complex. He is responsible for the development of science, industry, small enterprises, telecommunications and advertising in the City, as well as for the development and realisation of insurance programmes and the programme of mortgage financing in the City. Mr. Shantsev was born in 1947 and is a graduate of the Moscow Institute of Radio Technology, Electronics and Automation.

Pyotr N. Aksyonov is the First Deputy Mayor responsible for the City Utilities Complex. His areas of responsibility include the operation and development of the housing and urban utilities sector in the City, power and water supply and drainage systems, roads, transport and communications, landscaping and maintenance of residential housing, sanitary purification, supply of oil products and foodstuffs. Mr. Aksyonov was born in 1946 and is a graduate of the All-Union Institute of Engineering and Construction.

Vladimir I. Resin is the First Deputy Mayor responsible for the Architecture, Construction, Reconstruction and Development Complex. He is the Head of the City Planning Policy, Development and Reconstruction Department. His areas of responsibility include the development and implementation of the General Plan of the City development, improvement of the City's architecture, development and implementation of construction programmes within the City, and financing of the City Investment Programme in the sphere of construction, protection and exploitation of historic buildings and monuments. Mr. Resin was born in 1936 and is a graduate of the Moscow College of Mines as well as a member of the International Engineering Academy.

Yuri V. Roslyak is the First Deputy Mayor responsible for the Economic Policy and Development Complex. His areas of responsibility include planning and implementation of the City's economic, investment, financial, tariff, pricing and taxation policy, management of the City's state debt, government contractual works, management of the City's state property, organisation of the financing of the City Investment Programme, licensing, organisation and holding of tenders and auctions and development of mortgage financing in the City. Mr. Roslyak was born in 1954 and is a graduate of the Moscow Institute of Engineering and Construction.

Ludmila I. Shvetsova is the First Deputy Mayor responsible for the Social Sphere Complex. Her areas of responsibility include the development and realisation of the City's social policy, including social services, provision of residential housing, education, health care, employment, culture and arts as well as family and youth issues. Ms. Shvetsova was born in 1949 and is a graduate of the Kharkov Institute of Aviation.

Victor A. Korobchenko is the Head of the Mayoral Office and the Head of the Office of the Government of Moscow and is ranked as the First Deputy Mayor. Mr. Korobchenko is responsible for co-ordinating activities of the Mayor and of the City Executive Authorities, the functioning of the departments, control over implementation of the City laws, resolutions and decrees of the City Government, Mayor, Vice-Mayor, First Deputy Mayors and Deputy Mayors as well as for manpower policy and public relations. Mr. Korobchenko was born in 1947 and is a graduate of the Bauman Technical College in Moscow.

Iosif N. Ordzhonikidze is the Deputy Mayor for international relations and foreign economic activities. His areas of responsibility include the development and implementation of foreign social and economic policy, attracting foreign investment to the City, co-ordination of the international activities of all departments, committees and directorates of the City, and the functioning and development of the tourism, hotel and gambling businesses in Moscow. Mr. Ordzhonikidze was born in 1948 and is a graduate of the Lenin Polytechnic Institute in Georgia.

Mikhail A. Myen is the Deputy Mayor for regional relations and sport. He is responsible for economic, social, cultural and scientific relations with the Russian regions and the Republic of Belarus, the development and implementation of regional programmes, including regional investment programmes, collaboration with international associations and unions, as well as for national policy, religion and development of sport in Moscow. Mr. Myen was born in 1960 and is a graduate of the State Institute of Culture in Moscow, the Institute of Management, Economics, Law and Information Science in Moscow and the Russian Academy of Civil Service.

Anatoliy V. Petrov is the Deputy Mayor with responsibility for the co-ordination of activities of the City Government and executive bodies with the Administrative Regions and Districts and the development of local authorities' self-governance. He is the representative of the Mayor in the City Duma. His areas of responsibility include co-ordination of the City Government with activities of local bodies, co-ordination between the City Government and Federal authorities, organisation and holding of elections and referendums in the City, co-ordination of activities of the City Executive Authorities in the development of legislative acts of the City and control over their implementation. Mr. Petrov was born in 1937 and is a graduate of the Moscow Metallurgy Institute.

Administrative Division of the City and Administrative Executive Bodies

The City is divided into administrative entities comprising 10 Administrative Regions and certain other areas. The Administrative Regions consist of 125 Districts. Districts of the City formally have the status of municipalities and their own local governance structure. The division into Administrative Regions is governed by the *City Law On Territorial Division of the City of Moscow No. 13-47* dated 5 July 1995 as amended as of 12 November 2003. Administrative divisions and boundaries are made taking into account the historical, geographical and town-planning features of the relevant areas, demographic and socio-economic characteristics, the layout of transport communications, the presence of engineering infrastructure and the ability to regulate local matters in the interests of residents.

The authority to administer, co-ordinate and control functions and powers of the City's Executive Authorities in the Administrative Regions is delegated to Prefects who are appointed and removed from office by the Mayor of Moscow. Each District is governed by a Head of the District. The Head of the District acts as the chairperson of the District Assembly and the head of the administration of the District. Members of the District Assembly are elected for a four-year term. The Head of the District has, within certain limits, the right to organise the functions and working of the administration and District Assembly and has a casting vote in the District Assembly. The administration of the District and the District Assembly are primarily involved in the administration of the local economy and local social services.

The City Duma

The City Duma is a representative chamber directly elected by the electorate of Moscow in accordance with City laws. The City Duma is composed of 35 deputies, representing geographic constituencies in the City, and is elected for a term of four years. The Chairman and the Vice-Chairman of the City Duma are elected by secret ballot from among the deputies. The Chairman and Vice-Chairman preside over the sessions of the City Duma and perform representative duties including the execution of resolutions and other official City Duma documents. The first election of deputies took place on 12 December 1993; the second election of deputies took place on 14 December 1997; the third election of deputies took place on 16 December 2001. More than a third of all deputies are members of the political party “*Yedinaya Rossiya*” (“United Russia”).

The City Duma is responsible for approving the laws of the City including the law on the City Charter and laws on the City Budget and controlling their implementation, reviewing the City Budget’s implementation, and approving and controlling the use of designated purpose budgetary funds. The City Duma is empowered to impose fines and penalties, to levy or repeal taxes, duties and other compulsory payments within the exclusive jurisdiction of the City and to grant rebates, if any, to taxpayers within the jurisdiction of the City with respect to that portion of Federal taxes transferred to the City. The City Duma also approves the General Plan of Development of the City, the City’s designated purpose programmes such as programmes in support of industry, scientific research, education, the arts and sport, and the City’s social and economic development programmes. The City Duma is also responsible for, among other things, establishing the working procedure of Administrative Regions and Districts and allocation of regional tax proceeds between the City Budget and the budgets of the Administrative Regions and Districts.

The City Duma works in sessions, although it also has a number of working groups and committees. The City Duma’s principal permanent committees include (i) the Budgetary and Finance Committee which is responsible for the City Budget and designated purpose budgetary funds, regional and local tax procedures, debt service and debt repayment, and foreign investments; (ii) the Committee on Economic Policy which is responsible for the economic development of the City, the development of the City real estate market, management of City property, insurance and leasing in Moscow; (iii) the Social Policy Committee which is responsible for social welfare, education, healthcare, arts, migration and job placement, national policy and religion; (iv) the Law Enforcement and Security Committee which is responsible for ensuring that City laws comply with the Constitution of the Russian Federation and for law enforcement in Moscow; (v) the State Development and Self-Governance Committee which is responsible for the organisation of activities of the City Executive Authorities and for development of self-governance, public and municipal service in Moscow; (vi) the Committee on City Duma Activities whose responsibilities include finalising the agenda for the City Duma sessions and co-ordination of the City Duma’s activities; (vii) the Committee on Entrepreneurship which is in charge of support for small and medium size enterprises in the City, the protection of interests of entrepreneurs and consumers, insurance, registration and licensing of various entrepreneurial activities; (viii) the Housing Policy and Reforms Committee which is responsible for the development of the housing and utilities sector of the City’s economy, privatisation and registration of real property rights and mortgage lending; and (ix) the Committee on Environmental Policy which is responsible for the rational use of natural resources and environmental protection.

Legislation may be initiated by the City Duma, through its deputies and various committees and working groups, although most laws are developed by the City Government and approved by the Mayor and then submitted to the City Duma by the Mayor. The City Executive Authorities, local self-governing bodies and other official organisations are obliged to provide, at the City Duma’s or a Deputy’s request, relevant information in relation to their activities.

The City Duma has the power to vote on the performance of the City Government and can, in certain circumstances, pass motions of no confidence in relation to the City Government or in relation to particular officials including the Mayor.

The City Judicial System

The principal judicial bodies within the City operate under the auspices of the Russian Federation and are integrated in the Federal judicial system. The Russian Federation has a unified judicial system with Federal courts operating throughout the Russian Federation, including the Arbitration Court of the City of Moscow (part of the system of Federal state commercial courts), the Moscow City Court (part of the system of Federal courts of general jurisdiction) and the Intermunicipal or District courts. The Arbitration Court of the City of Moscow generally hears “economic” (i.e. business-related) disputes between legal entities and individual entrepreneurs, organisations and citizens. The Moscow City Court and the Intermunicipal or District courts of Moscow that are also courts of general jurisdiction consider civil and criminal cases as courts of first instance. The Moscow City Court is also the first court of appeal from the Intermunicipal or District courts.

Criminal and civil proceedings in the City as well as in the Russian Federation are governed by the relevant Federal legislation, which is binding on the City’s courts. Judges are appointed by the President of the Russian Federation upon recommendation by the Chairman of the Highest Arbitration Court of Russia (in the case of the Arbitration Court of the City of Moscow) and the Chairman of the Supreme Court of the Russian Federation (in the case of the Moscow City Court and the Intermunicipal or District courts). Supervision over judicial practice of all courts of general jurisdiction in Russia is exercised by the Supreme Court of the Russian Federation and over arbitration courts by the Highest Arbitration Court of the Russian Federation.

Pursuant to the City Charter the Charter Court of the City of Moscow is a City judicial forum competent to review the compliance of City legislation and municipal regulations with the City Charter and to interpret the City Charter.

Principal Activities of the City

Overview

The City's primary functions are to perform regional governance and administration and to provide basic services to residents. In 2003, approximately 68 per cent. of total expenditure of the City Budget was spent on seven primary activities: housing and utilities; healthcare; education; social services; transport and communications; industry, energy and construction; and law enforcement. In 2000, 2001, 2002 and 2003 approximately 52 per cent., 60 per cent., 66 per cent. and 68 per cent., respectively, of the total City Budget was allocated for these activities. In 2004, the City has budgeted approximately 71 per cent. of the City Budget for these activities.

Since 2003 the amount of capital expenditure reflected in the "Industry, energy and construction" item of the City Budget sharply increased due to the inclusion under this budget line item of a portion of capital expenditure amounts previously included in other budget line items as a result of changes in the City's budget policies.

For a further description of the City Budget expenditure as it relates to the City's principal activities, see "City Budget and Financial Accounts–Budget Expenditure".

Housing and Utilities

The total area of residential housing in Moscow is approximately 195 million square metres. This figure includes approximately 160 million square metres of housing for which the City provides maintenance, waste disposal and general building upkeep. With respect to non-residential real estate, the City normally provides basic services such as heat and water supply.

The City subsidises the cost of utilities such as heat and water and certain housing services such as building maintenance. Electric power for Moscow is generated by OAO MosEnergo, in which RAO United Energy Systems, the Federal energy provider, owns an approximate 51 per cent. interest. The City does not provide financing for capital expenditure by OAO MosEnergo.

The City does not subsidise the cost of electricity to Moscow residents, although industrial consumers pay substantially higher tariffs for electricity than the general population. The City does, however, subsidise the cost of steam heat to Moscow residents. Steam heat generated as a by-product of OAO MosEnergo's electricity production is transferred to City residents through a pipeline distribution system owned by OAO MosEnergo and the City and operated by the State Unitary Enterprise MosGorTeplo, another City enterprise. State Unitary Enterprise MosTeploEnergo also generates and transfers steam heat to City residents. In 2001, City residents paid approximately 45 per cent. of the cost of heat supplied by MosTeploEnergo, as compared to 44 per cent. and 48 per cent. in 2002 and 2003, respectively. The remainder was paid by the City. The City intends to continue to increase the percentage of the estimated costs of providing heat that is paid by City residents.

The City owns and controls its water supply and sewage system through a State Unitary Enterprise, MosVodoKanal, which is wholly controlled by the City. At the beginning of 2004 MosVodoKanal supplied approximately 5.064 thousand cubic metres of drinking water per day from two water systems, the Moskva and Volga River systems. MosVodoKanal operates four waste water processing facilities. In 2001 Moscow citizens paid 98 per cent. of the cost of water, as compared to 100 per cent. and 98 per cent. in 2002 and 2003, respectively. The remainder was paid by the City.

The City is responsible for the maintenance of City-owned apartment buildings in Moscow including buildings in which apartments have been transferred to their residents in accordance with the Federal Law *On Privatisation of Residential Housing Stock in the Russian Federation No. 1541-1* dated 4 July 1991 as amended as of 29 June 2004, which allows residents to become owners at no cost to the residents. Since 2000, City residents have paid approximately 40 per cent. of the estimated cost of maintaining and providing communal services to their apartment buildings.

The City collects and disposes of domestic and industrial waste in Moscow. In connection with the disposal of household waste, the City employs approximately 1,400 refuse vehicles, manages several recycling plants, and engages in landfill activities. Since 2000, City residents have paid approximately 75 per cent. of the cost of waste disposal services.

Over time, the City intends to eliminate subsidies and transfer all costs relating to housing and utilities services to City residents.

The City's capital expenditure on housing and utilities includes expenditure on repair and renovation of residential housing, repair of minor roads, improvements, repair of heat and gas pipelines and equipment, reform of the housing and utilities sector as well as investments in the housing and utilities sector.

Healthcare

Medical institutions within the City operate in accordance with the City Health Care Programme. The Programme is aimed at the development and improvement of healthcare services provided in Moscow through the application of new technologies and methods of diagnostics and treatment.

State guaranteed medical care for Moscow residents is provided through special purpose medical programmes. These programmes are financed from the City Budget and from the Moscow territorial division of the Federal Fund of Compulsory Medical Insurance. In 2003 the City Budget financed the operations of 799 medical institutions of the Moscow Department of Health Care, including 154 hospitals, 571 outpatient clinics and sub-clinics, one ambulance service station and 73 other medical care institutions such as the Centre of Emergency Medical Care, sanatoria and child-care homes.

Voluntary medical insurance and private medical care continue to develop in parallel with state guaranteed medical services. Certain Federal medical institutions are also located in the City but are financed from the Federal budget ("Federal Budget") and other sources but not from the City Budget.

Moscow has a centralised ambulance service which includes 53 substations located across the City. The centralised ambulance service is operated by the Federal bodies.

In 2004 the City expects to construct two outpatient clinics and two hospices, and establish new premises for Moscow City Clinic No. 36 and an ambulance service station.

The City's capital expenditure on healthcare includes expenditure on procurement and modernisation of equipment and general repairs as well as investments in the healthcare sector.

Education

At the end of 2003 there were 3,995 educational institutions operating in the City supervised by the Moscow Department for Education for the benefit of approximately 1.5 million persons. These institutions included 1,521 schools, 1,796 kindergartens, 153 vocational schools, 44 technical schools and 4 institutions of higher education. In addition, many Federal educational establishments are located in the City but are not financed from the City Budget.

During the six months ended 30 June 2004, the City had completed the construction of five schools and 10 kindergartens. The City plans to construct an additional 11 schools and eight kindergartens before the end of 2004.

The City's capital expenditure on education includes expenditure on procurement and modernisation of equipment and general repairs as well as investments in the education sector.

Social Services

The City provides a wide range of social services for its citizens including housing for the elderly and the homeless and allowances for students, children and young people. The City's prime focus is to provide social support for low income residents. At present there are 119 social service centres operating in the City. In

2003, approximately 1.4 million persons are estimated to have received some form of direct social welfare service from the City.

While pensions for Russian citizens are paid out of Federal funds, the City disburses certain additional payments to certain categories of pensioners. In 2003 the City disbursed approximately Rbs 17 billion to two million unemployed pensioners as additional payments to supplement pensions. Other categories of residents, including invalids, war veterans, widows, students and parents with many children also receive financial assistance from the City.

The City's capital expenditure on social services includes expenditure on procurement and modernisation of equipment and general repairs as well as investments in the social services sector.

Transport, Roads and Communications

The City is responsible for the maintenance and the cost of financing repairs, renovations and reconstruction of all roads within Moscow. The City also operates mass transportation and communications systems within Moscow and partly subsidises the operating costs of the public transportation system, which in 2003 serviced more than 20 million passenger journeys per day. The City intends to continue to increase the proportion of the cost of public transportation borne by users. The City continues to invest significant amounts in public transport projects.

Roads

At the end of 2003 there were approximately 4,658 kilometres of roads in Moscow, including 20 radial highways and two ring roads, the Sadovoye ring road and the Moscow outer ring road. The Sadovoye (*Garden*) ring road is 15 kilometres long. The Moscow outer ring road is approximately 109 kilometres long and carries a high proportion of Moscow's traffic as well as traffic transiting the City. At present the construction of a third ring road has almost been completed. The length of the third ring road is 35 kilometres. It is expected that the construction phase of the ring, which will allow for continuous vehicular traffic along the full length of the ring, will be completed in 2005. The City plans to build a fourth ring road with an estimated length of over 60 kilometres. Technical documentation is currently being developed with respect to construction of the eastern portion of the fourth ring road.

Prior to 1996, the Federation funded renovations of the Moscow outer ring road and the other most significant roads in the City out of the Federal Road Fund. The maintenance and repair of other roads in Moscow was funded out of the City Budget. In 1996 the City acquired the right to retain tax revenues, previously collected by the City for the Federal Road Fund, in the accounts of the City's Non-Budgetary Road Fund (NBF). This Fund was consolidated with the City Budget in 1999 and renamed the Designated Purpose Fund (DPF). Currently the City funds the construction, renovation and maintenance of all major roads in Moscow from this Fund and from the City Budget. Since 2001 the City has also received funds from the Federal Budget for financing the construction, renovation and maintenance of roads of Federal importance.

Public Transport

Metro. At the end of 2003 the Moscow metro extended over 275 kilometres and included 175 stations and 11 lines. The metro is the major part of the City's transportation system and is owned by the City. The metro carries approximately 13 million passengers each day. The City subsidises the metro's operating and maintenance expenses not otherwise covered by passenger fares. The subsidies for the metro's running costs were approximately Rbs 3.9 billion in 2003 and Rbs 3.5 billion in 2002, and subsidies of Rbs 4.1 billion are budgeted for 2004.

In the past the Federal Government has provided sufficient funds for the construction of additional metro lines and stations in the City. In recent years, however, the development of the City's underground transportation system has been financed mainly from the City Budget. In the next 10 years the City plans to build approximately 60 kilometres of new metro lines, including new monorail lines, which are expected to increase the efficiency of the underground transportation system, reduce system overload during rush

hours and accommodate an additional two million passengers who reside in locations that are currently not serviced by the metro.

Ground Transport. Another major passenger carrier in the City is public ground transport in the form of buses, trolleybuses and trams. In 2003, ground transport provided more than 12 million passenger journeys per day. At the end of 2003 the City's public ground transport infrastructure consisted of a 6,755-kilometre network. At the end of 2003, there were 646 bus, trolley bus and tram routes and the City's fleet of buses, trolley buses and trams numbered 7,579. Currently, ground transport services are subsidised by the City to cover operating and maintenance expenses not otherwise covered by passenger fares. The companies operating the ground transport system are owned and controlled by the City. The City provided subsidies to cover running costs for ground transport of Rbs 7.0 billion in 2003 as compared to Rbs 5.7 billion in 2002, and subsidies of Rbs 7.8 billion are budgeted for 2004.

Telecommunications

The City does not make significant expenditures on its telecommunications infrastructure. OJSC Moscow City Telephone Network, which is majority owned by OAO AFK Sistema, is the main owner and operator of the public switched telecommunications network in Moscow. The City is not a shareholder in the OJSC Moscow City Telephone Network and does not provide financing from the City Budget for operational costs or the installation and maintenance of telephone switch facilities. The construction and maintenance of automatic telephone systems and equipment is financed by the OJSC Moscow City Telephone Network from its own revenues and borrowed funds.

The City's capital expenditure on transport, roads and communications includes expenditure on procurement of equipment, fire protection activities as well as investments in the transport, roads and communications sector.

Culture

Moscow is one of the largest cultural centres in the world. At the end of 2003 there were 99 theatres and concert halls, 28 museums, 31 exhibition halls, 431 libraries, eight cinemas, 138 music schools and 15 leisure parks supervised by the Committee for Culture of the City of Moscow. The City Government is implementing a set of measures directed at facilitating the use of culture institutions' services by people of all social levels, including rendering services for free or at a discount to people with low incomes. In addition many Federal cultural institutions are located in the City but are not financed from the City Budget.

The City expects to construct and renovate the premises of a number of cultural institutions in 2004 including the Moscow Nemirovicha-Danchenko theatre, Moscow theatre "ET-CETERA", the Rumina Folk Centre and the Moscow International Concert Hall.

The City's capital expenditure on social services includes expenditure on procurement and modernisation of equipment and general repairs as well as investments in the culture sector.

Law Enforcement and Emergency Services

Law enforcement and emergency services in the City are administered by the Chief Directorate of Internal Affairs and the Headquarters for Civil Defence and Emergency Situations, respectively. The Chief Directorate of Internal Affairs is responsible for the maintenance of order in the City, the security of individuals and the protection of property. The organisation and operation of this Department are regulated by Federal law and relevant City law. The City and the Russian Federation share the costs associated with the Chief Directorate of Internal Affairs.

The Chief Directorate of Internal Affairs is responsible for the organisation and performance of the Municipal Police. There are more than 190 Municipal Police subdivisions in Moscow that are grouped into 10 divisions (on a geographical basis). The funding of material and technical support for Municipal Police subdivisions is provided by the City Budget and designated purpose funds operated by the relevant administrative districts.

The Fire Department operates more than 70 fire stations within the City. This department has approximately 800 emergency vehicles.

The City is not responsible for maintenance and operation of the penal system, which is largely within the responsibility of the Federal authorities.

The City Government is currently implementing the Complex Anticrime Programme. The City Budget for the years 2003-2005 includes Rbs 9.6 billion to fund the programme's goals of reducing crime, including crime in the commerce and finance sectors, preventing terrorist acts, maintaining public order, training law enforcement officials, strengthening leadership in law enforcement agencies and developing an effective legal framework, which in turn is expected to increase investor confidence and stimulate investment in the City.

The City's capital expenditure on law enforcement and emergency services includes expenditure on support of the law enforcement and emergency services departments.

Environmental Protection

The City provides a variety of environmental protection services including the disposal of domestic and industrial waste and the disposal of nuclear waste from medical and scientific research institutions within the City. The City also provides sanitary and public hygiene monitoring services.

The City continues to conduct a number of initiatives relating to the control of pollution and the protection of the environment. While the development of the City's economy and capital investment in infrastructure remain priorities, the City Government has provided for various measures to be taken to reduce pollution, including the relocation of industrial facilities from the City centre, liquidation of small heat and power producing facilities, installation of pollution control systems and imposition of reporting requirements for polluters, the centralisation of waste collection, building of new waste processing and sorting facilities and the improvement of standards of vehicle exhaust emissions. According to preliminary data, in 2003 the City spent approximately Rbs 1.1 billion for ecological monitoring and control and for tree planting and other greenkeeping activities. In 2004 the City is budgeting approximately Rbs 1.4 billion for these same activities.

These environmental protection measures, along with continuous road maintenance and construction of the third ring road and new traffic interchanges, have contributed to a reduction in average annual emissions of more than 20,000 tons.

The City's capital expenditure on environmental protection includes expenditure on environmental protection equipment, monitoring of enterprises as well as investments in the environmental protection sector.

Other Activities

The City Government participates in the construction and renovation of business centres, hotels, and other buildings in the City. Although such projects are generally financed by private investors, the City provides financing for infrastructure development related to these building projects, including the construction and renovation of access roads and the installation and modernisation of communications equipment. As part of one of its larger development projects, the City has allocated Rbs 3.4 billion from its 2004 budget for infrastructure development relating to construction of the business complex Moskva-City, located in the western segment of the centre of the City outside the Sadovoye ring road. The City is currently providing funds in support of other significant long-term capital projects, including the reconstruction of the International Airport Vnukovo.

The City plans to construct a 2.6 kilometre tunnel from the outer ring road to Krasnopresnensky Prospekt. The tunnel will provide access from the Moscow-Riga highway to main traffic arteries in the centre of the City. The construction of the tunnel and Krasnopresnensky Prospekt is expected to alleviate congestion on adjacent roads and increase the efficiency of the Volokolamskoe, Leningradskoe and Rublevskoe highways.

The City plans to construct a number of small three-to-four star hotels. Two large hotels, the Inturist and the hotel Moskva, have already been demolished and another large hotel, hotel Rossiya, will be demolished in the near future and new hotels and business centres will be constructed in their places. These projects will be largely financed by private investors, while the City will provide infrastructure support.

The City finances the construction of new housing which is partially sold and partially granted free of charge to City residents. The City is also implementing a construction programme in which the right of private developers to construct residential buildings will be allocated through open tenders and auctions. Over the next five to seven years the City plans to implement a programme for the construction of high-rise residential buildings and to demolish a substantial number of five-storey residential buildings. This programme will provide up to 8 million square metres of residential housing. The City plans to sell the construction sites at open auctions and the revenues will be directed to the City Budget. The City intends to prohibit state agencies from participating in the auctions.

In 2003, the City provided 1.7 million square metres of residential housing free of charge to people on waiting lists for new or upgraded housing. This allotment provided new housing to approximately eight thousand families on waiting lists as well as upgraded housing to approximately 20,000 families. Under the City programme "Affordable Housing to Young Families", approximately 3,300 apartments and a total area of 193,400 thousand square metres of residential housing have been allotted by the City to young families.

The average area of a living space occupied by one inhabitant increased from 21.4 square metres in 1999 to 23.0 square metres in 2003.

According to estimates of the City Government, in 2004 the City will construct approximately 4.5 million square metres of residential housing. The City Budget will provide funding for the construction of approximately 1.3 million square metres of residential housing. The City has limited its expenditure on construction of housing in 2004 to approximately Rbs 25 billion.

Of the City's 8.3 million square metres of rental space, the City estimates that approximately 3 million square metres is in need of renovation. The City's renovation programme includes the planned construction of approximately 170,000 square metres of low cost office space in an effort to reduce office space shortages, decrease lease rates and to increase affordability for small businesses.

Industrial enterprises contribute significantly to the City GCP. In 2003, manufacturing output in the City grew by 10.4 per cent. and constituted more than 14 per cent. of the City GCP. In 2003, approximately 12 per cent. of the labour force in Moscow consisted of employees in the manufacturing sector. The 2004 City Budget provides approximately Rbs 2.8 billion for activities to support industry in the City. In an effort to improve the environment in the City and provide space for new development, the City Government has developed a plan for relocating industrial facilities away from the City centre and building modern business centres, residential premises and hotels at these locations.

The City Law *On Industrial Activity in the City of Moscow No. 6* dated 21 February 2001 regulates industrial activity in the City. Generally, this law sets forth the basic principles governing industrial activity in the City and the City's industrial policy. The law is designed to ensure support for and creation of favourable conditions for the development of City industry and employment in the industrial sector. Small enterprises play an important role in the City's economy and provide approximately 30 per cent. of the City's tax revenues. The City's Department of Support and Development of Small Enterprises provides technical support and financial assistance to small enterprises. The City's Complex Programme of Support and Development of Small Enterprises has allocated Rbs 4.3 billion from the City Budget for 2004-2006 for the support and development of small enterprises. Additional funding will be provided by private investors. Financial assistance to small enterprises takes various forms, including subsidies and grants, budget loans and lease of equipment and machinery.

City Economy

Demographics

The population of Moscow grew rapidly between 1918 and 1990. Since then, the population has declined because of decreases in the birth rate as well as migration away from the City particularly in the early 1990s. Despite this decrease, according to the results of the national census in 2002, Moscow remained the largest city in the Federation with a population of 10.4 million, or approximately 7.2 per cent. of the Federation's total population of 144.4 million.

While the number of births in Moscow increased by 7 per cent. in 2003 as compared to 2002, the number of deaths in the City exceeded births by 49,400. The mortality rate for residents of working age remains high. Deaths among people of working age amounted to 26 per cent. of all deaths in 2002, of which deaths of males constituted 77 per cent. While infant mortality increased from 10.9 per 1,000 births in 2000 to 11.9 per 1,000 in 2001, it decreased in 2002 to 11.6 per 1,000.

The low birth level has led to a further increase in the average age of the population. At the end of 2002, 14.3 per cent. of the total population of the City was under 15 years of age and 26.3 per cent. of the total population of the City was over 55 years of age, as compared to 18.5 per cent. and 24.4 per cent. respectively in 1992. The average life expectancy of Muscovites has fallen from 69.9 years in 1991 to 67.4 years in 2001.

Nevertheless at the end of 2003 the City's labour force (those people capable of employment) accounted for approximately 64 per cent. of the resident population. The City estimates that, while the total population of the City may continue to decline, the proportion of the total population in the labour force will remain stable over the medium term as a result of continued migration to the City of people capable of employment.

Prior to 2002, a population census was not held regularly in Russia. Pursuant to the *Federal Law On All-Russia Population Census No. 8-FZ* dated 25 January 2002, a population census is to be carried out within all territories of the Russian Federation not less than once every 10 years upon a decision of the Federal Government. The last population census was carried out in October 2002.

Employment and wages

General

Employment levels in the City have remained relatively stable over the last five years. In 2003 the average employment level was approximately 82 per cent. of the City's labour force, a slight decrease from the 2002 figure. In 2003 there were 5.5 million people working in the City (53 per cent. of Moscow's total resident population). In 2003 the public sector of the economy employed 1.8 million people and the private sector employed 3.7 million people. The gap between the number of people working in the public and in the private sectors is gradually widening, with the number of private sector employees growing by comparison with the public sector. This trend is inhibited in part by the City's various social activities, such as construction of hospitals, schools and apartment buildings, as a result of which the City, either directly or through enterprises which it owns or controls, remains a significant employer. The City anticipates that the rate of unemployment will remain relatively stable in the near- to medium-term. The City estimates that 60,000 new jobs will be created during 2005-2007. The City also estimates that the workforce in certain sectors of the City's economy will be augmented by the attraction of between 55,000 to 65,000 workers a year from other regions in the Federation during 2005-2007.

CITY ECONOMY

The following table shows the total number of people employed in the public and private sectors in both the City and the Russian Federation in the period from 1999 to 2003, in millions of persons.

	1999		2000		2001		2002		2003 ⁽¹⁾	
	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation
Public and Municipal ..	1.877	24.434	1.858	24.365	1.831	24.200	1.821	24.200	1.817	n/a
Private, mixed, foreign	3.523	39.566	3.550	39.962	3.586	40.500	3.610	41.200	3.654	n/a
Labour in employment	5.400	64.000	5.408	64.327	5.417	64.700	5.484	65.400	5.471	64.600
Labour force	6.570	86.332	6.593	87.054	6.610	87.329	6.641	87.856	6.655	n/a

Source: Department of Economic Policy and Development of the City of Moscow

Note:

(1) Preliminary data. Final data will become available no earlier than 2005.

Wages

In January 2004 the average monthly nominal wage in large and medium size enterprises in Moscow equalled Rbs 9,511, an increase of 32 per cent. by comparison with the level of January 2003, while the average monthly real wage, adjusted to take into account increases in the consumer price index, was 9.9 per cent. higher than in January 2003.

In the fourth quarter of 2003, the richest 10 per cent. of the population of the City accounted for 50.36 per cent. of total income in the City as compared to 48.11 per cent. in the fourth quarter of 2002, while the poorest 10 per cent. of the population accounted for 0.79 per cent. in the fourth quarter of 2003 as compared to 0.98 per cent. in the fourth quarter of 2002. Since 1995 there have been significant differences in growth in real wages between various job categories. Salaries in industry, science and education have decreased in real terms whereas salaries in the services sector have increased.

Composition of Employed Labour Force

The following table sets out the percentage of the employed labour force in Moscow in particular sectors as of the dates shown, expressed in percentage terms.

	As of 31 December					
	1998	1999	2000	2001	2002	2003 ⁽¹⁾
Manufacturing	14.8	14.4	13.4	13.2	12.2	12.1
Construction	14.9	15.7	15.4	15.2	14.1	13.9
Transport and telecommunications	7.9	8.1	8.0	7.8	7.5	7.3
Retail and wholesale trade	17.4	18.6	18.9	19.4	23.8	24.1
Housing and utilities; domestic services	4.2	4.2	4.9	5.0	4.2	4.1
Healthcare, physical education and social welfare	6.0	5.9	5.9	6.0	5.7	5.6
Education, culture and arts	9.2	9.0	8.9	9.0	9.0	9.0
Science and scientific services	9.4	7.7	7.7	7.5	7.2	7.1
Financial services.....	2.5	2.5	2.8	3.0	3.3	3.6
State administration	3.8	3.8	3.8	3.6	3.7	3.6
Other.....	9.9	10.1	10.3	10.3	9.3	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Economic Policy and Development of the City of Moscow

Note:

(1) Preliminary data. Final data will become available no earlier than 2005.

In December 2003 the number of full-time employees in large and medium size enterprises in Moscow was 2.83 million people or 52 per cent. of the total employed labour force in Moscow.

Unemployment

At the end of December 2003 the officially registered rate of unemployment in Moscow was 0.6 per cent. of the economically active population, while according to the International Labour Organisation (ILO) methodology the number of unemployed people was 60,000 or 1.1 per cent. The official rate only reflects unemployed persons who have formally registered as such, and actual unemployment may be higher than figures indicate.

Gross City Product

In recent years the service sector in Moscow has grown significantly. At the same time the industry sector has played a less important role in forming the City's Gross City Product (GCP).

The following table sets forth the amount of Moscow's GCP at current prices by sector, expressed in billions of roubles.

	For the year ended 31 December				
	1999	2000	2001	2002	2003 ⁽¹⁾
Industry:					
Manufacturing	77.357	107.260	144.290	160.720	199.791
Construction	40.477	61.164	74.598	94.774	112.639
Other industrial sub-sectors	9.277	13.721	22.307	34.033	39.765
Total	127.111	182.145	241.195	289.527	352.195
Services:					
Market services:					
Transport and telecommunications	66.966	71.958	85.115	112.441	134.685
Retail trade and catering.....	354.456	701.782	780.637	1,031.765	1,299.999
Real estate.....	36.551	44.203	59.029	64.909	76.941
Housing and utilities.....	21.700	27.686	25.232	31.131	41.474
Science and scientific services	11.905	26.052	31.277	33.694	37.807
Insurance	11.349	18.024	46.026	84.947	115.763
Other market services	29.891	49.241	58.394	76.364	94.360
Total market services	538.130	938.946	1,081.710	1,435.251	1,801.029
Non-market services	29.818	37.943	47.278	70.856	78.266
Total services	567.948	976.889	1,128.988	1,506.107	1,879.295
Net taxes on products.....	91.532	149.867	180.996	204.361	252.864
GCP at current prices	786.592	1,308.901	1,551.179	1,999.995	2,484.354

Source: Department of Economic Policy and Development of the City of Moscow

Note:

(1) Preliminary data. Final data will become available no earlier than 2005.

The following table sets forth the percentage of Moscow's GCP at current prices by sector.

	For the year ended 31 December				
	1999	2000	2001	2002	2003 ⁽¹⁾
Industry:					
Manufacturing	9.8	8.2	9.3	8.0	8.0
Construction	5.1	4.7	4.8	4.8	4.6
Other industrial sub-sectors	1.3	1.0	1.4	1.7	1.6
Total	16.2	13.9	15.5	14.5	14.2
Services:					
Market services:					
Transport and telecommunications	8.5	5.5	5.5	5.6	5.4
Retail trade and catering.....	45.1	53.6	50.3	51.6	52.3
Real estate.....	4.6	3.4	3.6	3.3	3.1
Housing and utilities.....	3.0	2.1	1.6	1.6	1.7
Science and scientific services	1.5	2.0	2.0	1.7	1.5
Insurance	1.4	1.4	3.0	4.2	4.7
Other market services	4.3	3.7	3.8	3.8	3.8
Total market services	68.4	71.7	69.8	71.8	72.5
Non-market services	3.8	2.9	3.0	3.5	3.1
Total services	72.2	74.6	72.8	75.3	75.6
Net taxes on products.....	11.6	11.5	11.7	10.2	10.2
GCP at current prices	100.0	100.0	100.0	100.0	100.0

Source: Department of Economic Policy and Development of the City of Moscow

Note:

(1) Preliminary data. Final data will become available no earlier than 2005.

In 2003, the service sector accounted for approximately 75 per cent. of the City's GCP. Approximately 70 per cent. of the service sector is comprised of retail and catering services. In 2003, the industry sector accounted for approximately 14 per cent. of the City's GCP.

Privatisation

The City's property is managed in accordance with Federal and City laws and normative acts. The Department of State Property of the City of Moscow is responsible for general management of the City's property. Privatisation in Russia is generally regulated by the *Federal Law On Privatisation of State and Municipal Property No. 178-FZ* dated 21 December 2001 as amended as of 27 February 2003 as well as by other relevant laws and acts of the Federation and its Subjects. The privatisation programme in Russia, including Moscow, was launched in the early 1990s. The Department of State Property of the City of Moscow is responsible for preparing a privatisation plan and recommending City properties, including state enterprises, non-residential buildings and shares in various joint stock companies, for privatisation in a given year. This plan is then submitted to the City Government for approval. Prior to privatisation, all assets are subject to independent market valuation. All proceeds from privatisation are directed to the City Budget, and overhead and other privatisation costs are not to exceed 4 per cent. of the sale proceeds of the privatised assets. The buyers of City property are usually entitled to make payments in instalments subject to an interest charge equal to one-third of the official CBR refinancing rate.

From 2001 to 2003 the proceeds from privatisation of non-residential buildings constituted the major share of the City's privatisation revenues. During 2002 and 2003 the City privatised, by way of sale of shares, 38 state enterprises, including 15 pharmacies, four consumer service enterprises, six construction companies, one catering company, two industrial companies and 10 other enterprises. To secure a required minimum level of public control in the privatised pharmacies the City retained a 25 per cent. interest in the share

capital of such pharmacies. The largest enterprises privatised by the City during 2002 and 2003 included “*Altufyevo*” (wholesale and processing of vegetables), “*Factory of Musical Instruments*” (production of furniture and musical instruments), and “*Information Technologies, Telecommunications and Management of Information in Construction Activities*” (information support and development of new information technologies). In 2004 the City intends to privatise 37 state enterprises.

At the same time as it privatises state enterprises, non-residential buildings and interests in various companies, the City is undertaking the privatisation of the residential sector. Since the initiation of privatisation of City property in the early 1990s, approximately 72 million square metres of the City’s residential housing has been transferred to its residents as part of the City’s privatisation process. Residents may obtain title to the property in which they reside by concluding a transfer agreement with the City for a generally nominal sum.

At present, the City owns shares in approximately 428 enterprises, excluding enterprises in which the City holds a “golden share”. The City holds equity ownership interests of less than 25 per cent. in 128 enterprises, between 25 per cent. and 50 per cent. in 215 enterprises, and 50 per cent. or more in 85 enterprises.

In addition, the City holds a golden share in 121 enterprises. A golden share is a special voting right that often includes the right to veto specified changes to an organisation’s governing documents or proposals relating to reorganisation, liquidation, related-party transactions, or other significant decisions and transactions of an enterprise.

Since the beginning of 2004, the City has sold shares in several enterprises, including 75 per cent. of the shareholder capital of *Altufyevo*, 75 per cent. of the shareholder capital of *Mosavtolegtrans*, 20 per cent. of the shareholder capital of *Directorate of Construction and Operation of Electrical Equipment No. 8*, 20 per cent. of the shareholder capital of the emergency services company *Zamoskvorechye* and 12 per cent. of the shareholder capital of the sport complex *Luzhniki*.

In 2001 and 2002, the City’s revenues from the sale of its property equalled Rbs 2.5 billion and Rbs 2.9 billion, respectively. In 2003, according to preliminary data, revenues from the sale of the City’s property equalled Rbs 8.2 billion. In 2004, the City plans to receive Rbs 4.2 billion from the sale of property.

All proceeds from privatisation are transferred to the City budget and are allocated to finance the budget deficit.

There are ongoing disputes between the Federation and the City regarding the right of ownership of certain intangible assets. These disputes primarily relate to cultural and historical objects of federal significance as well as to non-commercial institutions located in the City. Based on the nature of these disputes and the assets involved, the City does not believe that the outcome of these disputes will materially affect the activities or the revenues of the City.

Litigation

During the years 1999-2004 the City has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including bombings of residential buildings and metro stations and the taking of hundreds of hostages at a Moscow theatre in 2002.

Following the terrorist attacks in Moscow, victims of the terrorist acts and their relatives filed court claims against the City Government requesting compensation for moral harm and material losses. These claims are based on Article 17 of the *Federal Law On Combating Terrorism No. 130-FZ* dated 25 July 1998 (as amended). Pursuant to this Article, a Subject of the Russian Federation on whose territory the terrorist act was committed must generally pay damages resulting from a terrorist act, although such compensation may be subsequently recovered from the actual perpetrator of the terrorist act. While the moral harm claims have been rejected by the courts, the City was obliged to pay a total of approximately Rbs 6.7 million as compensation (in the form of one time payments, monthly payments over a limited period of time and monthly payments over the course of a claimant’s lifetime) in connection with 35 court claims filed with respect to compensation of material losses (losses resulting from the loss of a breadwinner, working capacity

and health, and other losses such as funeral expenses). Another 20 claims are currently being reviewed by the courts.

City Budget and Financial Accounts

City Budget

Budgetary Relations between the Federation and its Subjects

The amount of revenues accruing to the budgets of the Subjects is determined by Federal law. In particular, revenue from certain Federal taxes collected within the jurisdiction of a Subject is divided between the Federal and Subject budgets in a proportion generally established by the *Tax Code of the Russian Federation (Part One No. 146-FZ dated 31 July 1998 (as amended) and Part Two No. 117-FZ dated 5 August 2000 (as amended))* (the “Tax Code”) and the law on the Federal budget for each respective year. Moreover, the Federal Government provides additional revenues to the Subjects in the form of: (i) transfers from the Federal Fund for Financial Support of the Russian Federation Subjects (“Transfer Payments”); (ii) financing of specific Federal social and economic programmes in the jurisdiction of the Subject; and (iii) payments from certain Federal funds.

From 1997 to 2003, Federal taxes collected under the jurisdiction of the City accounted for approximately 20-30 per cent. of the total tax revenue of the Federation.

The City is deemed by the Ministry of Finance of the Russian Federation (the “Ministry of Finance”) to have sufficient funds to meet its expenditure requirements and, consequently, the City does not receive Transfer Payments from the Federal Government. The Federal Government finances specific social and economic programmes within the City, including programmes for the treatment of AIDS among the City population, the development of arts and culture, the development of passenger railway services, the reconstruction and building of prisons and police facilities. Many of these programmes are directly funded by the Federal Government, in which case funds for these programmes do not pass through the City Budget. In the past, the City received monies from the Federal Budget to cover expenditure in connection with the implementation of certain Federal laws, its role as the capital of the Russian Federation and the provision of City services to administrative bodies of the Federal Government and embassies of foreign countries and other Subjects located in the City.

In accordance with the *Federal Law On the Federal Budget for 2004 No. 186-FZ dated 23 December 2003* as amended as of 28 July 2004, the City is due to receive transfers from the Federal Budget in the amount of Rbs 1.428 billion in 2004 for the implementation of two Federal laws in the City – the *Federal Law On Provision of State Aid to Citizens with Children No. 81-FZ dated 19 May 1995* as amended as of 25 July 2002 and the *Federal Law On Social Protection of the Disabled in the Russian Federation No. 181-FZ dated 24 November 1995* as amended as of 23 October 2003 – and Rbs 10.0 billion for financing construction and reconstruction of roads of Federal importance. In addition, pursuant to a 2004 Government Resolution, the City is to be partially compensated for expenditure made in connection with its role as the capital of the Russian Federation by means of transfers of shares of certain joint stock companies currently held as Federal property in the amount of up to Rbs 3.3 billion.

Any change in Federal legislation affecting the division of tax revenues between the Federation and the Subjects, the level of Federal funding for social and economic programmes in the City or the level of expenditure by Federal non-budgetary funds in the City may have an adverse effect upon the financial resources of the City. For example, the allocation of profit tax proceeds among the Federal Budget, the Subjects and local budgets will be revised pursuant to provisions of the recently adopted *Federal Law On Amendments to Parts I and II of the Tax Code No. 95-FZ dated 29 July 2004*. According to this law, effective 1 January 2005 the City Budget will lose 1.5 per cent. of the current 24 per cent. profit tax rate, which will be transferred to the Federation. The City estimates that in nominal terms such loss to the City Budget will constitute approximately Rbs 13.2 billion in 2005. Furthermore, it is estimated that the abolition of the advertisement tax effective 1 January 2005 will cost the City Budget approximately Rbs 4.6 billion in lost revenues in 2005.

Introduction to the City Budget

The main sources of revenue for the City are: (i) tax revenues, (ii) non-tax revenues, and (iii) revenues from Designated Purpose Funds (“DPFs”). Non-tax revenues are comprised primarily of lease payments for the use of City property, income from the City’s participation in various state and private enterprises and administrative charges and fines. DPFs are specified accounts within the City Budget that are allocated certain amounts of City tax, non-tax and other revenues and are used to fund special purpose projects, such as the construction and maintenance of roads within the City, which are excluded from general revenue and expenditure in the City Budget. See “City Budget and Financial Accounts–Designated Purpose Funds”.

The City Budget is an itemised summary of proposed revenue and expenditure which in recent years has become increasingly detailed. By virtue of the City’s status as a city of Federal significance, the City performs all of the functions that fall to Subjects of the Federation and retains revenue assigned by Federal legislation for the undertaking of such functions. The revenue base of the City Budget is estimated by taking into account the expected tax and non-tax revenues for the current year, forecasts regarding the level of inflation and forecasts of the economic development in the City, such as forecasts of the employment level, the development of the taxable base and price indices within the City. Expenditure is estimated according to expected revenues and planned social and economic programmes of the City. The City Budget funds are spent on the City’s administrative and law enforcement bodies, servicing and repayment of the City’s debt, City-wide expenditure on housing and utilities, transport, maintenance for educational, cultural, health-care and social institutions as well as on social assistance such as child allowances, capital investments, industry support, services related to the City’s international and foreign economic activities and the holding of City elections and referendums. See “City Budget and Financial Accounts–Revenues and Expenditure of the City Budget” and “City Budget and Financial Accounts–Budget Implementation”.

Each District constitutes a municipality under Federal law, each having its own separate budget. At the District level, expenditure includes the funding necessary for the maintenance of the relevant local municipal governing bodies. The City’s Districts therefore perform a narrower range of functions and are largely financed from the City Budget. The Districts can also receive financial assistance from the City Budget including grants for financing expenditure, subventions and subsidies for financing certain outlays, as well as short-term loans for financing current budget deficits.

Municipalities located in the City’s territory have their own sources of revenues established in accordance with Russian legislation.

Revenues of municipal budgets are mainly derived from personal property tax proceeds and inheritance and gift tax proceeds, which are paid to the budgets of municipalities along with a share of the profit tax. In addition, municipal budgets receive financial aid from the City budget to assist municipalities in meeting minimum budget requirements. It is planned that in 2004 such aid will amount to Rbs 307.6 million. The City Government exercises general control over the activities of the municipalities, including the budgets of the municipalities, as these budgets are largely derived from subventions, subsidies and grants received from the City Budget.

Budget Procedure

The City’s budgetary process and structure are regulated and implemented according to the Budget Code, the Tax Code, the City Charter and the City Budgeting Law.

The budgetary process commences with the preparation of a draft budget carried out by the City’s Department of Finance, which, after review by the Mayor’s office, is submitted for the consideration of the City Duma. The City Duma organises the review of the draft budget through its special committees. Upon revision of the draft budget to reflect the review carried out by the City Duma special committees, the draft budget is submitted to the full City Duma for consideration. The draft budget must undergo three hearings by the City Duma and in the course of the first two hearings the draft budget may be rejected and returned to the City Government for further revision. The draft budget, as approved by the City Duma, is then passed to the Mayor for signing and, subject to the Mayor’s veto, acceptance. The Mayor’s veto may be overridden in the event the draft budget is further approved by the City Duma by a two-thirds majority vote.

Any decision of the executive authorities or the City Duma which may lead to a reduction in revenues or an increase in expenditure must be approved as an amendment to the City Budgeting Law.

The size and composition of borrowings are stipulated by the City's Borrowing Programme, which is included in the City Budget. The decision on the amount of City bond issues, City loans or other borrowings whether in roubles or foreign currency within the limits stipulated by the City Budget is made by the City Government.

Budget Implementation

Prior to January 2000, the City Budget was implemented through a system whereby budget funds were collected and distributed through a number of banks operating within the Russian banking system. This created a lack of central control over the movement of City funds. To improve the management of the City's financial resources, save overhead expenditure and adhere to the new requirements of the Budget Code enacted in 2000, the City Government decided to establish a *treasury system* (as explained below) to administer the City Budget. At that time, the City Treasury became responsible for the accounting of revenues, allocation of funds and implementation of the City Budget.

The treasury system relating to administration of the City Budget is characterised by: (i) the accumulation of City funds in City Treasury bank accounts; (ii) the separate accounting of tax and non-tax revenues and revenues of DPFs; (iii) the opening of accounts for City organisations with the City Treasury; (iv) the establishment of spending limits for City organisations; (v) the financing by the City Treasury of expenditure relating to settlement of accounts between City organizations and their contractual counterparties; and (vi) monitoring of actual expenditure in relation to budgeted expenditure and the legality of such expenditure.

The City's Department of Finance is responsible for the implementation of the City Budget and the management of budgetary funds. The City Treasury, a division within the City's Department of Finance established in 1999, is responsible for monitoring the receipt of budget funds and ensuring that budget funds are disbursed to the appropriate recipients. The City Treasury holds bank accounts with the CBR, and the City's administrative bodies in turn hold their respective accounts with the City Treasury. The City Treasury budget implementation system has, among other things, allowed for (i) the consolidation of all of the City's budgetary funds in accounts at two banks and (ii) the establishment of a centralised system for the management of budget funds.

Over the course of the past few years, the City Treasury has been actively focusing on the automation of the City's budgetary procedures and the development of a unified information management system. Owing to the advancement of the City Treasury's information systems, the City Treasury has, for example, been better able to allocate available resources for financing buybacks of the City's eurobonds without hampering the City's ability to meet its ongoing obligations, such as the payment of City wages and salaries, even during times of peak demand.

The City Treasury is overseen and supervised by the City's Department of Finance.

Although most of the City's bodies have closed their bank accounts and opened accounts with the City Treasury, a limited number of bank accounts are still maintained, primarily for the purposes of servicing the external economic transactions of the City. The maintenance of such bank accounts has been approved by the City Treasury. In particular, the bank account of the Committee to which the proceeds from the Loan are to be credited is a euro bank account with the Bank of Moscow.

Control over the Implementation of the Budget

The implementation of the City Budget is subject to significant controls at each major stage of the budget process. At the budget implementation stage, the City Treasury verifies the availability of funds prior to disbursement in accordance with the planned budget. In addition, monthly statements on the implementation of the budget are submitted for the consideration of the City Government by the City's Department of Finance during the budgetary year. At the end of the fiscal year, after the implementation of

the budget has been approved by the City Government and submitted to the Ministry of Finance, the Mayor submits to the City Duma and to the City Audit Chamber a draft law on the implementation of the City Budget for the past financial year.

The City Audit Chamber monitors the City Budget performance as well as the performance of the DPFs. The City Audit Chamber has powers to carry out inspections of City bodies and departments as well as organisations funded from the City Budget and transactions involving City Budget funds and City property. The City Audit Chamber reports to the City Duma. The City Audit Chamber has extensive powers to require information from bodies which it is investigating. In certain instances, the City Audit Chamber has the power to issue binding directives to bodies that have breached relevant regulations and laws.

Revenues and Expenditure of the City Budget

The following table sets out revenue and expenditure of the City Budget for 2000, 2001 and 2002, preliminary data regarding revenue and expenditure for 2003 and budgeted revenue and expenditure for 2004. Figures are in billions of roubles and include Designated Purpose Funds.

	2000	2001	2002	2003⁽¹⁾	2004⁽²⁾
Revenue					
Total Budget revenue, including:.....	195.851	233.396	281.855	320.637	373.806
Tax revenues	132.295	165.225	236.374	259.290	295.034
Non-tax revenues	26.967	30.248	36.869	44.694	64.125
Reconciliation item ⁽³⁾	(20.209)	(20.102)	(54.731)	(33.529)	(46.887)
DPF revenues	56.798	58.025	63.343	50.182	61.534
Expenditure					
Total Budget expenditure, including:.....	173.217	228.744	303.929	360.991	419.953
DPF expenditure	56.551	59.709	61.370	54.040	65.287
Surplus (Deficit)	22.634	4.652	(22.074)	(40.354)	(46.146)

Source: City Department of Finance

Note:

- (1) Preliminary data. Final budget figures for 2003 will not be available until the adoption of the law on the implementation of the 2003 City Budget which is expected to be published at the end of 2004.
- (2) Figures reflect the amended City Budget as approved by the City Duma and published in June 2004 as well as subsequent amendments as of 3 August 2004. Figures are subject to finalisation and further amendment, and final budget figures for 2004 (i.e. the data on implementation of the budget) are not expected to be published before the end of 2005.
- (3) This reconciliation item has been created to avoid the double counting of revenues which (i) constitute both tax or non-tax revenue and (ii) are attributed to Designated Purpose Funds or DPFs (as described below under “City Budget and Financial Accounts-Designated Purpose Funds”) and subsidies and subventions received from the Federal Budget.

In accordance with the 2004 City Budget, the City’s revenue and expenditure for 2004 are budgeted at Rbs 374 billion and Rbs 420 billion, respectively, which is expected to result in a deficit of Rbs 46 billion.

By the *Resolution of the City Government No. 425-PP* dated 22 June 2004 the City Government approved a three year economic forecast. The forecast is designed to provide more precise budgeting and is based on certain factors including projected revenues and expenditure, estimated inflation rates, volume of retail sales and industrial output, and projected levels of investment.

The City is projecting revenues of Rbs 389.7 billion, Rbs 418.0 billion and Rbs 464.9 billion for 2005, 2006 and 2007, respectively. The City is projecting expenditure of Rbs 416.0 billion, Rbs 436.5 billion and Rbs 485.3 billion for 2005, 2006 and 2007, respectively, resulting in projected deficits of Rbs 26.2 billion, Rbs 18.5 billion and Rbs 20.5 billion for the same years.

Designated Purpose Funds

Prior to 1 January 2000, the City’s financial accounts comprised two separate items: the City Budget and several non-budgetary funds (“NBFs”). The NBFs were allocated certain amounts of City tax, non-tax and other revenues. Revenue amounts allocated to the NBFs were excluded from the revenue in the City Budget.

Funds in each NBF were used in accordance with the purposes established for that NBF: to finance operational expenditure, investment programmes and to provide funding for capital expenditure in connection with the development of the City's infrastructure that could not otherwise be financed out of the current City Budget.

Generally, NBFs were managed by certain City departments and officials of the City's Administrative Regions. NBFs were not separate legal entities and, in accordance with their function as accounts for funds to be applied towards specific City purposes, did not, with the exception of the Investment NBF (as defined herein), incur debts. The expenditure of the NBFs could not be covered from the City Budget, and similarly the City Budget deficit (if it arose) could not be compensated by the revenues of NBFs. The budgets of NBFs were mainly comprised of non-tax and other revenues of the City and were not included as revenue in the City Budget.

The administration and activities of the City's NBFs were overseen by the Mayor's office and were subject to annual review and approval by the City Duma. The approval process undertaken by the City Duma with respect to NBFs was similar to that applied to the City Budget. The City Duma reviewed and approved estimated revenues and expenditure budgeted for each NBF and assessed and approved their actual performance at year-end. The principal NBFs of the City were the Housing and Construction Investment NBF (the "Investment NBF"), the Administrative Regions NBF (the "Administrative Regions NBF"), the Hard Currency NBF (the "Hard Currency NBF") and the Road NBF (the "Road NBF").

On 1 January 2000 the amendments to the Budget Code became effective, among other things, prohibiting the Subjects from maintaining non-budgetary funds. Consequently, the City NBFs were terminated with effect from 1 January 2000 and the necessary amendments to the revenue and expenditure articles of the Budget were made. The City has established, however, specified accounts within the City Budget ("Designated Purpose Funds" or "DPFs"). The Designated Purpose Funds receive the same tax, non-tax revenues and other revenues that were previously allocated to the City NBFs. DPFs are only authorised to make the expenditures provided for in the City Budget. The DPFs are managed by certain City entities which continue to develop and fund designated projects and programmes and otherwise manage the revenues and expenditure of the DPFs.

Depending on the DPF, the managers of DPFs are appointed and removed by the City Government, the Mayor, or as provided for by the City Budgeting Law.

The following table sets out the revenue and expenditure for DPFs within the City Budget for 2003 and budgeted revenue and expenditure for DPFs within the City Budget for 2004. Figures are in billions of roubles.

Name of DPF	Authorised Manager of the Fund	2003		2004	
		Revenue	Expenditure	Revenue	Expenditure
Road Fund	Department of Economic Policy and Development of the City of Moscow	28.102	29.038	33.133	34.823
Investment Fund	Department of Construction Investment Programmes of the City of Moscow	11.335	11.662	11.560	11.554
Territorial Development Funds	Prefectures of the Administrative Regions	8.924	10.457	14.018	15.150
Ecology Fund	Department of Environmental Management and Protection of the City of Moscow	0.663	0.789	1.444	1.672
Employment Creation Fund	Committee on Social Relations of the City of Moscow	0.440	1.146	0.600	1.078
Traffic Safety Fund	Chief Directorate of Internal Affairs	0.389	0.396	0.436	0.443
Advertising and Information Fund	Committee of Advertising, Information and Design of the City of Moscow	0.330	0.552	0.343	0.566

Source: 2003 City Budget, as amended; 2004 City Budget, as amended.

Road DPF

Historically, expenditure on roads within the City was divided between the Federal Road Fund, which was responsible for the repair and construction of transportation links of Federal importance within the Federation, and the City. The City financed expenditure on roads within the City, other than roads of Federal importance, out of the City Budget.

Pursuant to the *Federal Law On Road Funds in the Russian Federation No. 1759-I* dated 18 October 1991 as amended as of 23 December 2003 (the “Federal Road Fund Law”), the activities of the Federal Road Fund were financed by Federal taxes raised within the jurisdiction of the Subjects, including the City. However, pursuant to the Federal Road Fund Law, all Subjects had the right to allocate a portion of the Federal tax revenue otherwise used by the Federal Road Fund in accordance with the Federal Road Fund Law to a regional non-budgetary fund to be utilised for the construction and maintenance of roads within the relevant Subject. However, this law was initially interpreted to exclude the Cities of Moscow and St. Petersburg from the ability to allocate funds as described above. The City disputed this interpretation, and in 1996, the City won a decision from the Russian Federation Constitutional Court supporting its right to allocate a portion of those Federal taxes otherwise used by the Federal Road Fund in accordance with the Federal Road Fund Law to the Road NBF.

Since 1996, the City has financed the repair and maintenance of all roads within its jurisdiction, including roads previously financed by the Federal Road Fund and had full discretion over the expenditure of the principal projects financed from the Road NBF, such as the reconstruction of the Sadovoye and Moscow ring roads.

The Road NBF was terminated in the *Law of the City of Moscow On Budget of the City of Moscow for the Year 1999 No. 6* dated 24 February 1999 (the “1999 City Budget”) and a designated purpose fund, the Road DPF, was established as a separate account within the 1999 City Budget.

Revenues of the Road DPF amounted to Rbs 35.9 billion in 2000, 34.4 billion in 2001, 39.9 billion in 2002 and 28.1 billion in 2003. In the 2004 City Budget, the Road DPF has an allocated revenue budget of Rbs 33.1 billion.

According to the 2004 City Budget Law, revenues of the Road DPF are generated from a portion of the City’s proceeds from the profit tax, the transport tax, the excise on oil products and land payments. Road DPF funds are used primarily on the financing of construction of new roads and the repair and maintenance of existing roads in the City.

Investment DPF

The Investment NBF was established in 1991 to finance housing construction in the City and to provide housing under the Free Housing Programme. The principal revenue of the Investment NBF came from the sale of residential real estate. Revenues were invested in the construction of social housing and also commercial projects for the construction of residential real estate. The Investment NBF was replaced by the Investment DPF on 31 December 1999.

Revenues of the Investment DPF amounted to Rbs 15.2 billion in 2000, 15.3 billion in 2001, 10.2 billion in 2002 and 11.3 billion in 2003. In the 2004 budget, the Investment DPF has an allocated revenue budget of Rbs 11.6 billion.

According to the 2004 City Budget Law, funds of the Investment DPF are generated from the sale and lease of the City’s residential and non-residential buildings. Investment DPF funds are used for the construction of residential and non-residential buildings designed for both commercial sale and use and the City’s own needs as well as maintenance of the buildings constructed through the use of Investment DPF funds and management of buildings transferred by the City for temporary use and other related expenditure.

Territorial Development DPFs

Until 31 December 1999, there were ten Territorial Development NBFs for each of the City's Administrative Regions. From 31 December 1999, the Territorial Development NBFs were transformed into ten Territorial Development DPFs which continue to serve the City's ten Administrative Regions.

Revenues of the Territorial Development DPF amounted to Rbs 4.2 billion in 2000, Rbs 6.7 billion in 2001, Rbs 10.1 billion in 2002 and Rbs 8.9 billion in 2003. In the 2004 budget, the Territorial Development DPF has an allocated revenue budget of Rbs 14.0 billion.

According to the 2004 City Budget Law, revenues of the Territorial Development DPF funds are generated from the lease of the City's land and other property, fines for violations of tariff laws and traffic regulations and other sources. Territorial Development DPF funds are mainly used as additional sources of financing of certain expenditures, including municipal housing, urban planning, education, culture, mass media, medical care and social policy within the City's Administrative Regions.

Other DPFs

In addition to the DPFs listed above, there are a number of dedicated DPFs used for the development of specific social and infrastructure programmes in the City and funded from the relevant specific sources established by the City Budget Law. Generally, such DPFs evolved from NBFs consolidated into the City Budget in 2000. The revenues and expenditure of these budgetary funds are approved by the City Duma as part of the budgetary approval process.

Budget Revenues

Introduction

The City categorises its budget revenue into four groups: (i) tax revenues; (ii) non-tax revenues; (iii) revenues of DPFs; and (iv) subsidies and subventions.

The following table sets out Budget Revenues for 2001 and 2002 and preliminary data regarding revenue for 2003 and budgeted revenue for 2004.

	2001		2002		2003 ⁽¹⁾		2004 ⁽²⁾	
	<i>(Rbs in billions)</i>	<i>(Per cent.)</i>	<i>(Rbs in billions)</i>	<i>(Per cent.)</i>	<i>(Rbs in billions)</i>	<i>(Per cent.)</i>	<i>(Rbs in billions)</i>	<i>(Per cent.)</i>
Revenue								
Tax Revenues:								
Profit Tax	79.719	34.16	84.677	30.04	104.868	32.71	131.511	35.18
Personal Income Tax	43.182	18.50	63.259	22.44	80.877	25.22	108.774	29.10
Excises	5.160	2.21	6.497	2.31	11.210	3.50	16.629	4.45
Sale Tax	15.717	6.73	18.117	6.43	19.970	6.23	–	–
Property Taxes	16.211	6.95	23.088	8.19	24.053	7.50	23.226	6.21
Land Payments	0.482	0.21	0.665	0.23	0.888	0.28	1.006	0.27
Other Taxes ⁽³⁾	4.754	2.04	40.071 ⁽⁸⁾	14.22	17.424	5.43	13.888	3.72
including housing maintenance tax.....	2.408 ⁽⁷⁾	1.03	–	–	–	–	–	–
Total Tax Revenues	165.225	70.79	236.374	83.86	259.290	80.87	295.034	78.93
Non-tax revenues:								
Revenues from City's property ⁽⁴⁾	9.305	3.99	25.625	9.09	33.712	10.51	42.117	11.27
Other ⁽⁵⁾	20.943	8.97	11.244	3.99	10.982	3.43	22.008	5.89
Total non-tax revenues	30.248	12.96	36.869	13.08	44.694	13.94	64.125	17.15
Reconciliation item ⁽⁶⁾	(20.102)	(8.61)	(54.731)	(19.42)	(33.529)	(10.46)	(46.887)	(12.54)
DPF revenues	58.025	24.86	63.343	22.47	50.182	15.65	61.534	16.46
Total revenues	233.396	100.00	281.855	100.00	320.637	100.00	373.806	100.00

Source: City Department of Finance

Notes:

- (1) Preliminary data. Final budget figures for 2003 will not be available until the adoption of the law on the implementation of the 2003 City Budget which is expected to be published at the end of 2004.
- (2) Figures reflect the amended City Budget as approved by the City Duma and published in June 2004 as well as subsequent amendments as of 3 August 2004. Figures are subject to finalisation and further amendment, and final budget figures for 2004 (i.e. the data on implementation of the budget) are not expected to be published before the end of 2005.
- (3) Including advertisement tax, transport tax, total revenue tax, state duty, licence and registration fees.
- (4) Including property rents, sales of housing and dividends.
- (5) Including administrative payments and fees, penalties and fines.
- (6) This reconciliation item has been created to avoid the double counting of revenues which (i) constitute both tax or non-tax revenue and (ii) are attributed to Designated Purpose Funds or DPFs (as described below under "City Budget and Financial Accounts-Designated Purpose Funds") and subsidies and subventions received from the Federal Budget.
- (7) Including proceeds from housing maintenance tax due in 2000 but paid in 2001 at rates in effect prior to 1 January 2001.
- (8) Due to changes in the financial reporting standards in 2002, the proceeds from the road tax and the tax on owners of motor vehicles were included within "Other Taxes".

Tax Revenues

The tax system in the Federation has evolved in recent years as a result of market reforms. The current system replaced a tax system, common to centrally planned economies, which relied heavily on transfers of profits from state enterprises to the state budget. Under the Constitution, Federal law, as set forth in the current Tax Code, governs the principal parameters for the levy of all taxes in Russia. The Tax Code

establishes taxes at three levels: (i) Federal, including corporate profit tax, personal income tax, value added tax and excises on certain goods and services, state duties, custom duties and fees, Federal licence fees, water tax and environmental tax; (ii) regional (at the Subject level), including corporate property tax, tax on gambling business and regional licence fees; and (iii) local (at the municipality level), including personal property tax, land tax, advertisement tax, inheritance and gift tax and local licence fees.

The Tax Code establishes procedures for tax collection in the Russian Federation and sets the rates at which taxes are collected. A specified percentage of revenues from certain Federal and regional taxes collected in the jurisdiction of a Subject is transferred to the budget of the Russian Federation, while the rest is transferred to the budget of the Subject. Revenues from local taxes are transferred in full to the budget of the Subject, although the Tax Code defines the maximum rates which can be imposed for such taxes.

To amend existing taxes or change the allocation of tax revenues as between the Federal, regional or local levels, amendments would have to be introduced to the Tax Code and the Budget Code. Such amendments could only be introduced at the Federal level and would therefore require approval by the Federal Assembly (the Federal legislative body) and need to be signed into law by the President of the Federation.

The City is one of two Russian cities that have the status of a Subject of the Federation and therefore receives both regional taxes and local taxes. Taxes are paid in roubles. The City grants tax rebates to certain taxpayers meeting requirements specified by City law. However, in the past years the City has reduced the number of granted tax rebates and revised the qualification criteria for such rebates.

The main sources of tax revenues for the City Budget are corporate profit taxes and personal income taxes, which represented approximately 74 per cent. and 63 per cent. of all tax revenues of the City in 2001 and 2002, respectively. Based on preliminary data regarding the City's revenues in 2003, corporate profit taxes and personal income taxes represented approximately 72 per cent. of all tax revenues of the City in 2003. In the 2004 budget, the City estimates that corporate profit taxes and personal income taxes will represent approximately 82 per cent. of all tax revenues of the City.

In 2001 and 2002, tax revenues amounted to Rbs 165.2 billion and Rbs 236.4 billion representing 71 per cent. and 84 per cent. of total City Budget revenue, respectively. The sharp increase in tax revenues in 2002 was partly due to inclusion in tax revenues in 2002 of the proceeds from the road tax and the tax on owners of motor vehicles. Based on preliminary data regarding the City's revenues in 2003, tax revenues amounted to Rbs 259.3 billion and represented 81 per cent. of the total City Budget revenue. In the 2004 budget, the City estimates that tax revenue will amount to Rbs 295.0 billion and represent approximately 79 per cent. of the total City Budget revenue.

The following table illustrates the allocation between the Federal Budget and the City Budget of various taxes and excises levied on Moscow taxpayers in 2002, 2003 and 2004, expressed as percentages. The City has limited autonomy in determining the amount of revenue it derives from taxation, and current revenue allocations among the Federal, Subject and local budget are vulnerable to change.

	2002		2003		2004	
	Moscow	Federation	Moscow	Federation	Moscow	Federation
Tax revenues						
Profit tax	16.5	7.5	18.0	6.0	19.0	5.0
Personal income tax	100.0	–	100.0	–	100.0	–
VAT	–	100.0	–	100.0	–	100.0
Single social tax	70.0	30.0	60.0	40.0	90.0	10.0
Excises on ethyl alcohol.....	50.0	50.0	50.0	50.0	50.0	50.0
Excises on alcohol production (wine, beer and similar low-alcohol products)	100.0	–	100.0	–	100.0	–
Excises on tobacco	100.0	–	–	100.0	–	100.0
Water tax.....	100.0	–	100.0	–	100.0	–
Land tax and fees for land lease	85.0	15.0	100.0	–	100.0	–

Source: City Department of Finance

Profit Tax

Federal profit tax is levied on Russian and foreign legal entities carrying on business activities through permanent establishments and/or receiving income from sources located in the Russian Federation, subject to relief provided by applicable double taxation treaties.

In accordance with the Tax Code, the profit tax rate is currently set at 24 per cent. Of this percentage, 5 per cent. is paid to the Federal Budget, 17 per cent. is paid to the budget of a Subject and 2 per cent. is paid to the applicable local budget.

Starting from January 2005, the current tax rate payable to the Federal Budget will be 6.5 per cent. and the tax rate payable to the Budget of a Subject will be 17.5 per cent.

Although legislative bodies of the Subjects can reduce the profit tax rate due to a Subject for certain categories of taxpayers, the rate of tax paid to the budget of a Subject cannot be less than 13 per cent. (13.5 per cent. starting from January 2005).

Revenues from profit tax are the largest single source of City tax revenues. Profit tax receipts were Rbs 22.8 billion in 1999, Rbs 42.8 billion in 2000, Rbs 79.7 billion in 2001 and 84.7 billion in 2002. According to preliminary data regarding the City's revenue in 2003, profit tax receipts amounted to Rbs 104.9 billion. In the 2004 budget, the City estimates that profit tax receipts will amount to Rbs 131.5 billion.

Personal Income Tax

Personal income tax is levied on income received by all individuals who are tax residents of the Federation for tax purposes as well as on income received from sources located in the Federation by individuals who are non-residents for tax purposes.

Prior to 1 January 2001, the Federal tax on individual income was levied at progressive rates between 12 per cent. and 35 per cent. depending on income and there were a series of tax deductions and exemptions which applied to different categories of citizens of the Federation as well as to non-residents. Since 1 January 2001, according to the Tax Code the standard flat rate of tax on individual income has been set at 13 per cent. for earned income. Certain specified forms of income, such as prizes and gains (such as, for example, lottery winnings), insurance payments and interest on bank deposits in excess of a certain amount are taxed at 35 per cent. Income received by individuals who are non-residents for tax purposes is taxed at 30 per cent. Income received in the form of dividends from shareholdings is taxed at 6 per cent (9 per cent. starting from January 2005).

According to the Tax Code, some earnings are exempt from personal income tax including, among other things, certain public welfare payments, state pensions, health compensation payments and alimony payments. The Tax Code also provides for four types of tax deductions: standard, social, material and professional.

Since 2002, all proceeds from personal income tax collected in the City have been transferred to the City Budget.

Over the past several years, revenues from personal income tax have increased steadily from Rbs 22.4 billion in 1999 to Rbs 30.9 billion in 2000, Rbs 43.2 billion in 2001 and Rbs 63.3 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from personal income tax amounted to Rbs 80.9 billion. In the 2004 budget, the City estimates that revenues from personal income tax will amount to Rbs 108.8 billion.

Value-Added Tax ("VAT"), Excise and Licence Fees

According to provisions of the Tax Code since 1 January 2001 value-added tax has been paid not only by legal entities but also by individual entrepreneurs operating in Russia. The basic VAT rate is 18 per cent. of the cost of goods and services, but on a number of goods and services it is reduced to 10 per cent. Certain goods and services, including the operation of non-commercial educational institutions, construction of

objects of social importance as well as the provision of certain medical goods and services, are exempt from VAT altogether. In 2000, the City was permitted to retain 15 per cent. of VAT revenues in the City Budget, with the remaining 85 per cent. being credited to the Federal Budget. Since 2001, however, all VAT proceeds have been transferred to the Federal Budget.

In 2001 and 2002, the City collected excise and licence fees of Rbs 5.2 billion and Rbs 6.5 billion, respectively. Based on preliminary data regarding the City's revenues in 2003, proceeds from excise and licence fees amounted to Rbs 11.2 billion. In the 2004 City Budget, the City estimates that proceeds from excise and licence fees revenues from income tax will amount to Rbs 16.6 billion.

Property Taxes

The principal component of revenue from property taxes is corporate property tax. The corporate property tax rate is established by the Tax Code. In 2004, the maximum rate of this tax is 2.2 per cent. of the carrying value (i.e., the initial cost less depreciation) of the fixed assets of enterprises. The City law provides some exemptions from the payment of property tax for certain categories of taxpayers. In addition, property tax includes taxes levied on the property of individuals as well as on inherited or gifted property.

The City's revenues from property tax amounted to Rbs 16.2 billion in 2001 and Rbs 23.0 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from property tax amounted to Rbs 24.1 billion. In the 2004 budget, the City estimates that revenues from property tax will amount to Rbs 23.2 billion.

Single Social Tax

Beginning 1 January 2001, the system of payroll taxes and contributions has been simplified with the introduction of the Single Social Tax. The Single Social Tax is imposed at the rate of 35.6 per cent. and a system of variable rates has been introduced. The Single Social Tax is levied at the maximum rate if an employee's income is less than Rbs 100,000 per annum. If the employee's income is higher than Rbs 100,000, the rate of tax is gradually reduced. All of the revenue generated by the Single Social Tax is paid to the Federal Budget.

Payments for use of Natural Resources

In accordance with the Federal law, the City categorises various fees and levies as a source of tax revenue, including land tax, fees for environmental permits and payments for water supplies to industrial enterprises.

The City's revenues from natural resource payments amounted to Rbs 482 million in 2001 and Rbs 665 million in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from natural resource payments amounted to Rbs 888 million. In the 2004 budget, the City estimates that revenues from natural resource payments will amount to Rbs 1 billion.

Sales Tax

The sales tax was a local tax and was introduced in Moscow on 1 July 1999 and was levied on the cash retail and wholesale price of goods and services. From 1 January 2001 to 1 January 2004, the rate of sales tax was 5 per cent., although certain goods and services are exempt from this tax. All sales tax revenues were transferred to the City Budget. The sales tax was abolished beginning 1 January 2004.

The City's revenues from sales tax amounted to Rbs 15.7 billion in 2001 and Rbs 18.1 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from sales tax amounted to approximately Rbs 20 billion. The City estimates that the loss resulting from the termination of this tax in 2004 amounts to Rbs 22-23 billion.

Other Taxes, Duties and Fees

Other taxes, duties and fees currently include transportation tax, advertisement tax (which will be abolished from 1 January 2005), total revenue tax, duties and licence and registration fees. In prior years, other taxes

also comprised tax on maintenance of housing and social assets, which were abolished with effect from 1 January 2001, and the road tax and tax on owners of motor vehicles, each of which were abolished in 2003.

The City's revenues from other taxes amounted to Rbs 4.8 billion in 2001. Revenues from other taxes increased to approximately Rbs 40 billion, principally as a result of the addition of revenues from the road tax and the tax on owners of motor vehicles to other taxes in 2002 as a result of changes in accounting and reporting standards. Based on preliminary data regarding the City's revenues in 2003, revenues from other taxes amounted to Rbs 17.4 billion. In the 2004 budget, the City estimates that revenues from other taxes will amount to Rbs 13.9 billion.

Non-tax Revenues

Non-tax revenues are primarily comprised of payments for the lease or sale of City property, income from the City's participation in various state and private enterprises and administrative charges and fines.

The City's revenues from non-tax revenues amounted to Rbs 30.2 billion in 2001 and Rbs 36.9 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from non-tax revenues amounted to Rbs 44.7 billion. In the 2004 budget, the City estimates that non-tax revenues will amount to Rbs 64.1 billion. These increases principally reflect increased revenues from the lease of City property and other activities.

Revenues from City property and other activities include income from the lease of City property, dividends and other returns from participation in the charter capital of enterprises and rental income. The City's revenues from City property and other activities amounted to Rbs 9.3 billion in 2001 and Rbs 25.6 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from City property and other activities amounted to Rbs 33.7 billion. In the 2004 budget, the City estimates that revenues from City property and other activities will amount to Rbs 42.1 billion. These increases principally reflect the substantial increase in revenues from the rental of City property and other activities and the disposition of certain City property as well as the effects of inflation.

The City has been implementing a conservative policy with respect to the sale of City assets by maintaining City ownership over those properties which can be successfully leased. The City's revenues from the sale of City property amounted to Rbs 2.9 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from sale of City property amounted to Rbs 8.2 billion. In the 2004 budget, the City estimates that revenues from the sale of City property will amount to Rbs 4.2 billion. However, revenues from the lease of City property have increased substantially since 2002. The City's revenues from the lease of City property amounted to Rbs 12.6 billion in 2002. Based on preliminary data regarding the City's revenues in 2003, revenues from the lease of City property amounted to Rbs 21.1 billion. In the 2004 budget, the City estimates that revenues from the lease of City property will amount to Rbs 27.1 billion. The City believes that City lease rates are below market rates, and that the City can substantially increase revenues from lease of City property.

A decline in tax proceeds in recent years due to federal tax reform has been, to some extent, recouped by an increase in revenues from the sale and lease of City property, including the sale of non-residential premises and long-term lease of land plots.

The sale and lease of City non-residential property will be constrained in future years by a number of factors. Primarily, during 2002-2003 the floor area of non-residential premises owned by the City decreased by 20 per cent. due to the exercise of lessees' right to buy leased premises in accordance with the Federal Law *On Privatisation of State and Municipal Property No. 178-FZ* dated 21 December 2001 as amended as of 27 February 2003.

The City is incrementally increasing rental rates of City property to conform to market rates. In 2005, rental rates for City premises currently leased by small enterprises will be increased by up to 25 per cent. and premises currently leased by all remaining lessees will be increased by up to 50 per cent. Such increases will be largely based on auction/bid pricing.

Tax Collection

The Moscow branch of the Russian Federal Tax Service, which is in charge of the full and timely collection of taxes for the City Budget, includes 36 district tax inspectorates as well as eight inter-district tax inspectorates dealing with major taxpayers, enterprises that produce and sell alcohol and tobacco goods or which are engaged in gambling, financial, insurance or construction activity as well as the taxation of foreign persons.

All taxpayers, whether legal entities or natural persons, are obliged to register with the relevant tax inspectorate, to submit accounting reports and tax declarations to the tax inspectorate and to make payment of taxes and other mandatory payments in the manner provided by the Tax Code. The tax inspectorates maintain records in respect of each taxpayer and each type of tax and are also responsible for monitoring the observance of tax legislation.

In the event of breaches of tax law, taxpayers are obliged to pay unpaid taxes to the budget as well as interest and penalties. Where a legal entity disputes the level of unpaid tax or interest, such amount may be recovered directly by the tax inspectorate but penalties may only be recovered by court action. Unpaid taxes, fines and penalties may only be recovered from natural persons by court action.

Where an enterprise is unable to meet its tax obligations over a prolonged period as a result of lack of funds, debts may be restructured on the basis that the taxpayer commits to meeting its current obligations; otherwise, the tax inspectorate may initiate bankruptcy proceedings.

As of 1 January 2004, the City had an aggregate of Rbs 12.2 billion of uncollected tax revenues outstanding as compared to Rbs 15.3 billion as of 1 January 2003, Rbs 16.5 billion as of 1 January 2002 and Rbs 17.2 billion as of 1 January 2001. Uncollected tax revenues have decreased as a percentage of total annual tax revenues since 2000. A significant proportion of outstanding uncollected tax revenues are currently owed to the City by large industrial organisations operating in the City.

Budget Expenditure

Introduction

The following table sets out budget expenditure for 2001 and 2002, estimated budget expenditure for 2003 and the budgeted expenditure for 2004. For purposes of the discussion that follows with respect to the overall City Budget or any given segment of the City Budget, the term “total expenditure” is the sum of “capital expenditure” and “current expenditure”.

Total expenditure of the City Budget for 2001 and 2002, estimated expenditure for 2003 and budgeted expenditure for 2004. Figures are in billions of roubles.

Expenditure	2001	2002	2003 ⁽¹⁾	2004 ⁽²⁾
Housing and utilities	55.767	81.022	53.164	63.150
State debt service	3.473	4.532	8.390	10.715
Healthcare	21.086	31.349	25.853	31.764
Education	20.781	31.089	31.452	38.697
Social services.....	17.513	22.687	35.037	46.474
Transport, roads and communications	12.230	19.680	11.894	15.470
Culture and Arts.....	4.746	7.452	4.296	5.418
Law enforcement and emergency services.....	2.856	5.425	5.379	6.070
Industry, energy and construction.....	6.883	7.431	83.435 ⁽³⁾	98.108 ⁽⁴⁾
State administration and local self-government	4.284	6.307	9.247	10.170
Environmental protection.....	4.926	4.655	1.168	1.721
Agriculture and fishing.....	1.602	0.623	4.385	2.913
Scientific research	0.531	0.543	0.965	0.926
Market infrastructure development	0.617	0.589	0.768	1.263
Mass media	2.325	3.126	2.923	3.159
Other expenditure	9.415	16.049	28.595	18.648
Expenditure of DPFs	59.709	61.370	54.040	65.287
Total expenditure.....	228.744	303.929	360.991	419.953

Source: City Department of Finance

Notes:

- (1) Preliminary data. Final budget figures for 2003 will not be available until the adoption of the law on the implementation of the 2003 City Budget which is expected to be published at the end of 2004.
- (2) Figures reflect the amended budget as approved by the City Duma and published in June 2004. Figures are subject to finalisation and further amendment, and final budget figures for 2004 (i.e. the data on implementation of the budget) are not expected to be published before the end of 2005.
- (3) A sharp increase in expenditure on “Industry, energy and construction” in 2003 was due to the inclusion under this budget line item of a portion of capital expenditure amounts previously included in other budget line items in the amount of Rbs 77.9 billion in 2003.
- (4) Includes a portion of the City’s budgeted capital expenditure in 2004 in the amount of Rbs 89.5 billion.

Total expenditure from the City Budget has increased steadily from Rbs 33 billion in 1995 to Rbs 304 billion in 2002. According to preliminary results in 2003 the expenditure of the City Budget equalled Rbs 361 billion. In accordance with the 2004 City Budget, City expenditure is budgeted at Rbs 420 billion.

Housing and Utilities Expenditure

In accordance with the budgetary classification of the Russian Federation and the City Budgeting Law, the line item for housing and utilities expenditure includes the costs of capital and current overhaul and repair of housing stock and subsidies for utility charges as well as expenditure on improvement of the City territory. The City’s overall expenditure on housing and utilities amounted to Rbs 55.8 in 2001 and Rbs 81.0 billion in 2002. The increase in expenditure in 2002 was attributable to a 40 per cent. increase in 2002 current expenditure and a 45 per cent. increase in capital expenditure. Based on preliminary data regarding the City’s expenditure in 2003, overall expenditure on housing and utilities amounted to Rbs 53.2 billion.

In the 2004 City Budget, the City estimates that overall expenditure on housing and utilities will amount to Rbs 63.2 billion. The decrease from 2002 to 2003 principally reflects a reduction in capital expenditure. The budgeted increase in 2004 as compared to 2003 principally reflects an increase in current expenditure.

The City's capital expenditure with respect to housing and utilities amounted to Rbs 30.3 billion in 2001 and Rbs 45.3 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, such capital expenditure amounted to Rbs 14.7 billion. In the 2004 City Budget, the City estimates that capital expenditure with respect to housing and utilities will amount to Rbs 17.6 billion.

Healthcare, Physical Culture and Sport Expenditure

Since 1994 the healthcare sector has operated on the basis that financial resources are allocated to the City's healthcare programmes with a view to guaranteeing a certain level of free medical service and the functioning of state medical institutions. Funds for physical culture and sport are allocated in accordance with the City's sport and recreational programmes. The City Budget also provides financing for sport facilities and organisations that provide services for children, students, pensioners and invalids.

The City's expenditure on healthcare, physical culture and sport amounted to Rbs 21.1 billion in 2001 and Rbs 31.4 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on healthcare, physical culture and sport amounted to Rbs 25.9 billion. In the 2004 City Budget, the City estimates that expenditure on healthcare, physical culture and sport will amount to Rbs 31.8 billion.

The City's capital expenditure with respect to healthcare, physical culture and sport amounted to Rbs 5.7 billion in 2001 and Rbs 10.0 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, such capital expenditure amounted to Rbs 2.3 billion. In the 2004 City Budget, the City estimates that such capital expenditure will amount to Rbs 1.9 billion. The decreases in capital expenditure with respect to healthcare, physical culture and sport since 2002 principally reflect an increase in current expenditure as a share of total expenditure on healthcare, physical culture and sport.

Education Expenditure

The primary components of education expenditure are the costs associated with supplying children with meals, support for orphans, salaries and social benefits for teachers and other members of staff, scholarships, provision of textbooks for schoolchildren and students and subsidies for central heating, water and power supply.

The City's expenditure on education amounted to Rbs 20.8 billion in 2001 and Rbs 31.1 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on education amounted to Rbs 31.5 billion. In the 2004 City Budget, the City estimates that expenditure on education will amount to Rbs 38.7 billion. The increases in expenditure with respect to education since 2001 principally reflect the effects of inflation as well as an increase in salaries, benefits, the cost of purchasing supplies and textbooks and the cost of providing heat, power and water.

A considerable portion of the City's expenditure on education is allocated to the overhaul, maintenance and reconstruction of educational institutions in the City and the creation of appropriate study conditions. The City's capital expenditure for maintaining and equipping educational institutions amounted to Rbs 5.2 billion in 2001 and Rbs 8.4 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, capital expenditure for maintaining and equipping educational institutions amounted to Rbs 3.3 billion. In the 2004 City Budget, the City estimates that capital expenditure for maintaining and equipping educational institutions will amount to Rbs 2.9 billion. The decreases in capital expenditure with respect to education since 2002 principally reflect an increase in current expenditure as a share of total expenditure on education.

Social Services Expenditure

The City provides its citizens with a wide range of social services, including old people's homes, child allowances, meals for schoolchildren and support to the homeless. There are 119 social security centres in the City. In 2003 approximately 1.4 million people received direct social benefits from the City.

The City's expenditure on social services amounted to Rbs 17.5 billion in 2001 and Rbs 22.7 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on social services amounted to Rbs 35.0 billion. In the 2004 City Budget, the City estimates that expenditure on social services will amount to Rbs 46.5 billion. These increases principally reflect the growing number of persons receiving social welfare services.

Under the City's Complex Programme of Social Protection measures have been taken to improve and to maintain the living standards of pensioners, invalids, single mothers, low income families, students and others. The Complex Programme of Social Protection shares in funds already allocated to a number of City Executive Authorities, including the departments of healthcare and education and the committees on culture and sport. The City's expenditure for the Complex Programme of Social Protection amounted to Rbs 84 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure for the Complex Programme of Social Protection amounted to Rbs 112 billion. In the 2004 City Budget, the City estimates that expenditure for the Complex Programme of Social Protection will amount to Rbs 133 billion.

Transport, Roads and Communications Expenditure

The City's expenditure on transport, roads and communications amounted to Rbs 12.2 billion in 2001 and Rbs 19.7 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on transport, roads and communications amounted to Rbs 11.9 billion. In the 2004 City Budget, the City estimates that expenditure on transport, roads and communications will amount to Rbs 15.5 billion.

One of the main components of the expenditure is subsidies paid to the various enterprises which operate the City's metro and ground transport system. In 1998 the City's metro started to use a magnetic ticket and smart-card entry system which resulted in a considerable increase the amount of fees collected. In recent years the City has also raised the tariffs for the use of public transport and reduced a number of privileges and rebates.

Law Enforcement and Emergency Services Expenditure

The City's expenditure on law enforcement, including expenditure on the Chief Directorate of Internal Affairs and various departments of the transport police, amounted to Rbs 2.9 billion in 2001 and Rbs 5.4 billion in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on law enforcement amounted to Rbs 5.4 billion. In the 2004 City Budget, the City estimates that expenditure on law enforcement will amount to Rbs 6.1 billion.

Agriculture and Fishing

This category of expenditure primarily relates to payments to the City's Food Resources Fund. This fund was formed in 1994 by the City to maintain food reserves (including the City's Reserve Food Resources Fund), to regulate the wholesale price of certain staple foodstuffs and to provide financing for domestic food producers as well as to the Moscow food industry enterprises purchasing socially important foodstuffs for processing and sale in the City. The resources of the Fund are allocated through the provision of budgetary funds to Moscow wholesalers and processing enterprises in accordance with the Programme for the purchase of agricultural products, raw materials and foodstuffs for the City's needs. The inventory of the City's Reserve Food Resources Fund is built up annually in accordance with the laws applicable to the City Budget subject to certain requirements and available funds.

The City's expenditure on the City's Reserve Food Resources Fund amounted to Rbs 1.2 billion in 2001 and Rbs 238 million in 2002. Based on preliminary data regarding the City's expenditure in 2003, expenditure on the City's Reserve Food Resources Fund amounted to Rbs 3.0 billion. In the 2004 City Budget, the City

BUDGET EXPENDITURE

estimates that expenditure on the City's Reserve Food Resources Fund will amount to Rbs 450 million. The budgeted decrease in expenditure in 2004 primarily reflects an increase in the City's food reserves.

Debt Service

Historically, the City assumed debt principally to finance capital investments. At present, the Budget Code permits the City to borrow for the purpose of financing the budget deficit and funding budget expenditure within amounts required for repayment of existing City's debt.

The total debt of the City amounted to Rbs 41.6 billion at the end of 2001, Rbs 60.2 billion at the end of 2002 and Rbs 83.2 billion at the end of 2003. See "Indebtedness of the City of Moscow".

The following table sets out certain figures relating to the amount of total debt and debt payments of the City for the years 2001-2004. Figures are in billions of roubles.

	2001	2002	2003 Preliminary	2004 Budget
Total surplus (deficit).....	4.652	(22.074)	(40.354)	(46.146)
Total debt	41.569	60.192	83.246	108.850 ⁽¹⁾
Debt repayment	45.729	9.835	17.311	28.802 ⁽²⁾
Interest payments.....	3.473	4.932	8.390	10.714
Total revenue	<u>233.396</u>	<u>281.855</u>	<u>320.637</u>	<u>373.806</u>

(1) Euro/Rbs = 37.55 (source: State Debt Committee).

(2) Including Euro 374.712 million (source: 2004 City Budget, as amended).

Indebtedness of the City of Moscow

The Ministry of Finance has historically been the Federal body in charge of supervising the borrowing activities of the Subjects. Since March 2004, the task of supervising and controlling budgetary matters has been entrusted to the Federal Service of Finance and Budget Supervision, which is controlled by the Ministry of Finance. One of the functions of the Ministry of Finance is to register bond issues by the Subjects and to ensure that all applicable legal requirements with respect to such borrowings are fulfilled, including limits on levels of internal and external debt and funds spent on debt service and debt repayment. General authorisation of the borrowings is within the jurisdiction of the legislative bodies of the respective Subjects. At present the vast majority of the City's debt financing is raised through the State Debt Committee of the City of Moscow (the "State Debt Committee"), which is itself a City Executive Authority. The total debt of the City amounted to Rbs 41.6 billion as of the end of 2001 (including Rbs 27.1 billion serviced through the State Debt Committee), Rbs 60.2 billion as of the end of 2002 (including Rbs 45.2 billion serviced through the State Debt Committee) and Rbs 83.3 billion as of the end of 2003 (including Rbs 70.6 billion serviced through the State Debt Committee).

The State Debt Committee has authority over (i) the placement and circulation of the securities issued by the City; (ii) the timely receipt and transfer of borrowed funds to the City Budget; and (iii) the prompt and complete servicing and repayment of the assumed debt obligations. The accounting of and control over debt obligations of the City as well as control over servicing and repayment of debt obligations of the City and the use of borrowed funds is exercised by the Department of Finance of the City of Moscow (the "City's Department of Finance"). The City's Department of Finance also maintains and administers the State Debt Book of the City of Moscow.

The size and composition of the City's borrowings are stipulated by the City's Borrowing Programme, which is included in the City Budget. The decision on the level of bond issues, loans or other borrowings whether in roubles or foreign currency within the limits stipulated by the annual Borrowing Programme is made by the City Government. Any changes to the level and composition of borrowings set out in the City's Borrowing Programme must be approved by the City Duma in the form of an amendment to the City Budget (except when such changes are introduced by the City Government in accordance with the City Budgeting Law).

State Debt

According to the Budget Code, the State Debt of the City of Moscow is the aggregate amount of all of its debt obligations. The State Debt of the City of Moscow includes direct debt obligations of the City, such as loans and bonds, and indirect obligations, such as guarantees granted by the City.

Historically, the City assumed direct debt principally to finance capital investments. At present the Budget Code permits the City to borrow for the purpose of financing the budget deficit and funding budget expenditure within amounts required for repayment of existing debt. Internal debt is the debt denominated in Roubles. External debt obligations may be denominated in a variety of foreign currencies. The majority of the City's foreign debt is currently denominated in Euros and represented by loans which were financed through the issuance of Loan Participation Notes in 2001, while the remainder is denominated in US dollars.

The City Government has guaranteed loans from Russian banks and other obligations of various City enterprises to finance expenditure which the City considered to be a priority and in which the City had an interest. These guarantees are budget guarantees whereby the full taxing and borrowing power of the City and non-tax revenues are made available towards payment in the event that the City enterprise fails to perform its obligations. The City also provides foreign currency guarantees, whereby the City guarantees payment of obligations denominated in various foreign currencies. As expressed in the table below, the City's total guarantees (internal and external) represent approximately 6 per cent. of the City's total debt liabilities. The City guarantees are treated as non-direct debt, or debt which will not necessarily be incurred. The City's total guarantees are less than 1.3 per cent. of budgeted revenues for 2004. The City's Department of Finance is authorised to issue guarantees on behalf of the City.

INDEBTEDNESS OF THE CITY OF MOSCOW

City guarantees are regulated by the Budget Code (Articles 115, 116 and 117) and the City Budget Law. The City's Borrowing Programme, which is attached as an addendum to the City Budgeting Law each year, specifies the primary City guarantees to be issued in a given financial year. The City Budget Law also specifies the main parameters of the City guarantees.

The following table sets forth the amount of the City's debt and City guarantees for the years 2004 and 2005.

	2004 Budgeted	2005 Estimated
Maximum debt amount as of the end of the year:		
Internal debt, Rbs millions	85,300	100,000
<i>Including maximum amount of issued guarantees.....</i>	5,700	5,500
External debt, EUR millions	850	850
<i>Including maximum amount of issued guarantees.....</i>	50	50

In 2002, the City issued a guarantee to JSC "Moscow Mortgage Agency" which has been administered by the City Finance Department. As of 1 July 2004 the amount of the current liabilities secured by this guarantee equalled Rbs 1.98 billion.

In 2003, the City issued a guarantee to JSC "Novinsky Bulvar, 31" which has been administered by the City Directorate for Foreign Currency and Finance. As of 1 July 2004 the amount of the current liabilities secured by this guarantee equalled USD 67.66 million.

In 2004, the City did not issue any guarantees. The City has no plans to issue guarantees in 2005.

The following table sets out the City's internal and external debt liabilities as of 1 August 2004.

Liability	Currency	Amount in millions	Equivalent in USD, millions	Per cent. of Total debt
Internal debt				
Bonds	Rbs	43,084.84	1,480.48	
Guarantees	Rbs	1,980.00	68.04	
Total internal debt	Rbs	45,064.84	1,548.52	53.82
External debt				
Loans funded through Loan Participation Notes	EUR	750.00	903.37	
Bank loans	USD	35.68	35.68	
Loans from the Federal Budget.....	USD	216.61	216.61	
	EUR	45.88	55.26	
Total Loans			1,210.93	42.09
Guarantees	USD	50.00	50.00	
	USD	67.66	67.66	
Total Guarantees			117.66	4.09
Total external debt			1,328.59	46.18
Total debt			2,877.11	100.00
of which direct debt			2,691.41	

Source: City Department of Finance, State Debt Committee of the City of Moscow

For purposes of this table only, rouble amounts have been translated (i) into USD at a rate of USD 1 = Rbs 29.1019 and (ii) into EUR at a rate of EUR 1 = Rbs 35.0532.

INDEBTEDNESS OF THE CITY OF MOSCOW

The following table sets out the City's internal and external debt liabilities by maturity as of 1 August 2004.

Liability	Currency	Amount millions	Repayment 2004-2005	2006-2012
Internal debt				
Bonds	Rbs	43,084.84	20,377.05	22,707.79
Guarantees	Rbs	1,980.00	0.00	1,980.00
Total internal debt	Rbs	45,064.84	20,377.05	24,687.79
External debt				
Loans funded through Loan Participation Notes	EUR	750.00	350.00	400.00
Bank loans	USD	35.68	30.89	4.79
Loans from the Federal Budget.....	USD	216.61	19.76	193.60
	EUR	45.88	9.42	36.46
Total Loans	Rbs		14,072.79	21,072.99
Guarantees	USD	117.66	5.61	112.04
Total Guarantees	Rbs		163.26	3,260.58
Total external debt	USD	1,328.59	489.18	836.15
Total debt.....	USD	2,877.11	1,189.38	1,684.47
of which direct debt	USD	2,691.41	1,183.77	1,504.40

Source: City Department of Finance, State Debt Committee of the City of Moscow

For purposes of this table only, rouble amounts have been translated (i) into USD at a rate of USD 1 = Rbs 29.1019 and (ii) into EUR at a rate of EUR 1 = Rbs 35.0532.

The following table sets out the City's internal and external debt liabilities as of 1 January 2004.

Liability	Currency	Amount millions	Equivalent in USD, millions	Per cent. of Total debt
Internal debt				
Bonds	Rbs	36,795.04	1,249.22	
Loans	Rbs	4,823.85	163.77	
Guarantees	Rbs	967.86	32.86	
Total internal debt	Rbs	42,586.75	1,445.85	51.16
External debt				
Loans funded through Loan Participation Notes	EUR	750.00	944.62	
Bank loans	USD	40.48	40.48	
Loans from the Federal Budget.....	USD	218.43	218.43	
	EUR	47.02	59.22	
Total Loans			1,262.75	44.68
Guarantees	USD	117.66	117.66	
Total Guarantees			117.66	4.16
Total external debt			1,380.41	48.84
Total debt.....			2,826.26	100.00
of which direct debt			2,675.74	

Source: City Department of Finance, State Debt Committee of the City of Moscow

INDEBTEDNESS OF THE CITY OF MOSCOW

For purposes of this table only, rouble amounts have been translated (i) into USD at a rate of USD 1 = Rbs 29.4545 and (ii) into EUR at a rate of EUR 1 = Rbs 37.0979.

The following table sets out the City's internal and external debt liabilities as of 1 January 2003.

Liability	Currency	Amount millions	Equivalent in USD, millions	Per cent. of Total debt
Internal debt				
Bonds	Rbs	14,393.67	452.85	
Loans	Rbs	8,163.20	256.83	
Guarantees	Rbs	538.84	16.95	
Total internal debt	Rbs	23,095.71	726.64	38.37
External debt				
Loans funded through Loan Participation Notes	EUR	750.00	785.10	
Bank loans	USD	40.48	40.48	
Loans from the Federal Budget.....	USD	159.63	159.63	
	EUR	50.67	53.04	
Total Loans			1,038.25	54.82
Guarantees	USD	99.00	99.00	
	EUR	28.54	29.88	
Total Guarantees			128.88	6.81
Total external debt			1,167.13	61.63
Total debt.....			1,893.76	100.00
of which direct debt			1,747.93	

Source: City Department of Finance, State Debt Committee of the City of Moscow

For purposes of this table only, rouble amounts have been translated (i) into USD at a rate of USD 1 = Rbs 31.7844 and (ii) into EUR at a rate of EUR 1 = Rbs 33.2719.

The City has honoured in full all the internal and external debt it has contracted or guaranteed since 1997.

According to the Budget Code the total outstanding debt of a Subject cannot exceed 100 per cent. of its total revenues (excluding funds received from the Federal Budget in the form of subsidies, subventions and grants) and total debt servicing expenses cannot exceed 15 per cent. of total expenditure of the Subject. The City Government has also adopted debt management measures pursuant to which debt repayment cannot exceed 50 per cent. of "capital resource", which is the amount of total budget revenue less current expenditure and expenditure of the DPFs.

The following table sets out the approximate expected debt ratios of the City for the years 2004-2007.

	2004 Expected	2005 Expected	2006 Expected	2007 Expected
Total debt as a percentage of total budget revenue ⁽¹⁾	29	33	33	33
Debt servicing expenses as a percentage of total budget expenditure ⁽²⁾	3	3	4	4
Debt repayment as a percentage of capital resource	38	27	43	20

Notes:

(1) 'Total budget revenue' does not include Federal subsidies, subventions and grants or DPF revenues.

(2) Including commissions and expenses related to the offering.

Credit History of the City of Moscow

External Debt Liabilities of the City of Moscow

In accordance with the *Federal Law On the Procedure of Issuance and Circulation of Federal and Municipal Debt Securities No. 136-FZ* dated 29 July 1998 (applicable, however, to direct issuance of securities rather than to loans funded through issuance of the Loan Participation Notes) and common international practice Russian borrowers directly issuing debt securities to international investors must receive ratings from at least two international rating agencies.

Foreign Debt Ratings of the City

The City has a strong credit history in relation to its foreign debt liabilities. In early 1997, the City received a foreign debt rating of “Ba2” from Moody’s Investor’s Service and “BB-” from Standard & Poor’s, which were also the foreign debt ratings from Moody’s Investor’s Service and Standard & Poor’s for the Russian Federation.

As a result of the Russian economic crisis in 1998, Moody’s Investors Service in March 1998 and Standard & Poor’s in June 1998 downgraded the foreign debt rating of the Russian Federation to “Ba3” and “B+”, respectively. According to the rating agencies, the foreign debt rating of each Subject of the Federation, including the City, is limited by the foreign debt rating of the Russian Federation. The City’s foreign debt rating was downgraded accordingly to “Ba3” and “B+” by Moody’s and Standard & Poor’s, respectively. In the aftermath of the Russian economic crisis, the Russian Federation’s foreign debt rating from Moody’s and Standard & Poor’s fell from “B1” to “B3” and from “B+” to “CCC”, respectively. The City’s foreign debt rating was downgraded accordingly to “B3” and “CCC” by Moody’s and Standard & Poor’s, respectively. The City’s foreign debt rating from Standard & Poor’s in September 1998 and from Moody’s in March 1999 was “CCC-” and “Caa1” respectively.

Following the recovery in the Russian economy in 1999, Standard & Poor’s upgraded the City’s foreign debt rating from “CCC-” to “CCC+” in April 2000 and from “CCC+” to “B-” in December 2000. In December 2000 Moody’s upgraded the City’s foreign debt rating from “Caa1” to “B3”. The rating agencies cited the City’s increasing revenues, the reduction of its debt burden and the improved transparency of the City Budget and finances as the reasons for the rating upgrades.

In 2001, the rating agencies noted the efficient implementation of the City Budget, the City’s growing tax base, its efficient expenditure control and the successful repayment of its outstanding eurobonds. Fitch Ratings upgraded the foreign debt rating of the City from “CCC” to “B-” in March 2001, to “B” in October 2001 and to “B+” in December 2001. Standard & Poor’s upgraded its foreign debt rating of the City to “B” in June 2001, and to “B+” in December 2001. Moody’s upgraded the foreign debt rating of the City to “B2” in October 2001 and to “Ba3” in December 2001.

In light of the further growth in the Russian economy, Fitch Ratings upgraded the City’s foreign debt rating to “BB-” in May 2002; Standard & Poor’s upgraded the City’s foreign debt rating to “BB-” in July 2002, and to “BB” in December 2002 and Moody’s upgraded the City’s foreign debt rating to “Ba2” in December 2002.

In October 2003, Fitch Ratings upgraded the City’s foreign debt from “BB” to “BB+” (with stable outlook). In 2003 Moody’s and Standard & Poor’s confirmed their foreign debt ratings of the City to be “Ba2” and “BB”, respectively.

In January 2004, Moody’s raised the City’s foreign debt rating to “Ba1” (with stable outlook), which was the highest foreign debt rating assigned by Moody’s to the City. In February 2004, Standard & Poor’s upgraded the City’s foreign debt rating to “BB+” (with stable outlook). Both rating agencies noted the strong City Budget, its reasonable debt burden and the continuing improvement of the City’s debt management.

Internal Debt Ratings of the City

In June 1998, Moody's assigned the City an internal debt rating of "Ba3". Since then the foreign and internal debt ratings have changed simultaneously. In August 1998, Moody's downgraded the internal debt rating of the Russian Federation, and accordingly the internal debt rating of the City, to "Ca". In March 1999, Moody's downgraded the internal debt rating of the City to "Caa1". In December 2000, Moody's upgraded the City's internal debt rating to "B3" and following further upgrades by Moody's, the City's internal debt rating was "Ba3" by December 2001. In December 2002, Moody's upgraded the City's internal debt rating to "Ba2". In 2003, Moody's confirmed its rating of "Ba2" (with stable outlook). In January 2004, Moody's upgraded the City's internal debt rating to "Ba1" (with stable outlook). According to Moody's, the upgrade was in part due to Moscow's strong local economy, the strong City Budget and its capacity for debt financing.

In December 2001, Fitch Ratings assigned an internal debt rating of "B+" to the City, which was one notch higher than the internal debt rating of the Russian Federation from Fitch Ratings. In the second half of 2002, Fitch Ratings assigned an internal debt rating of "BB-" to the City. Fitch Ratings revised the City's internal debt rating from "BB-" to "BB" in May 2003 and to "BB+" (with stable outlook) in October 2003.

City Debt Management

The State Debt Committee of the City of Moscow, known originally as Committee of Municipal Debt, Securities and Capital Market Development of the Government of the City of Moscow (the "Municipal Debt Committee") was established in July 1996 to arrange and raise borrowings on behalf of the City. In April 2003 the Municipal Debt Committee was renamed the State Debt Committee. Since March 1999 the Municipal Debt Committee (and subsequently, the State Debt Committee) has been authorised to act as borrower on behalf of the Government of Moscow in relation to all types of borrowings serviced from the City Budget. The State Debt Committee is authorised to enter into agreements on behalf of the City Government in accordance with applicable City laws and regulations. The State Debt Committee is integrated into the Economic Policy and Development Complex headed by Mr. Yuri V. Roslyak.

The Chairman of the State Debt Committee and his deputies are appointed by the Mayor. The State Debt Committee is a budgetary organisation and thereby funded directly from the City Budget.

The Specialised State Unitary Enterprise "Financial Agency of the City of Moscow" ("MosFinAgency"), established in March 1999, acts on the basis of its Charter and agreement with the State Debt Committee. Pursuant to its Charter, MosFinAgency is primarily responsible for providing consulting, analytical and technical support to the City Debt Committee to procure the smooth functioning of the City's borrowing and investment system and optimisation of management of the City's debt.

Governing bodies of MosFinAgency comprise the General Director appointed by the State Debt Committee and the Supervisory Board chaired by the Chairman of the State Debt Committee.

The main functions of MosFinAgency are providing organisational, informational, legal and other services in connection with the following:

- Negotiating the terms of debt to be assumed by the City;
 - Analysing the City's borrowing needs;
 - Providing for subsequent service of the assumed debt;
 - Managing the City's debt obligations, including optimisation of their structure; and
 - Organising repayment of the City's debt.
- In practice MosFinAgency works closely with, and is accountable to, the State Debt Committee.

Prior to 1999, the Municipal Debt Committee allocated the proceeds of its financing activities to investment projects which were subject to a selection process which aimed to choose those projects which were feasible, realistic and which accrued viable and commercial returns and which were of benefit to the City. Since

1999, the Municipal Debt Committee (and subsequently, the State Debt Committee) has been allocating its funds directly to the City Budget and no longer invests in commercial projects.

The Credit Facility Agreement

The following is the text of the Credit Facility Agreement that has been entered into between the City and the Bank:

- (1) CITY OF MOSCOW (the “Borrower”), acting through THE STATE DEBT COMMITTEE OF THE CITY OF MOSCOW; and
- (2) DRESDNER BANK AKTIENGESELLSCHAFT, incorporated in the Federal Republic of Germany and having its registered office at Jürgen-Ponto-Platz 1, D-60301, Frankfurt am Main, Germany, (the “Lender”).

It is agreed as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

“**Account**” means an account of the Lender with Citibank, N.A., account number 10854069;

“**Advance**” means the advance made or to be made by the Lender under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the Russian Federation and includes, for the avoidance of doubt, the administration and legislature of the Borrower;

“**Authorised Signatory**” means, in the case of the Borrower, any of the persons referred to on the certificate listed as item five in the First Schedule (*Condition Precedent Documents*) hereto and, in the case of the Lender, a duly authorised officer of the Lender, from time to time;

“**Budget Accounts**” means the 2004 Budget of the Borrower, as approved by the Law of the City of Moscow No. 75 dated 17 December 2003 “On the Budget of the City of Moscow for 2004”, together with any further amendments thereto, the preliminary report on the implementation of the 2003 Budget of the Borrower as approved by the Resolution of the Government of the City of Moscow No. 296-PP of 11 May 2004 and the 2003 Budget, as approved by the Law of the City of Moscow No. 63 dated 18 December 2002 “On the Budget of the City of Moscow for 2003” together with any further amendments thereto;

a “**business day**” shall be construed as a reference to a day (other than a Saturday or Sunday) on which banks generally are open for business (including for dealings in foreign currencies) in Frankfurt am Main, London and Moscow and a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

“**Capital Adequacy Requirement**” means a request or requirement relating to the maintenance of capital, including any recommendation regarding capital adequacy standards published by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements which: (i) increases the amounts of capital required thereunder; (ii) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; or (iii) imposes on the Lender any other condition affecting this Agreement or the Advance;

“**Change of Law**” means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation by a competent

authority of any existing or new law which, in each case, occurs after the date hereof and for this purpose the word “law” means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies or other entities in the relevant jurisdiction to comply:

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities);
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by or required by any central bank or other monetary authority, or by or of any tax, fiscal or other authority (whether or not having the force of law); and
- (c) the decision or ruling on, or the interpretation of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any tax, fiscal or other competent authority or agency;

“**Double Tax Treaty**“ means the agreement between the Federal Republic of Germany and the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income and Capital signed on 29 May 1996;

“**Event of Default**” means any circumstances described as such in Clause 15 (*Events of Default*);

“**External Indebtedness**” means Indebtedness which is denominated or payable (or at the option of the relevant creditor or holder thereof may be payable) in a currency other than roubles;

“**Facility**” means the €374,000,000 term loan facility granted to the Borrower by the Lender in this Agreement;

“**Fees and Expenses Amount**” has the meaning given to it in Clause 19.1;

“**Indebtedness**” means any legal obligation for the payment or repayment of borrowed money;

“**Interest Payment Date**” has the meaning given to it in Clause 4 (*Interest Periods*);

“**Interest Period**” has the meaning given to it in Clause 4 (*Interest Periods*);

“**material adverse effect**” means a material adverse effect on (a) the financial condition or operations of the Borrower or (b) the Borrower’s ability to perform its obligations under this Agreement or (c) the validity, legality or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement;

“**Public External Indebtedness**” means External Indebtedness directly or indirectly incurred or otherwise duly authorised in writing by the Borrower which (1) is (a) in the form of, or represented by, bonds, notes or other securities and (b) is, or may be, quoted, listed or ordinarily dealt in on any stock exchange, automated trading system or over-the-counter or other securities market or (2) is incurred in connection with a transaction under whose overall structure indebtedness of the type referred to in (1) of this definition is incurred (whether or not by the person which incurs the indebtedness referred to in this sub-paragraph (2));

“**Qualifying Jurisdiction**” means any jurisdiction which has a double taxation treaty with the Russian Federation under which the payment of interest by Russian companies is not generally taxable in Russia (upon completion of any necessary formalities required in relation thereto);

“**Relevant Entity**” means any government, ministry, committee, department, administrative body or authority of the Borrower but does not include, for the avoidance of doubt: (i) any corporation

in which the Borrower has a direct or indirect interest (whether by ownership or otherwise); or (ii) any entity for whose obligations the Borrower is not liable pursuant to Article 126 of the Civil Code of the Russian Federation;

“**Repayment Date**” means 12 October 2011 or if such day is not a business day, the next succeeding business day;

“**Russia**” shall mean the Russian Federation and any province or political sub-division or Agency thereof or therein;

“**Russian Assets**” means assets, undertakings or revenues which are permitted, under applicable Russian law, to be subject to Security, present or future, of the Borrower or the government thereof;

“**Security**” shall have the meaning given in Clause 14.5 (*Negative Pledge*) of this Agreement;

“**State Debt Book**” means the register of the indebtedness of the Borrower maintained in accordance with the requirements of the Budget Code of the Russian Federation dated 31 July 1998 (as amended), the Law of the City of Moscow No. 15 dated 18 April 2001 “On the State Debt of the City of Moscow” (as amended) and the Resolutions of Moscow Government No. 240-PP dated 2 April 2002 (as amended) and No. 318-PP dated 6 May 2003;

“**Taxes**” means any present or future taxes, levies, duties, assessments, imposts or other governmental charges or withholding of a similar nature, including, without limitation, within the meaning of section 3 of the German Tax Code (including interest and penalties or addition thereon), no matter how they are levied or determined (and references to “**Tax**” shall be construed accordingly); and

“**Taxing Authority**” means any body having authority to tax.

1.2 Interpretation

Any reference in this Agreement to:

the “**Lender**” or the “**Borrower**” shall be construed so as to include its and any subsequent successors, assignees and chargees in accordance with their respective interests;

“**agreed funding source**” shall mean any person to whom the Lender owes any Indebtedness incurred in respect of the funding of the Advance;

an “**encumbrance**” shall be construed as a reference to (a) a mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 30 days of arising) or other encumbrance securing any obligation of any person, (b) any contractual arrangement under which money or claims to, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect payment of sums owed or payable to any person or (c) any other type of preferential contractual arrangement (including title transfer and retention arrangements) having a similar effect;

the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) roubles and the second currency is (ii) euro or, as the case may be, U.S. dollars (or vice versa), by the Central Bank of the Russian Federation, at or about 10.00 a.m. (London time or Brussels time (as applicable) or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

a “**month**” is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a business day, it shall end on the next

succeeding business day, unless that day falls in the calendar month succeeding that in which it would otherwise have ended, in which case it shall end on the immediately preceding business day. Provided that, if a period starts on the last business day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last business day in that later month (and references to “months” shall be construed accordingly);

a “person” shall be construed as a reference to any person, firm, company, corporation, government, state or agency or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

“repay” (or any derivative form thereof) shall, subject to any contrary indication, be construed to include “prepay” (or, as the case may be, the corresponding derivative form thereof);

“VAT” shall be construed as a reference to value added Tax including any similar Tax which may be imposed in place thereof from time to time.

1.3 Currency Symbols

“U.S.\$” and “dollars” denote the lawful currency of the United States of America, “roubles” denotes the lawful currency of the Russian Federation and “€” and “euro” denote the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended from time to time.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to this Agreement, or any other agreement or document shall be construed as a reference to this Agreement, or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. The Facility

2.1 Grant of the Facility

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of €374,000,000, funded by an agreed funding source.

2.2 Purpose and Application

The Advance is intended for financing budgetary expenditures and, accordingly, the Borrower shall apply all amounts raised by it hereunder in or towards satisfaction of its budgetary expenditure obligations, but the Lender shall not be obliged to concern itself with such application.

3. Availability of the Facility

The Facility will be available by way of a single Advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Advance on 12 October 2004 (or such later date as may otherwise be agreed by the parties to this Agreement) by payment of the Advance in accordance with the following payment instructions: Beneficiary: State Debt Committee Account No.: 40202978200080310013, Bank of Beneficiary: Bank of Moscow, 36, Noviy Arbat, Moscow SWIFT: MOSWRUMM, Account No.: 499/08124139/00/888 with Dresdner Bank AG, Frankfurt/Main, Jürgen-Ponto-Platz 1, Frankfurt am Main, Germany SWIFT: DRES DE FF if:

- 3.1 the Lender has confirmed to the Borrower that it has received all of the documents listed in the First Schedule (*Condition Precedent Documents*) hereto and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;
- 3.2 the Lender has received funding of the Advance from an agreed funding source;
- 3.3 the proposed amount of such Advance is equal to or less than the amount of the Facility; and
- 3.4 no event has occurred or circumstance arisen which would (whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement) constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) are true in all material respects on and as of the proposed date for the making of such Advance.

4. Interest Periods

Interest shall be payable in arrear on 12 October in each year (each, an “**Interest Payment Date**”), subject as provided in Clause 5.1 (*Payment of Interest*). Each period from (and including) 12 October 2004, or such later date as may otherwise be agreed pursuant to Clause 3 (*Availability of the Facility*) to (but excluding) the first Interest Payment Date being 12 October 2005 and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is herein called an “**Interest Period**”.

5. Payment and Calculation of Interest

5.1 Payment of Interest

Not later than 10.00 a.m. (London time) one business day prior to each Interest Payment Date, the Borrower shall, in respect of the relevant Interest Period, pay accrued interest (calculated to the last day of the relevant Interest Period) on the outstanding principal amount of the Facility to the Account.

5.2 Calculation of Interest

The amount of interest payable for any Interest Period shall be calculated by applying the rate of 6.45 per cent per annum (the “**Interest Rate**”) to the amount of the Facility and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

6. Repayment

Not later than 10.00 a.m. (London time) one business day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Facility and, to the extent not already paid in

accordance with Clause 5.1 (*Payment of Interest*), all interest accrued (calculated to the last day of the last Interest Period).

7. Prepayment

7.1 Prepayment for Tax Reasons

The Borrower may, if it is required to pay any increased amounts under Clause 8.1 (*Tax Gross-up*), or make any payment by way of indemnity under Clause 8.3 (*Tax Indemnity*), subject to giving to the Lender not less than 30 business days' prior notice to that effect and providing documentary evidence thereof, prepay the whole (but not part only) of the amount of the Facility, together with any amounts then payable under Clause 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) and accrued interest.

7.2 Prepayment for Reasons of Increased Costs

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 business days' prior notice to that effect, prepay the whole (but not part only) of the amount of the Facility, together with any amounts then payable under Clause 10.1 (*Increased Costs*) and accrued interest.

7.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Advance made or to be made by it hereunder or to maintain its agreed funding source of the Advance then the Lender shall, promptly after becoming aware of the same, deliver to the Borrower a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

7.3.1 if the Advance has not then been made, the Lender shall not thereafter be obliged to make the Advance; and

7.3.2 if the Advance is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or such earlier day as the Borrower elects, repay the whole (but not part only) of the amount of the Advance together with accrued interest thereon and all additional amounts owing to the Lender hereunder.

7.4 Notice of Prepayment

Any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or 7.2 (*Prepayment for Reasons of Increased Costs*) shall be revocable up to 10 days before the date fixed for prepayment and thereafter irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment on such date.

7.5 Costs of Prepayment

The Borrower shall, on the date of prepayment, pay all accrued interest as of such date of prepayment and all additional amounts owing to the Lender hereunder. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.6 No Other Repayments and no Reborrowing

The Borrower shall not repay the whole or any part of the amount of the Facility except at the times and in the manner expressly provided for in this Agreement.

7.7 Purchase of Instruments Issued to the Agreed Funding Source

The Borrower may from time to time purchase instruments issued to the agreed funding source at any time in the open market. The Borrower may from time to time deliver to the Lender (i) such instruments, having an aggregate principal value of at least €100,000, together with a request for the Lender to present such instruments to the registrar of the Lender appointed under the instruments (the “**Registrar**”) for cancellation or (ii) instructions from the Borrower to the Registrar to cancel a specified aggregate principal amount of instruments in principal amount of at least €100,000 held on behalf of the Borrower represented by the global note certificate (together with evidence satisfactory to the Registrar that the Borrower is entitled to such instructions) and, in either event, (iii) a request to the Registrar to provide the Borrower with confirmation of such cancellation, whereupon the Lender shall submit such instruments or instructions together with any such request received to the Registrar and request the Registrar to cancel such instruments (or specified aggregate principal amount of instruments represented by the global note certificate in respect thereof). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Advance corresponding to the principal amount of such instruments together with accrued interest (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

8. Taxes

8.1 Tax Gross-up

All payments to be made by the Borrower to the Lender hereunder shall be made free and clear of and without deduction for or on account of Tax imposed by any Taxing Authority of or in the Russian Federation and the Federal Republic of Germany, unless the Borrower is required to make such a payment subject to the deduction or withholding of such Tax. If, at any time, deduction or withholding is made on account of any such Tax, the sum payable by the Borrower in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, the Lender receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made.

8.2 Payments

The Borrower shall assist the Lender in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

8.3 Tax Indemnity

Without prejudice to the provisions of Clause 8.1 (*Tax Gross-up*),

- (i) if the Lender is required to make any payment on account of Tax imposed by any Taxing Authority of or in the Russian Federation or the Federal Republic of Germany (other than any Taxes payable in Germany by the Lender on its overall net income); or
- (ii) any deduction or withholding is required to be made by the Lender on any payment made or to be made by the Lender in respect of its funding of the Advance from an agreed funding source,

and as a consequence thereof, the Lender is required to pay, or would be required to pay but for the limited recourse nature of its obligations under the Trust Deed, any increased amounts to or for the account of an agreed funding source, or otherwise on or in relation to any sum received or receivable by it hereunder (including, without limitation, any sum received or receivable under this Clause 8 (*Taxes*)) or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, within 30 days of demand made by the Lender,

indemnify the Lender against such properly documented payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith.

8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

8.5.1 If an increased amount is paid under Clause 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment or, in the case of an increased payment made pursuant to Clause 8.3 (*Tax Indemnity*), with reference to the liability, expense or loss to which the payment giving rise to the increased payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

8.5.2 If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the Russian Federation (a) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Tax Gross-up*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of Tax as referred to above the Borrower applies on behalf of the Lender to the relevant Russian Taxing Authority for a Tax refund and such Tax refund is credited by the Russian Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such Tax refund and promptly transfer the entire amount of the Tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Qualifying Lender

The Lender represents that it is a bank which at the date hereof is resident in a Qualifying Jurisdiction (a “**Qualifying Lender**”). The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the Double Tax Treaty, including its obligations under Clause 8.8 (*Tax Treaty Relief*). The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.

8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be a Qualifying Lender. If the Lender ceases to be a Qualifying Lender, then (save in circumstances where the Lender never was a Qualifying Lender, or has ceased to be a Qualifying Lender by reason of any Change of Law, regulation or double taxation treaty or in its application or interpretation, in each case taking effect after the date of this Agreement) the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be a Qualifying Lender.

8.8 Tax Treaty Relief

8.8.1 The Lender shall once in each calendar year, provided that the Borrower so requests no earlier than 65 business days but no later than 50 business days prior to the Interest Payment Date in each calendar year, use its reasonable efforts to provide the Borrower no later than 20 business days prior to such Interest Payment Date with a tax residency certificate issued or certified by (as applicable) the competent authorities of the Federal Republic of Germany confirming that the Lender is resident for tax purposes in the Federal Republic of Germany in the calendar year of such Interest Payment Date. If the Borrower requests the tax residency certificate later than 50 business days prior to the Interest Payment Date of a given year, the Lender shall use its reasonable efforts to provide the Borrower with such certificate within 50 business days following receipt of the Borrower's request. The residency certificate shall be apostilled or otherwise legalised. The Lender shall not be responsible for any failure to provide, or any delays in providing, such apostilled or otherwise legalised tax residency certificate as a result of any action or inaction of any authority of the Federal Republic of Germany, but shall notify the Borrower as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such tax residency certificate.

8.8.2 If Russian legislation regulating the procedures for obtaining relief from Russian withholding tax on income changes, the Lender shall use its reasonable and timely efforts to assist the Borrower in obtaining relief from such Tax pursuant to the Double Tax Treaty.

9. Tax Receipts

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant Taxing Authority or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 30 days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment.

10. Changes in Circumstances

10.1 Increased Costs

If, by reason of (i) any Change of Law or change in its interpretation or administration (other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender) and/or (ii) compliance with any Capital Adequacy Requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in Russia or the Federal Republic of Germany:

10.1.1 the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations (including its obligation to make the Advance) under this Agreement; or

10.1.2 the Lender becomes liable to make any additional payment on account of Tax or otherwise (not being a Tax imposed on its net income or the amounts due pursuant to the Fees Letter) on or calculated by reference to the amount of the Advance and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.3 (*Tax Indemnity*),

then the Borrower shall, from time to time within 15 days of demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability, provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the negligence, fraud or wilful default of the Lender and provided that the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant Change of Law or Capital Adequacy Requirement, as the case may be, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other person's affairs.

10.3 Mitigation

If circumstances arise which would result in:

10.3.1 any payment falling due to be made by or to the Lender or for its account pursuant to Clause 7.3 (*Illegality*);

10.3.2 any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Tax Gross-up*); or

10.3.3 a claim for indemnification pursuant to Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall promptly upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including (without limitation) by the change of its lending office or transfer of its rights or

obligations under this Agreement to another bank provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with an agreed funding source.

11. Representations and Warranties of the Borrower

The Borrower makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.16 (*Repetition*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Status

It is a duly constituted subject of the Russian Federation, being a separate sovereign entity capable of suing and, subject to its sovereign immunity, being sued.

11.2 Due Authorisation

It has duly authorised, executed and delivered this Agreement.

11.3 Governmental Approvals

All actions or things required to be taken, fulfilled or done by laws or regulations of Russia (including, without limitation, the obtaining of any consent, approval, authorisation, order, licence or qualification of or with any court or governmental agency, and all registrations, filings or notarisations required by laws or regulations of Russia (except for those referred to in Clause 14.1 (*Maintenance of Legal Validity*) below)), in order to ensure (i) the due execution, delivery and performance by the Borrower of this Agreement and (ii) the validity or enforceability against the Borrower of this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.4 Purpose of Agreement

The Borrower has entered into this Agreement for commercial purposes.

11.5 *Pari Passu* Obligations

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

11.6 Governing Law

As a matter of Russian law, the Russian courts will observe and give effect to the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to Clause 24.2 (*Arbitration*) in relation to this Agreement without re-examination of the issues, subject to compliance with applicable procedural rules and all other legal requirements having effect in Russia.

11.7 Validity and Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Russia (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.8 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding, and enforceable against it in accordance with their terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability:

- (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);
- (ii) with respect to the enforceability of a judgment, whether there is a treaty in force relating to mutual recognition of foreign judgments; and
- (iii) to the fact that the gross-up provisions contained in Clause 8 may not be enforceable under Russian law.

11.9 No Stamp Taxes

Under the laws of Russia in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement.

11.10 No Withholding

Subject to the performance by the relevant parties of the relevant established procedures, no withholding in respect of any Russian Taxes is required to be made from any payment by the Borrower under this Agreement.

11.11 No Events of Default

No event has occurred or circumstance arisen which would (whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement) constitute an event described under Clause 15 (*Events of Default*).

11.12 No Material Proceedings

Save to the extent disclosed in writing to the Lender prior to the date hereof, there are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or (c) have a material adverse effect on the sources and amounts of revenue of the Borrower or in the proposed expenditure of the Borrower, each as set out in the Budget Accounts, which might affect the investment decision of the agreed funding source.

11.13 Budget Accounts

The Budget Accounts of the Borrower have been prepared in accordance with the Budget Code of the Russian Federation dated 31 July 1998 (as amended) and the Law of the City of Moscow No. 51 dated 9 October 2002 "On the Budget Composition and Budget Process in the City of Moscow" (as amended).

11.14 No Material Adverse Change

Save as disclosed in writing to the Lender prior to the date hereof, since 31 December 2003 there has been no material adverse change or any development involving a prospective material adverse change in the sources and amounts of revenue of the Borrower or in the proposed expenditure of

the Borrower, each as set out in the Budget Accounts, which might affect the investment decision of the agreed funding source.

11.15 Execution of Agreement

Its entry into, execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

11.15.1 conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, trust deed, mortgage or other contract, agreement or instrument or treaty to which the Borrower is a party or by which it, or any of its properties or assets, is bound which in any case has a material adverse effect on the Borrower;

11.15.2 infringe or violate any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court in Russia binding upon the Borrower or any law, regulation or directive of any governmental authority having the force of law; or

11.15.3 give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower.

11.16 Repetition

Each of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date the Advance is made.

12. Representations and Warranties of the Lender

The Lender makes the representations and warranties set out in Clause 12.1 (*Status and Due Authorisation*) to Clause 12.4 (*Consents and Approvals*) (inclusive) and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status and Due Authorisation

The Lender:

12.1.1 is duly incorporated under the laws of and resident in the Federal Republic of Germany;

12.1.2 is a bank which at the date hereof is subject to unlimited German Tax liability (*unbeschränkte Steuerpflicht*) for corporate income tax (*Körperschaftsteuer*) purposes in Germany and it is not subject to limited Tax liability in Germany and can, on the basis of current practice of the German Taxing Authority, provide a certificate from such Taxing Authority confirming the foregoing (*Ansässigkeits bescheinigung*); and

12.1.3 has full power and capacity to execute this Agreement, and any other agreements relating to the agreed funding source, and to undertake and perform the obligations expressed to be assumed by it therein and the Lender has taken all necessary action to approve and authorise the same.

12.2 Execution of Agreement

The execution of this Agreement, and any other agreements relating to the agreed funding source, and the undertaking and performance by the Lender of the obligations expressed to be assumed by it therein will not conflict with, or result in a breach of or default under, the laws of the Federal Republic of Germany or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

12.3 Valid and Binding Obligations

This Agreement, and any other agreements relating to the agreed funding source, constitute legal, valid and binding obligations of the Lender.

12.4 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein have been obtained and are in full force and effect.

12.5 No Permanent Establishment

At the date hereof, the Lender does not have a permanent establishment in Russia for purposes of the Double Tax Treaty. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty except in the Clause 12.5.

13. Financial Information

13.1 Delivery

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) all such information as it may require in connection with section 18 of the German Banking Act (*Gesetz über das Kreditwesen – KWG*) or as the Luxembourg Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the agreed funding source.

13.2 Budget Accounts

The Borrower shall ensure that:

13.2.1 each set of budget accounts delivered by it pursuant to Clause 13.1 (*Delivery*) is prepared in accordance with the Budget Code of the Russian Federation dated 31 July 1998 (as amended) and the Law of the City of Moscow No. 51 dated 9 October 2002 “On the Budget Composition and Budget Process in the City of Moscow” (as amended); and

13.2.2 it provides to the Lender within 30 days of any request by the Lender and at the time of the despatch to the Lender of its budget accounts pursuant to Clause 13.1 (*Delivery*), and in any event not later than 30 days after the dates on which the budget accounts relating to the next financial year and the law of the City Duma “On the Implementation of the Budget of the City of Moscow” (for the respective financial year) are officially published, a certificate in the English language substantially in the form set out in the Second Schedule (*Form of Compliance Certificate*) hereto, signed by two Authorised Signatories of the Borrower certifying that up to a specified date not earlier than seven days prior to the date of such certificate (the “**Certified Date**”) the Borrower has complied with its obligations under this Agreement (or, if such is not the case, giving details of the circumstances of such non-compliance) and that as at such date there did not exist nor had there existed at any time prior thereto since the Certified Date in respect of the previous such certificate (or, in the case of the first such certificate, since the date of this Agreement) any Event of Default or (if such is not the case) specifying the same.

14. Covenants

14.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of Russia to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Russia of this Agreement. The Borrower shall take all steps to ensure the registration of the Facility and this Agreement in the State Debt Book maintained by the Finance Department of the City of Moscow, with the Ministry of Finance of the Russian Federation, pursuant to the Budget Code of the Russian Federation dated 31 July 1998 (as amended), the Law of the City of Moscow No. 15 dated 18 April 2001 “On the State Debt of the City of Moscow” (as amended) and in accordance with the Resolutions of the Government of the City of Moscow No. 240-PP dated 2 April 2002 (as amended) and No. 318-PP dated 6 May 2003. Nothing in this Clause 14.1 shall be deemed to amount to (a) a waiver of sovereign immunity available to the Borrower as a matter of the law of the Russian Federation or (b) any agreement on the part of the Borrower to submit to the jurisdiction of any court other than the courts of the Russian Federation.

14.2 Untrue Representations

Before the making of the Advance, the Borrower shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations contained in Clause 11 (*Representations and Warranties of the Borrower*) being untrue at or before the time of the making of such Advance.

14.3 Notification of Events of Default

The Borrower shall promptly on becoming aware thereof inform the Lender of the occurrence of any Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default has occurred.

14.4 Claims *Pari Passu*

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the other unsecured and unsubordinated creditors of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

14.5 Negative Pledge

So long as the Facility or any part of it has not been repaid in full, the Borrower will not create or permit to subsist any mortgage, charge, pledge, lien, deed of trust, charge, encumbrance or security interest (“**Security**”) upon the whole or any part of the Russian Assets to secure any Public External Indebtedness of the Borrower or any Relevant Entity or any guarantee or indemnity by the Borrower or any Relevant Entity of any Public External Indebtedness unless, at the same time or prior thereto, the obligations under this Agreement (i) are secured equally and rateably therewith or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to such Security and which shall be approved by the Lender.

15. Events of Default

Each of Clause 15.1 (*Failure to Pay*) to Clause 15.6 (*Authorisations*) describes circumstances which constitute an Event of Default for the purposes of this Agreement. Clause 15.7 (*Acceleration and Cancellation*) and Clause 15.8 (*Amounts Due on Demand*) deal with the rights of the Lender after the occurrence of an Event of Default.

15.1 Failure to Pay

The Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein, and such failure is not remedied within 10 business days of the due date for payment.

15.2 Obligations

The Borrower defaults in the performance or observance of any of its obligations other than that set out in Clause 15.1 (*Failure to Pay*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 30 days after the Lender has given written notice thereof to the Borrower (it being understood that a default in respect of the undertaking set forth in Clause 14.5 (*Negative Pledge*) shall be deemed capable of remedy for the purposes hereof).

15.3 Cross Default

Any Public External Indebtedness of the Borrower or any Relevant Entity shall become due and payable prior to the stated maturity thereof other than at the option of the debtor following a default of the Borrower or any Relevant Entity, or the Borrower or any Relevant Entity shall fail to make the final payment of principal in respect of any Public External Indebtedness of the Borrower or any Relevant Entity on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto or any guarantee or indemnity given by the Borrower or any Relevant Entity in respect of Public External Indebtedness (the underlying obligation in respect of which such guarantee or indemnity has been given having become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the debtor having failed to make the final payment of principal in respect of such underlying obligation on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto) shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this Clause 15.3 shall have occurred equals or exceeds U.S.\$50,000,000 (or its equivalent in any other currency or currencies); and provided, further, that any secured Public External Indebtedness that by its terms is fully non-recourse to the Borrower or any Relevant Entity shall not be counted as Public External Indebtedness for purposes of this Clause 15.3.

15.4 Moratorium

A moratorium is placed on the payment of principal of, or interest on, all or any part of any Public External Indebtedness of the Borrower or any Relevant Entity.

15.5 Validity and Illegality

The validity of this Agreement is contested by the Borrower or any agency or entity acting on behalf of the Borrower or the Borrower or any agency or entity acting on behalf of the Borrower shall deny any of the Borrower's obligations under this Agreement or it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding.

15.6 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender.

15.7 Acceleration and Cancellation

Upon the occurrence of an Event of Default or at any time thereafter, the Lender may by written notice to the Borrower declare the amount of the Facility to be immediately due and payable (whereupon the same shall become so payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the amount of the Facility to be due and payable on demand of the Lender.

15.8 Amounts Due on Demand

If, pursuant to Clause 15.7 (*Acceleration and Cancellation*), the Lender declares the amount of the Facility to be due and payable on demand of the Lender, then, and at any time thereafter, the Lender may by written notice to the Borrower require repayment of the amount of the Facility on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

16. Default Interest and Indemnity

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*) or if any sum due and payable by the Borrower under any arbitral award or (without prejudice to Clause 24.2 (*Arbitration*)) judgment of any court in connection herewith is not paid on the date of such arbitral award or judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an “**unpaid sum**”) is discharged shall be divided into successive periods, each of which (other than the first) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 16) be selected by the Lender (but shall in any event not be longer than one month).

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 Borrower's Indemnity

The Borrower undertakes to indemnify the Lender against any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

16.5 Unpaid Sums as Advances

Any unpaid sum shall (for the purposes of this Clause 16 and Clause 10.1 (*Increased Costs*)) be treated as an advance and accordingly in this Clause 16 and Clause 10.1 (*Increased Costs*) the term

“Advance” includes any unpaid sum and the term “**Interest Period**”, in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17. Currency of Account and Payment

17.1 Currency of Account

Euro is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

17.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

18. Payments

18.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in euro to be paid by the Borrower, except for the payments of interest referred to in Clause 5.1 (*Payment of Interest*), the Borrower shall make the same available to the Lender by payment in euro and in same day funds one business day prior to such date (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in euro) to the Account. The Borrower shall procure that before 10.00 a.m. (Local Time) on the fourth Banking Day (“**Local Time**” and “**Banking Day**” each as defined in the agency agreement to be entered into by, *inter alia*, the Lender on or about 12 October 2004 in relation to the agreed funding source) before the due date of each payment by it under this Agreement the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment.

18.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments hereunder in the manner specified in Clause 18.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

18.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

19. Costs and Expenses

19.1 Transaction Expenses and Fees

The Borrower agrees that the Lender shall be entitled to deduct from the Advance, prior to payment to the account referred to in Clause 3 (*Availability of the Facility*) an amount of €1,297,609.02 in respect of fees and expenses (the “**Fees and Expenses Amount**”). The Lender shall provide to the Borrower written evidence of the composition and calculation of such Fees and Expenses Amount.

19.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses (including legal fees) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

19.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other Taxes to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, costs, expenses and claims resulting from any failure to pay or any delay in paying any such Tax.

19.4 Lender’s Costs

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 19.2 (*Preservation and Enforcement of Rights*)) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including telephone, fax, copying, travel and personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with:

19.4.1 the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;

19.4.2 any actual breach by the Borrower of its obligations hereunder; or

19.4.3 any amendment or proposed amendment hereto requested by the Borrower.

20. Assignments and Transfers

20.1 Binding Agreement

This Agreement shall be binding upon and ensure to the benefit of each party hereto and its or any subsequent successors and assigns.

20.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

20.3 Assignments by the Lender

20.3.1 Prior to an Event of Default, the Lender may, subject to the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder:

- (i) in favour of the agreed funding source; or
- (ii) to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender (or any previous substitute) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source.

20.3.2 On or following an Event of Default, the Lender may, by notice to the Borrower, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any assignee or transferee appointed in connection with the agreed funding source.

20.4 Disclosure of Information

The Lender may not without the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) disclose to any actual or potential assignee or transferee (other than to an assignee or transferee appointed in connection with the agreed funding source) or to any agreed funding source such information about the Borrower as the Lender shall have received in accordance with Clause 13 (*Financial Information*) of this Agreement.

21. Calculations and Evidence of Debt

21.1 Basis of Accrual of Interest

Default interest shall accrue from day to day and shall be calculated in accordance with Clause 5.2 (*Calculation of Interest*).

21.2 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.3 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Tax Gross-up*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be prima facie evidence of the existence and amounts of the specified obligations of the Borrower.

22. Remedies and Waivers, Partial Invalidity

22.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23. Notices, Language, Survival

23.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, telex, or letter.

23.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice to the same specified another address) be made or delivered to that other person at the address identified with its signature below and shall be effective upon receipt by the sender of the addressee's answerback at the end of transmission (in the case of a telex) or when left at that address (in the case of a letter) or when received by the addressee (in the case of a fax). Provided that any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below (or such other department or officer as such other party shall from time to time specify for this purpose).

23.3 Language

This Agreement shall be produced and signed in English. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified (by an officer of the person making or delivering the same) as being a true and accurate translation thereof.

23.4 Survival

The obligations of the Borrower pursuant to Clauses 8.1 (*Tax Gross-up*), 8.3 (*Tax Indemnity*), 16.4 (*Borrower's Indemnity*), 19.1 (*Transaction Expenses and Fees*), 19.2 (*Preservation and Enforcement of Rights*) and 19.4 (*Lender's Costs*) shall survive the termination of this Agreement.

24. Law and Jurisdiction

24.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

24.2 Arbitration

Any dispute arising out of or connected with this Agreement, including a dispute as to the validity or existence of this Agreement and/or this Clause, shall be resolved by arbitration in London, England conducted in English by three arbitrators pursuant to the rules of the International Chamber of Commerce (“ICC”), save that, unless the parties agree otherwise:

- (i) the third arbitrator, who shall act as chairman of the tribunal, shall be chosen by the two arbitrators appointed by or on behalf of the parties. If he is not chosen and nominated to the ICC for appointment within 30 days of the date of confirmation by the ICC of the later of the two party-appointed arbitrators to be confirmed, he shall be chosen by the ICC;
- (ii) no arbitrator shall be of the same nationality as any party to this Agreement; and
- (iii) the tribunal shall draw up, and submit to the parties for signature, the Terms of Reference within 21 days of receiving the file.

24.3 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

As witness the hands of the duly authorised representatives of the parties hereto the day and year first before written.

The First Schedule

Condition Precedent Documents

1. Copies of the Charter of the Borrower and of any amendments and changes thereto (in Russian).
2. The Resolution of the Government of Moscow “On Borrowing” No. 623-PP dated 14 September 2004 authorising the Borrower to enter into this Agreement (in Russian and in English).
3. A copy of the Law of the City of Moscow No. 75 dated 17 December 2003 “On the Budget of City of Moscow for 2004” (as amended) adopted by the Moscow Duma authorising the Borrower’s borrowing pursuant to this Agreement, Letter from the Finance Department of the City of Moscow evidencing that the amount of the Facility does not exceed the limits set by the above-mentioned Law of the City of Moscow and does not breach the constraints set out in the Budget Code of the Russian Federation.
4. Certificate of the Borrower setting out the positions, names and sample signatures of the persons authorised to sign, on behalf of the Borrower, this Agreement and any other documents to be delivered by the Borrower pursuant hereto.
5. An opinion of White & Case, Russian legal advisers to the Borrower, in form and substance satisfactory to the Lender.
6. An opinion of Linklaters CIS, Russian legal advisers to the Managers, in form and substance satisfactory to the Managers and the Lender.
7. An opinion of Linklaters, English legal advisers to the Managers, in form and substance satisfactory to the Managers and the Lender.
8. An opinion of Linklaters Oppenhoff & Rädler, German legal advisers to the Lender, in form and substance satisfactory to the Managers and the Lender.
9. A copy of the issuer's side letter executed by the Borrower and the Lender.
10. A copy of the trustee and agents side letter executed by the Borrower and the other parties thereto.
11. An opinion of PricewaterhouseCoopers, Russian tax advisers to the Lender and the Managers, in form and substance satisfactory to the Borrower, the Lender and the Managers.
12. An opinion of PricewaterhouseCoopers, German tax advisers to the Lender and the Managers, in form and substance satisfactory to the Borrower, the Lender and the Managers.
13. Such other signing authorities as the Borrower may be required to obtain under applicable legislation.

The Second Schedule

Form of Compliance Certificate

[On the letterhead of Borrower]

[DATE]

To: Dresdner Bank Aktiengesellschaft
Jürgen-Ponto-Platz 1
D-60301
Frankfurt am Main
Germany

For the attention of: Flow Business Debt

The Law Debenture Trust Corporation p.l.c.

For the attention of: The Manager, Commercial Trusts

Fax: +44 20 7696 5261/ 7606 0643

Dear Sirs,

Re: €374,000,000 Credit Facility Agreement, dated 11 October 2004 (the “Credit Facility Agreement”), between City of Moscow (the “Borrower”), acting through the State Debt Committee of the City of Moscow and Dresdner Bank Aktiengesellschaft (the “Lender”)

- 1 We refer to Clause 13.2.2 of the Credit Facility Agreement.
- 2 Capitalised terms used, but not defined herein, having the meanings ascribed to them in the Credit Facility Agreement.
- 3 We confirm that up to and including the date hereof no Event of Default has occurred.

Yours faithfully,

For and on behalf of Borrower

Authorised Signatory

The Russian Federation

The following information has been extracted from publicly available sources, including the CBR's website at www.cbr.ru, Goskomstat's Special reports and Goskomstat's website at www.gks.ru.

General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units with different statuses (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous oblast).

On 7 December 2003 a referendum was held in Permskaya Oblast and the Komi-Permyatskiy Autonomous District concerning the formation of a new Subject by way of merger of these two Subjects. On the basis of this referendum, the *Federal Constitutional Law No. 1-FKZ* was adopted on 25 March 2004. This provides that from 1 December 2005 a new Subject called Permskiy Krai (Perm Province) will be formed. Thus, from 1 December 2005 the Russian Federation will consist of 88 Subjects and the Constitution will be amended accordingly.

The Russian Federation is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometres. Russia covers one-tenth of the world's land surface, making it the largest country in the world, almost twice the size of the United States of America.

Of the population of approximately 143.8 million, approximately 82 per cent. is ethnic Russian and a high percentage (approximately 73 per cent.) lives in cities and towns. The two largest cities are Moscow, with approximately 10.1 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

International Relations

Russia is a member of the United Nations (and a permanent member of the Security Council), the International Monetary Fund, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development.

Russia succeeded to the former Soviet Union's "observer status" in relation to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation). This status was granted in May 1990. In June 1993, Russia officially announced its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia's admission to the World Trade Organisation started in 1995 and are still ongoing.

Russia has been awarded "Most Favoured Nation" status by several members of the Organisation for Economic Co-operation and Development ("OECD"). Russia has been granted observer status in a number of OECD committees and formally applied for membership in May 1996.

Political Structure and Recent Political Developments

Federal Structure

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the Commonwealth of Independent States (the "CIS"). The CIS was subsequently joined by another nine former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Subjects, initially gave to each Subject a measure of independent control over budgetary and external policy as well as over the natural

resources of their territories. The Constitution of the Russian Federation and individual treaties between the Federation and some of the Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its Subjects. See “Risk Factors- Risk Factors Relating to Russia”.

In general, disputes between the federal authorities and Subjects have been resolved peacefully through a political process. The military confrontation in Chechnya has been the exception. From 1994 to 1996 and since 1999, Russian military forces have been engaged in operations in Chechnya, bringing normal economic activity within Chechnya to a halt and disrupting the economy of the neighbouring region. In addition, groups associated with the Chechen separatists have committed various acts of terrorism in population centres in Russia, resulting in significant loss of life, injury and damage to property.

On 13 September 2004 the President of the Federation announced a proposed reform of the sub-federal election system under which the heads of the executive authorities in the Subjects will be elected by the legislatures of the respective Subjects from a list of candidates nominated by the President of the Federation (instead of, as is currently the case, by direct election by the electorate of the respective Subjects without the participation of federal authorities in the nomination process). The proposed amendments to the existing election system will be provided for in a draft law which is expected to be submitted by the President for consideration of the State Duma by the end of 2004.

Constitution

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

Executive, Legislative and Judicial Branches

The Executive branch consists of the President and the Government of Russia.

The President of Russia has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Council of Federation. He also has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the State Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for Chairman of the CBR (for appointment by the State Duma) and the Prosecutor General (for appointment by the Council of Federation) and also nominates judges for the Constitutional Court, the Supreme Court and the Highest Arbitration Court (for appointment by the Council of Federation).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of ill-health, in which case the Prime Minister fulfils the responsibilities of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of Russia comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election in order to permit the President to form a new Government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget,

establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Federal Assembly, which consists of a lower chamber, the State Duma, and an upper chamber, the Council of Federation.

The State Duma consists of 450 members, elected by a mixed system of majority vote and proportional representation. Half of the members are elected by majority vote in individual electoral districts. The other half are chosen from “party lists” on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than 5 per cent. of the votes qualify for these “party list” seats. “Party list” members are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma member and hold a position in the Government.

The Council of Federation currently represents Russia’s 89 Subjects. Each Subject has two representatives on the Council of Federation, one representing its legislative body and the other representing its executive branch.

The judicial branch is represented by the Constitutional Court, the Supreme Court and the High Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

The early resignation of President Yeltsin on 31 December 1999 brought the elections scheduled for the summer of 2000 forward to March 2000. At the time of Yeltsin’s resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Presidential elections were then held on 26 March 2000. Putin was successful in the first round of voting for the Presidential elections held in March 2000 and secured over 52 per cent. of the votes cast with a turnout of 68.74 per cent. (more than 50 per cent. of the votes cast is required in order to be elected). His nearest challenger was the Communist Party candidate Gennady Zyuganov, who received almost 30 per cent. of votes.

The Government formed by President Putin during his first Presidential term was appointed between May and July 2000 and was headed by Mikhail Kasyanov until 24 February 2004. It embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Subjects.

On 24 February 2004 President Putin dismissed the Government headed by Mikhail Kasyanov. Further, President Putin nominated Mikhail Fradkov as a candidate for the post of the Prime Minister. The State Duma approved this candidate on 5 March 2004 and pursuant to the Presidential Decree dated 5 March 2004 Mikhail Fradkov was appointed the Prime Minister.

On 14 March 2004 the most recent Presidential elections were held. Vladimir Putin was again successful in the first round of voting and secured over 71.3 per cent. of the votes cast with a turnout of 64.32 per cent. His nearest challenger was the Communist candidate Nikolay Kharitonov, who received some 13.7 per cent. of votes.

Pursuant to the *Federal Constitutional Law on the Government of the Russian Federation No. 2-FKZ* dated 17 December 1997 (as amended as of 19 June 2004), the Government was required to resign on 7 May 2004 when the newly elected President took his office. After their resignation the Prime Minister and the Government were re-appointed in accordance with the aforementioned procedure.

As part of the administrative reform, *Presidential Decree on the System and Structure of the Federal Executive Bodies* No. 314 dated 9 March 2004 (as amended on 20 May 2004) introduced a restructuring of the federal executive authorities. It now consists of 14 ministries, 34 services and 28 agencies (compared to 23 ministries, 7 state committees, 2 federal commissions, 11 federal services, 7 Russian agencies, 2 federal inspections and 6 other federal executive bodies that existed previously). Whereas previously the ministries

performed both regulatory and supervisory functions, the new ministries will act as regulatory bodies only, while various services will perform supervisory functions and various agencies will manage the state property, provide “state services” of significant social value and perform law enforcement functions save for supervisory functions. It is expected that the new governmental structure will increase the efficiency of executive power and facilitate administrative reform in Russia.

In May 2000, President Putin reformed the structure of Presidential representatives in the regions. The Subjects were divided into seven “federal areas” and authorised representatives with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Subjects. The authorised representatives of the President in the Subjects are financed by the Administration of the President.

Russian parliamentary (State Duma) elections were held on 7 December 2003. The official results of these elections were announced on 19 December 2003. The United Russia Party won substantially more votes than any other party. It is widely believed from the results of these elections that parties and individual deputies seen as loyal to Vladimir Putin will control more than 50 per cent. of the Duma and support his economic policies. However there can be no assurance that such parties and individual deputies which are formally not supported by or support Vladimir Putin, will promote his economic policies.

Currently the legislatures and heads of the executive authorities in each of the Subjects are elected by the population of the respective Subjects without the participation of federal authorities in the nomination process. However, on 13 September 2004 the President of the Federation announced a proposed reform of the sub-federal election system which may have the effect of reducing the autonomy of the Subjects. Under the proposed reform the heads of the executive authorities in the Subjects will be elected by the legislatures of the respective Subjects from a list of candidates nominated by the President of the Federation. The proposed amendments to the existing election system will be provided for in a draft law which is expected to be submitted by the President for consideration of the State Duma by the end of 2004.

Economic Conditions and Recent Economic Developments

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial production and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures designed to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to a market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restrictions on foreign trade and launched a broad privatisation effort.

Russia’s financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp falls in world prices for oil and other commodities adversely affected the Government’s ability to continue to finance its budget deficits and to maintain the value of the rouble against the U.S. dollar. On 17 August 1998, the Government and the CBR announced a three-part programme intended to address these pressures. First, the rouble trading corridor was revised from 5.25-7.15 roubles for one U.S. dollar to 6.00-9.5 roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign currency operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August led to:

- a severe devaluation of the rouble;

- a sharp increase in the rate of inflation;
- the near collapse of the country's banking system;
- significant defaults by Russian public and private borrowers on their foreign currency obligations;
- dramatic declines in the prices of Russian debt and equity securities (including Russian eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999-2003 witnessed several positive developments. These included:

- a slow-down in the depreciation, and then a stabilisation, in the value of the rouble against the U.S. dollar (and appreciation of the value of the rouble against the U.S. dollar in real, and most recently in nominal, terms);
- a decline in consumer price inflation;
- an increase in real industrial output, resulting in part from the devaluation of the rouble;
- an improved balance of trade, resulting in part from the devaluation of the rouble and a significant increase in oil prices;
- improved tax collection, resulting in a significant primary fiscal surplus;
- increasing prices for Russian debt and equity securities;
- a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets; and
- the restructuring of a significant portion of Russia's rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's Government has announced plans for substantial economic reforms (including tax reform, pension reform, administrative reform, and housing and utilities reform) and has begun the process of implementing some of those reforms.

Privatisation

Russia commenced its privatisation programme in early 1992. About 15,000 medium and large-scale enterprises employing more than 70 per cent. of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50 per cent. of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership.

The transfer of assets from state to private control continued in 1995 through a loans-for-shares programme, cash auctions and investment tenders. As at 1 June 2003, there were 1,339 joint stock companies which were 25 to 50 per cent. state owned and 718 joint stock companies which were more than 50 per cent. state owned.

In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law was passed. On 21 December 2001, the new *Federal Law on Privatisation of State and Municipal Property No. 178-FZ* was passed and entered into force on 26 April 2002. This law introduces, inter alia, methods of state property privatisation.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders.

The Government has announced its intention to return to some of its privatisation plans. In August 2003, the Government issued a plan for the privatisation of federal property in 2004 and guidelines for the privatisation of federal property up to 2006.

Combating Money Laundering

In order to build up an effective domestic system for combating money laundering, on 7 August 2001 Russia adopted the Federal Law on Combating of the Legalisation of Illegal Earnings (Money Laundering) No. 115-FZ and subsequently passed certain legislation to implement this law. As a result of the implementation of recent reform to its anti money laundering system, in October 2002 Russia was removed from the “black list” of non-cooperative countries and territories in the fight against money laundering maintained by the Financial Action Task Force on Money Laundering.

In line with the development of the anti-money laundering system, the CBR introduced certain restrictions relating to banks’ operations involving foreign entities and individuals registered (residing) in off-shore areas. The CBR compiled a list of such off-shore areas. In particular, the CBR restrictions apply to establishment by Russian banks of correspondent relationships with foreign banks registered in off-shore areas. Also, subject to certain exceptions, Russian banks will be required to maintain specific reserve funds for the purposes of carrying out operations with the residents of the off-shore areas. The amount of such reserve funds depends of the category of the off-shore area in question and varies from 50 per cent. up to 100 per cent.

Gross Domestic Product

The following table sets forth certain information regarding Russia’s nominal GDP for the years 1997 to 2nd quarter 2004.

	1997	1998	1999	2000	2001	2002	2003	2004 (1st quarter)	2004 (1st half)
Nominal GDP (RUR billions).....	2,342.5	2,629.6	4,823.2	7,305.6	8,943.6	10,834.2	13,285.2	3,602.4	7,549.0
Nominal GDP per capita (RUR)	15,881	17,876	32,880	50,064	61,606	74,571	92,061	N/A	N/A
Consumer Price Index ...	111.0	184.4	136.5	120.2	118.6	115.1	112.0	103.6	106.1
Total population millions (end of period)	147.5	147.1	146.7	145.9	145.2	145.3	144.3	143.9	143.8

Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the CBR estimate (based on the methodology of the International Labor Organization), the total number of unemployed in June 2004 was 5.7 million (7.9 per cent. of the labour force) as compared to 5.9 million (8.1 per cent. of the labour force) at the end of 2003, 6.3 million (8.8 per cent. of the labour force) at the end of 2002, and 6.2 million (8.7 per cent. of the labour force) at the end of 2001.

Source: CBR website, 13 September 2004

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Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1997 to the first quarter of 2004, unless indicated otherwise.

	Consolidated Balance of Payments							2004 (1st quarter)
	1997	1998	1999	2000	2001	2002	2003	
	(US\$ millions)							
Current Account	(80)	219	24,616	46,839	33,935	29,116	35,845	13,006
Goods and non-factor services	8,967	12,346	31,730	53,506	38,990	36,449	49,401	15,579
Trade balance	14,913	16,429	36,014	60,172	48,121	46,335	60,493	18,094
Non-factor services	(5,945)	(4,083)	(4,284)	(6,665)	(9,131)	(9,886)	(11,093)	(2,515)
Income	(8,692)	(11,790)	(7,716)	(6,736)	(4,238)	(6,583)	(13,171)	(2,590)
Current transfers	(356)	(337)	601	69	(817)	(750)	(385)	18
Capital and financial account	8,888	9,598	(16,058)	(37,683)	(24,454)	(22,615)	(28,420)	(8,571)
Capital account	(797)	(382)	(328)	10,955	(9,356)	(12,388)	(993)	(745)
Financial account	9,685	9,981	(15,730)	(48,638)	(15,098)	(10,227)	(27,427)	(7,826)
Direct investments	1,681	1,492	1,102	(463)	216	(72)	(3,002)	(327)
Portfolio investments, net	45,775	8,618	(946)	(10,334)	(653)	2,960	(4,880)	2,554
Other investments ⁽¹⁾	(35,834)	(5,434)	(14,108)	(21,831)	(6,449)	(1,754)	6,180	(3,259)
Reserve assets ⁽¹⁾	(1,936)	5,305	(1,778)	(16,010)	(8,212)	(11,375)	(26,365)	(6,758)
Errors and omissions, net	(8,808)	(9,817)	(8,558)	(9,156)	(9,481)	(6,501)	(7,425)	(4,435)

Source: CBR website, 13 September 2004.

Note:

- (1) Adjustments of the reserve assets were introduced in order to reconcile the data in the payment balance and international investment position of Russia formed in accordance with the IMF guidelines with the national official statistical data on international reserves. From 2001 adjustments of reserve assets are shown along with "current accounts and deposits extended" under the "other investment" category.

Certain data presented in this table differs from previously published data due to revisions made by the CBR.

Official International Reserves

The following table sets forth information with respect to official international reserves for the years 1998 to 2004.

	Official International Reserves							
	1 January 1998	1 January 1999 ⁽¹⁾	1 January 2000 ⁽²⁾	1 January 2001	1 January 2002	1 January 2003	1 January 2004	1 September 2004
	(US\$ millions)							
Total gold and currency reserves	17,784	12,223	12,456	27,972	36,622	47,793	76,938	88,702
Currency reserves	12,895	7,801	8,457	24,264	32,542	44,054	73,175	84,948
Foreign currency	12,771	7,800	8,455	24,263	32,538	44,051	73,172	84,945
SDRs	122	0	1	1	3	1	1	0
Reserve position of IMF	1	1	1	1	1	2	2	2
Gold	4,889 ⁽³⁾	4,422	3,998	3,708	4,080	3,739	3,763	3,754

Source: CBR website, 13 September 2004.

Notes:

- (1) From 1 August 1998 deposited gold is included in the international reserves figures.
(2) From 1 September 1999 the amount of reserves excludes foreign currency balances in corresponding accounts of resident banks with the CBR, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.
(3) Valued at U.S.\$ 300 per fine troy ounce.
(4) From 1 August 2002, the amount of reserves excludes the amount of short-term obligations of the CBR which are nominated in foreign currency.

Monetary policy

The decrease of the budget deficit between 1992 and 1997 with its elimination in 2001, and the increased access of the Government to financing from sources other than the CBR, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability had helped the CBR to reduce inflation from over 2000 per cent. in 1992 to 11 per cent. in December 1997. In 1998, however, inflation rose sharply again. After the crisis, the Government changed its policy towards the rouble and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic rouble debt. Consumer price inflation was reduced to 15.1 per cent. in December 2002 (as compared to 18.6 per cent. for the year 2001, 20.2 per cent. for the year 2000 and 36.5 per cent. for the year 1999).

The CBR introduced a currency intervention band in July 1995. Another two “half-year” currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the CBR introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was intended to help sustain the decline in inflation and domestic interest rates.

However, in 1998 the Government dropped the currency trading band and allowed the rouble to float freely. By the end of 1999, the rouble had stabilised at around 25 roubles to the U.S. dollar. Since then, the CBR has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and stabilise the rouble.

The rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

External Debt

As at January 2004, the state external debt of Russia amounted to U.S.\$ 119.7 billion (including indebtedness of the former USSR accepted by Russia). A significant proportion of that debt (US\$ 47.7) is owed to the Paris Club of sovereign creditors. The Government has been making efforts to restructure this Paris Club debt and reschedule payments.

Source: Russian Ministry of Finance website

Social Conditions

The Russian standard of living declined with the beginning of economic reforms amid the country’s severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today, imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing.

Legal Environment

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code (on, respectively, 30 November 1994, 26 January 1996 and 26 November 2001), the *Law on the Securities Market No. 39-FZ* dated 22 April 1996 and the *Law on Joint Stock Companies No. 208-FZ* dated 26 December 1995 are further important steps in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Much business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia.

Business-related legislation is also susceptible to revision in reaction to political influences and the pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework, with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification has yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

Exchange Controls and Repatriation

On 17 June 2004, the New Currency Control Law came into force. The New Currency Control Law is one of the most significant legal developments in Russia of recent years.

Some of the provisions of the Russian currency control legislation effective before the New Currency Control Law remain in force until 17 June 2005, when the New Currency Control Law will replace the previous currency control laws in their entirety.

The New Currency Control Law is intended to liberalise gradually Russian currency control regulations by way of limiting the authority of regulatory bodies and reducing administrative barriers to currency operations. In particular, the New Currency Control Law has abolished the requirement for transaction-specific CBR permits and allowed for the introduction of other forms of regulation (such as the deposit of mandatory reserves and the use of special accounts). The New Currency Control Law has also loosened restrictions on the purchase of foreign currency and opening of accounts by Russian residents outside Russia. Since the entry into force of the New Currency Control Law, the CBR has issued a number of regulations imposing detailed requirements for depositing mandatory reserves and for using special accounts in connection with effecting certain types of transactions, in particular for making foreign currency borrowings with a maturity of less than three years. Under the framework New Currency Control Law, the CBR is empowered to develop further the regulations on mandatory reserves and special accounts. It is understood that further regulatory efforts of the CBR will remain focussed on restricting short-term debt financing and supporting long-term investments.

Terms and Conditions of the Notes

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Note Certificate. All capitalised terms that are not defined in these Conditions will have the meaning given to them in the Trust Deed or the Credit Facility Agreement.

The €374,000,000 6.45 per cent. Loan Participation Notes due 2011 (the “Notes”, which expression includes any further notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of Dresdner Bank Aktiengesellschaft (the “Issuer”) are constituted by, are subject to, and have the benefit of, a trust deed dated 12 October 2004 (as amended or supplemented from time to time, the “Trust Deed”) between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the “Trustee”, which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed). The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the €374,000,000 loan (the “Loan”) to the City of Moscow (the “Borrower”), acting through the State Debt Committee of the City of Moscow. The Issuer and the Borrower have recorded the terms of the Loan in an agreement (as amended or supplemented from time to time, the “Credit Facility Agreement”) dated 11 October 2004 between the Issuer and the Borrower.

In each case where amounts of principal and interest are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders (as defined in Condition 2(a)) on each date upon which such amounts of principal and interest are due in respect of the Notes, for an amount equivalent to sums of principal and interest actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement less any amount in respect of the Reserved Rights (as defined below).

The Issuer (as lender under the Credit Facility Agreement) has:

- (A) charged by way of security to the Trustee its rights to principal, interest and additional amounts payable under the Credit Facility Agreement and the right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Credit Facility Agreement (other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Credit Facility Agreement: Clause 7.3 (Illegality) (other than the right to receive any amount payable under such Clause), Clause 7.5 (second sentence thereof) (Costs of Prepayment), Clause 8.3 (Tax Indemnity), Clause 10 (Changes in Circumstances), Clause 16.4 (Borrower’s Indemnity), Clause 19 (Costs and Expenses) (save for Clause 19.2) and (to the extent that the Issuer’s claim is in respect of one of the aforementioned clauses of the Credit Facility Agreement) Clause 8.2 (Payments) and Clause 17.2 (Currency Indemnity) (such rights referred to herein, the “Reserved Rights”));
- (B) charged by way of security in favour of the Trustee for itself and as Trustee for the Noteholders sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying Agent (as defined below), having account number 10854069 together with the debt represented thereby (including interest from time to time earned thereon) (the “Account”) pursuant to the Trust Deed (excluding amounts in respect of the Reserved Rights); and
- (C) assigned absolutely its rights, title, interests and benefits, both present and future which have accrued or may accrue to the Issuer under the Credit Facility Agreement (save for those rights charged or excluded in (A) above) in favour of the Trustee for itself and as Trustee for the Noteholders (the “Loan Administration Transfer”),

together, the “Security Interests”.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding

or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

The Notes are the subject of an agency agreement dated 12 October 2004 (as amended or supplemented from time to time, the “Agency Agreement”) between the Issuer, Citibank, N.A. as registrar (the “Registrar”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A. as principal paying agent (the “Principal Paying Agent”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Dexia Banque Internationale à Luxembourg, société anonyme as transfer agent (the “Transfer Agent”, which expression includes any additional or successor transfer agent appointed from time to time in connection with the Notes) and paying agent (the “Paying Agent”, which expression includes any additional or successor paying agent appointed from time to time in connection with the Notes), the Borrower and the Trustee. References herein to the “Agents” are to the Registrar, any Transfer Agent, the Principal Paying Agent and any Paying Agent and any reference to an “Agent” is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX and at the Specified Offices (as defined in the Agency Agreement) of the Registrar, the Principal Paying Agent, any Transfer Agent and any Paying Agent. The initial Specified Offices of the initial Agents are set out below.

1. Form, Denomination and Status

- (a) Form and denomination: The Notes are in registered form in the denomination of €50,000 each (the “Denomination”) or integral multiples of €1,000 in excess thereof, without interest coupons attached.
- (b) Status: The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement (less any amounts in respect of the Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer’s payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Credit Facility Agreement (less any amounts in respect of the Reserved Rights) will be made pro rata among all Noteholders, on the corresponding interest payment date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment in accordance with the Credit Facility Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have accepted that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Credit Facility Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower under the Credit Facility Agreement;

- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (iii) neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Credit Facility Agreement;
- (iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Credit Facility Agreement, its covenant to pay under the Credit Facility Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Credit Facility Agreement that the Credit Facility Agreement constitutes a legal, valid and binding obligation of the Borrower;
- (vi) the Issuer (and, pursuant to the Loan Administration Transfer, the Trustee) will rely on self-certification by the Borrower as a means of monitoring whether the Borrower is complying with its obligations under the Credit Facility Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and
- (vii) the Issuer will not be liable for any withholding or deduction or for any payment on account of tax (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Credit Facility Agreement which will or may affect payments made or to be made by the Borrower under the Credit Facility Agreement save to the extent that it has received additional amounts under the Credit Facility Agreement in respect of such withholding or deduction; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in Clause 8 (Taxes) and Clause 10.4 (Mitigation) of the Credit Facility Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Credit Facility Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Credit Facility Agreement or have direct recourse to the Borrower except through action by the Trustee under the Security Interests. Neither the Issuer nor the Trustee pursuant to the Loan Administration Transfer shall be required to take proceedings to enforce payment under the Credit Facility Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower in respect of principal or, as the case may be, interest or additional amounts (if any)

pursuant to the Credit Facility Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee for the benefit of the Noteholders as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Credit Facility Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Subject to the provisions of the Trust Deed and Agency Agreement, payments made by the Borrower under the Credit Facility Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

2. Register, Title and Transfers

- (a) **Register:** The Registrar will maintain outside the United Kingdom a register (the “Register”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “Holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A certificate (each, a “Note Certificate”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) **Title:** The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.
- (c) **Transfers:** Subject to paragraphs (f) and (g) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or a Transfer Agent (including the Transfer Agent having its specified office in Luxembourg), together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor in accordance with Condition 2(d) below.
- (d) **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Note(s) transferred to the relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office. In the case of the transfer of part only of the Notes, a new Note Certificate in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.
- (e) **No charge:** The transfer of a Note will be effected without charge by or on behalf of the Issuer or the Registrar, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) **Closed periods:** Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

- (g) Regulations concerning transfers and registration: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations and will be available at the office of the Registrar and the Transfer Agent in Luxembourg.

3. Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Credit Facility Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Credit Facility Agreement, except as otherwise expressly provided in the Trust Deed. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (Notices).

4. Interest

- (a) Accrual of interest: The Notes bear interest from 12 October 2004 (the "Issue Date") at the rate of 6.45 per cent. per annum (the "Rate of Interest"), payable annually in arrear on 12 October in each year (each, an "Interest Payment Date"), subject as provided in Condition 6 (Payments). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "Interest Period".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the aggregate principal amount of all Notes outstanding, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and dividing by the number of Notes outstanding. Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

- (b) Default Interest under the Credit Facility Agreement: In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 16 (Default Interest and Indemnity) of the Credit Facility Agreement, the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 4(b) will be made on the next following business day (as defined in Condition 6(c)) after the day on which the Issuer receives such amounts from the Borrower and, save as provided in this Condition 4(b), all subject to and in accordance with Condition 6 (Payments).

5. Redemption and Purchase

- (a) Final redemption: Unless previously prepaid pursuant to Clause 7 (Prepayment) of the Credit Facility Agreement or repaid in accordance with Clause 10.3 (Illegality) of the Credit Facility Agreement, the

Borrower will be required to repay the Loan on its due date as provided in the Credit Facility Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 12 October 2011, subject as provided in Condition 6 (Payments).

- (b) Redemption at the option of the Issuer: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 20 days' nor more than 60 days' notice to the Noteholders (which notice shall be revocable up to 9 days before the date fixed for redemption and thereafter irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:
- (i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7 (Prepayment) of the Credit Facility Agreement; or
 - (ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Advance, in accordance with the provisions of Clause 7.3 (Illegality) of the Credit Facility Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 7.3 (Illegality) of the Credit Facility Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any certificate delivered by the Issuer in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (Payments).

- (c) No other redemption: Except where the Loan is accelerated pursuant to Clause 15.7 (Acceleration and Cancellation) of the Credit Facility Agreement, the Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (b) above.
- (d) Purchase: The Issuer or any of its subsidiaries or the Borrower may at any time purchase Notes in the open market or otherwise and at any price.
- (e) Cancellation: All Notes so redeemed or purchased by the Issuer or any of its subsidiaries may be cancelled or reissued or resold by the Issuer and all Notes redeemed or purchased by the Borrower pursuant to Clause 7.7 (Purchase of Instruments Issued to the Agreed Funding Source) of the Credit Facility Agreement may be cancelled.

6. Payments

- (a) Principal: Payments of principal shall be made by euro cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account maintained by the payee, upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent in Luxembourg.
- (b) Interest: Payments of interest shall be made by euro cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account maintained by the payee, upon surrender of the relevant Note Certificate(s) at the Specified Office of the Registrar and/or the Transfer Agent in Luxembourg.
- (c) Payments on business days: Where payment is to be made by transfer to a euro account, payment instructions (for value the due date for payment, or, if the due date for payment is not a business day,

for value the next succeeding business day) will be initiated and, where payment is to be made by euro cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Registrar and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (Payments) arriving after the due date for payment or being lost in the mail. In this paragraph, “business day” means any day on which banks are open for business (including dealings in foreign currencies) in Frankfurt am Main, London and Moscow and a day on which the Trans-European Automated Real-Time Gross Settlement Transfer (TARGET) System is open and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for business in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

- (d) **Partial payments:** If the Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (e) **Record date:** Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “Record Date”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (f) **Payment to the Account:** Save as the Trustee may otherwise direct at any time after any of the Security Interests created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7.1 of the Agency Agreement require the Borrower to make all payments of principal and interest to be made pursuant to the Credit Facility Agreement, less any amounts in respect of the Reserved Rights, to the Account.
- (g) **Payment obligations limited:** The obligations of the Issuer to make payments under this Condition 6 shall constitute an obligation only to account to the Noteholders on such date upon which a payment is due in respect of the Notes, for an amount equivalent to sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement less any amount in respect of the Reserved Rights.

7. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Federal Republic of Germany (“Germany”) or any jurisdiction of residence of any holding company of the Issuer or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

- (a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Germany, or any jurisdiction of residence of any holding company of the Issuer other than the mere holding of such Note; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the

relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive (in the case of a payment of principal or interest on redemption); or
- (d) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Note Certificate to another Paying Agent in a Member State of the European Union; or
- (e) where such withholding is imposed or levied by or on behalf of the Federal Republic of Germany or any political subdivision or taxing authority thereof and withheld as *Zinsabschlagsteuer* by the Issuer either in its capacity as Disbursing Agent (as defined in “Tax Considerations – Federal Republic of Germany – Tax Residents”) or upon interest payments made upon the physical presentation to the Issuer in Germany of the Notes.

Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders to the extent and at such time as it shall have actually received an equivalent amount from the Borrower under the Credit Facility Agreement.

To the extent that the Issuer receives a lesser additional amount from the Borrower, the Issuer shall account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Credit Facility Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer.

In these Conditions, “Relevant Date” means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Trust Deed or the Credit Facility Agreement.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Germany, references in these Conditions to Germany shall be construed as references to Germany and/or such other jurisdiction.

8. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within 10 years of the appropriate Relevant Date. Claims for interest due other than on redemption shall become void unless made within 10 years of the appropriate Relevant Date.

9. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or Registrar may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

10. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (Taxation) and/or any undertaking given in addition to, or in substitution for, Condition 7 (Taxation) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent or additional or successor other paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain a transfer and paying agent in Luxembourg and a registrar outside the United Kingdom. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

The Issuer will ensure that it maintains a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

11. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) Meetings of Noteholders: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Credit Facility Agreement or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee, or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to change any date fixed for payment of principal or interest under the Credit Facility Agreement, to alter the method of calculating the amount of any payment under the Credit Facility Agreement or to change the currency of payment under the Credit Facility Agreement (each, a “Reserved Matter”)) may only

be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification and waiver:** The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or, pursuant to the Loan Administration Transfer, the Credit Facility Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive or agree to the authorising or waiving of any breach or proposed breach of these presents by the Issuer or, pursuant to the Loan Administration Transfer, the Credit Facility Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Credit Facility Agreement shall not be treated as such (other than a proposed breach or breach relating to a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders in accordance with Condition 14 (Notices) as soon as practicable thereafter.

- (c) **Substitution:** The Trust Deed contains provisions under which any Successor in Business (as defined in the Trust Deed) of the Issuer may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled, including notice being given to the Noteholders in accordance with Condition 14.
- (d) **Voting:** Notes held by the Issuer or its subsidiaries will, in certain circumstances as set out in the Trust Deed, continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and certain provisions of the Trust Deed. Notes held by the Borrower will cease to carry such rights and will not be taken into account in certain circumstances as set out in the Trust Deed.

12. Enforcement

At any time after an Event of Default or Relevant Event shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Credit Facility Agreement), or a Relevant Event (as defined below), the Trustee may, and shall if requested to do so by

Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Issuer to declare all amounts payable under the Credit Facility Agreement by the Borrower to be due and payable (in the case of an Event of Default), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

For the purposes of these Conditions, “Relevant Event” means the earlier of (a) the failure by the Issuer to make any payment of principal or interest or additional amounts (if any) on the Notes when due; (b) the filing of an application by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) for the opening of insolvency proceedings over the assets of the Issuer in Germany; (c) the taking of measures by the Federal Financial Supervisory Authority pursuant to Sections 45 *et seq.* of the German Banking Act (*Kreditwesengesetz*); or (d) the taking of any action in furtherance of the dissolution (*Auflösung*) of the Issuer. For the avoidance of doubt, any reorganisation of the Issuer pursuant to the German Transformation Act (*Umwandlungsgesetz*) shall not constitute a Relevant Event.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. Governing Law and Jurisdiction

- (a) Governing law: The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law.
- (b) Jurisdiction: The Issuer has in the Trust Deed (i) submitted irrevocably to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

Summary of Provisions Relating to the Notes in Global Form

The Notes will be represented by a Global Note Certificate which will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole but not in part (free of charge to the holder) for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if the Bank would suffer a material disadvantage in respect of the Notes as a result of a change in laws or regulations (taxation or otherwise) which would not be suffered were the Notes in the form of Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate following delivery, by or on behalf of the registered holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Individual Note Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Note Certificate and notice thereof will be given to Noteholders in accordance with Condition 14.

In addition, the Global Note Certificate will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of this provision:

Notices: Notwithstanding Condition 14, so long as the Global Note Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to Noteholders represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, provided, however, that as long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Tax Considerations

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including, but not limited to, the consequences of receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Loan as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes and considerations relating to taxation of payments of interest on the Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates.

For the purposes of this summary, a “non-resident holder” means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes, other than through its permanent establishment in Russia.

The Russian tax treatment of interest payments made by the City to the Issuer under the Credit Facility Agreement may affect the holders of the Notes. See “Taxation of Interest on the Loan” below.

Non-Resident Holders

A non-resident holder will not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal or interest on the Notes subject to what is stated in “Taxation of Interest on the Loan”.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised through redemption, sale or other disposition of the Notes outside of Russia provided that the proceeds from such disposition are not received from a source within Russia.

A non-resident holder which is a legal person or organisation generally should not be subject to withholding tax on any gain realised on the sale or on the disposition of the Notes even if proceeds are received from a source within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes.

Accrued interest may be distinguished from the total gain and be subject to Russian withholding tax at 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes. Non-resident holders should contact their own tax advisers with respect to this possibility. Withholding tax on interest may be reduced or eliminated in

accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available, subject to the requirements of the laws of the Russian Federation.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from the disposal of the Notes less any available cost deductions (including the original purchase price) if the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed to a resident of Russia and payment is made within or from Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. The tax may be withheld at source of payment or, if the tax is not withheld, then the non-resident physical person may be liable to pay the tax.

There is some uncertainty regarding the treatment of the portion of proceeds attributable to accrued interest. Subject to reduction or elimination under provisions of an applicable tax treaty related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30 per cent., even if the disposal results in a capital loss. In order to use the double tax treaty relief a physical person should provide appropriate documentary proof of tax payments made outside Russia on income in respect of which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, physical persons in practice may not be able to obtain advance relief on receipt of proceeds from a source within Russia and obtaining a refund can be extremely difficult. Non-resident holders who are physical persons should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition or sale of the Notes and roubles.

Resident Holders

A holder of a Note, who is a physical person resident in Russia for tax purposes or an organisation which is not a non-resident in Russia, is subject to all applicable Russian taxes in respect of gains from a disposition of the Notes and interest received on the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, the City believes that payments of interest on the Loan should not be subject to withholding taxes under the terms of the double tax treaty between the Russian Federation and the Federal Republic of Germany. However, there can be no assurance that such relief will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by the Bank by way of the security interests created in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between the Russian Federation and the Federal Republic of Germany would cease and payments of interest may be subject to Russian withholding tax.

Prior to 1 January 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after review of relevant contracts. As of 1 January 2002, such preliminary approval from and contract disclosure to the Russian tax authorities is no longer required. As a result of this new procedure, the Russian tax authorities may review the Bank's eligibility for treaty relief in greater detail during tax audits.

If the payments under the Credit Facility Agreement are subject to any withholding taxes (as a result of which the Bank would reduce payments under the Notes in the amount of such withholding taxes), the City is obliged to increase payments as may be necessary so that the net payments received by the Bank will not be less than the amount it would have received in the absence of such withholding taxes. It should be noted, however, that tax gross-up provisions in contracts may not be enforceable under Russian law. In the event that the City fails to increase payments, such failure would constitute an Event of Default under the Credit

Facility Agreement. If the City is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT is payable in Russia on any payment of interest or principal in respect of the Loan.

Federal Republic of Germany

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposal (sale/redemption) of Notes to the purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Tax Residents

Under German law, as currently in effect, payments of interest on the Notes (and accrued interest received and invoiced separately upon sale of the Notes) to persons who are residents of Germany (that is, persons whose residence, customary place of abode, seat or effective place of management is located in Germany) are subject to German personal or corporate income tax and a solidarity surcharge of 5.5 per cent on such taxes. In case, the Notes are part of a German trade or business, interest may be also subject to trade tax.

If the Notes are kept or administered in a domestic securities deposit account by a German credit or financial services institution (“Disbursing Agent”), which term includes a German branch of a foreign credit or financial services institution but excludes a foreign branch of a German credit or financial services institution, interest payments in respect of such Notes will be subject to a 30 per cent advance interest income tax (*Zinsabschlagsteuer*) and a 5.5 per cent solidarity surcharge on such tax. As a result, such payments will be subject to a total withholding tax charge of 31.65 per cent (or 36,925% in the event of an over-the-counter transaction). The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient.

If the holder sells a Note during a current interest period, the accrued interest received and invoiced separately (*Stückzinsen*) will also be subject to the 30 per cent *Zinsabschlagsteuer* and 5.5 per cent solidarity surcharge thereon. As explained above, the *Zinsabschlagsteuer* and the solidarity surcharge are creditable against the personal or corporate income tax and the respective solidarity surcharge thereon. *Stückzinsen* paid by a holder upon the purchase of a Note reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge.

Capital gains/losses realised by an individual tax resident of Germany upon the sale or other disposition of Notes within one year after the acquisition of such Notes are subject to German personal income tax (short-term capital gains). Such gains are calculated as the difference between the sales or repayment proceeds and the acquisition costs.

Alternatively, it may be the case that the Notes are considered financial innovations (e.g. if traded flat, i.e. no accrued interest invoiced). In this case, a gain derived from the sale or other disposition of the Notes would qualify as interest income being taxable for the German resident individual investor regardless of a holding period. The amount qualified as interest income is usually calculated as the difference between the sales or repayment proceeds and the acquisition costs, i.e. the market yield (“*Marktrendite*”). As an exception to the market yield concept, the private investor can prove the issue yield (“*Emissionsrendite*”), if available, which is defined as the guaranteed interest payable on the Notes at the time of its issuance. The private investor is taxed on the pro rate temporis issue yield (“*besitzzeitanteilige Emissionsrendite*”), based on the period the private investor has held the Notes. To the extent that a capital gain/loss from the disposal (sale/redemption) of the Notes by the private investor does not qualify as interest income (e.g. foreign currency gains/losses) and if realised within one year after the acquisition, the capital gain/loss is taxable for the individual investor. Outside the one-year holding period, the capital gain/loss that does not qualify as interest income is tax-free for private investors.

Capital gains/losses realised upon the disposition of Notes by corporate taxpayers, or in cases where the Notes are part of a German trade or business of an individual or a partnership, who are tax residents of Germany are subject to corporate or personal income tax, the solidarity surcharge thereon and possibly trade tax, irrespective of any holding period.

In case of a financial innovation, the amount of the *Zinsabschlagsteuer* and the solidarity surcharge thereon (if the Notes are kept or administered in a domestic securities deposit account – see above) is always calculated on the basis of the market yield, irrespective of the fact that the private investor has proven the pro rata temporis issue yield. As explained above, the *Zinsabschlagsteuer* and the solidarity surcharge are creditable against the personal income tax liability and the solidarity surcharge thereon.

If the German credit institution or financial services institution has held the Notes in custody for the investor from the acquisition to the sale or repayment, the withholding tax is levied on an amount equal to the market yield. As an exception, if the Notes have not been so held, the withholding tax will be levied on an amount equal to 30 per cent of the proceeds from the sale or repayment of the Notes.

Non-Tax Residents

Payments of interest, including accrued interest, to persons who are not tax residents of Germany and have no connection with Germany other than the receipt of payments in respect of the Notes are in general not subject to the *Zinsabschlagsteuer* and solidarity surcharge.

If the interest from a Note that is kept or administered in a domestic securities deposit account by a German credit institution or financial services institution (which term includes a German branch of a foreign credit institution or financial services institution but excludes a foreign branch of a German financial institution) is received by persons who are not tax residents of Germany and who are taxable in Germany only with respect to German source income, and if, according to German tax law, such interest falls into a category of taxable income from German sources (e.g., income effectively connected with a German trade or business), the 30 per cent *Zinsabschlagsteuer* and the 5.5 per cent solidarity surcharge are applicable (35 per cent *Zinsabschlagsteuer* and the 5.5 per cent solidarity surcharge thereon in the event of an over-the-counter transaction) but can be credited against the German personal or corporate income tax liability of such non-residents.

Capital gains/losses realised by persons who are not tax residents of Germany from the sale or other disposition of Notes and have no connection with Germany other than the receipt of payments in respect of the Notes (e.g., the Notes are not held as part of a permanent establishment or fixed base in Germany) will not be subject to tax in Germany.

Interest and capital gains by non-residents might be taxable in Germany if effected in Germany through an over-the-counter transaction.

Other Taxes

No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Dresdner Bank Aktiengesellschaft

Dresdner Bank Group

Dresdner Bank Aktiengesellschaft emerged in 1957 from the reunification of the independent banks which had been formed in 1952 as successor companies of Dresdner Bank, Berlin, which was founded in 1872 in Dresden.

Dresdner Bank is incorporated under German law as a joint stock company (*Aktiengesellschaft*) for an unlimited period of time. Its registered office is in Frankfurt am Main. The Bank has been entered in the register of companies of the District Court in Frankfurt am Main under registration number HRB 14000. The office address is Jürgen-Ponto-Platz 1, D-60301 Frankfurt am Main (Germany).

The Bank's entire share capital is owned by the Allianz Group (Allianz AG, together with its subsidiaries, "Allianz Group").

Objectives of the Bank

The objectives as laid down in clause 2 of the Articles of Association are the transaction of banking business of all kinds and the provision of financial, advisory and similar services.

Subject to, and in accordance with German legal regulations, the Bank may carry on all business that is conducive to meeting the objectives, including the purchase, management and disposal of property, the acquisition of interests in other companies as well as the formation and purchase of such companies and the establishment of branches in Germany and abroad.

The Bank is authorised to carry on its business activities through subsidiaries, affiliates or jointly-held companies and to engage in joint venture and cooperation agreements with other companies.

Activities

Dresdner Bank, together with its subsidiaries (the "Dresdner Bank Group" or the "Group"), is represented in many countries around the world. The Group's business activities have been concentrated on the strategic divisions Personal Banking, Private & Business Banking, Corporate Banking as well as Investment Banking (branded, "Dresdner Kleinwort Wasserstein" or "DrKW"). The Institutional Restructuring Unit (IRU) as fourth division handles business outside the Bank's strategic focus.

Subscription and Sale

Citigroup Global Markets Limited, Dresdner Bank AG London Branch, UBS Limited, ABN AMRO Bank N.V. and Bank Austria Creditanstalt AG (together, the “Managers”) have, in a subscription agreement dated 11 October 2004 (the “Subscription Agreement”) and made between the Bank, the City and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Managers are entitled to commission and reimbursement of expenses pursuant to the Subscription Agreement and a fees and expenses side agreement between, *inter alios*, the Bank, and the Managers. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has represented, warranted and undertaken that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

1. No offer to public

It has not offered or sold and prior to the expiry of the period of six months from the issue date of the Notes will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

2. Financial promotion

It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank; and

3. General compliance

It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Federal Republic of Germany

Each Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (*Wertpapierverkaufsprospektgesetz*) of 13 December 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

Russian Federation

Each Manager has represented, warranted and undertaken with the Bank, the City and each other Manager that it has not offered or sold and will not offer or sell as part of its initial distribution or otherwise any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to the extent otherwise permitted under Russian law.

Republic of Italy

The offering of the Notes has not been cleared by CONSOB (the Italian securities authority) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998 as amended; and (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1998, as amended. In any event, the Notes will not be offered or sold to Italian investors who are not professional investors (*operatori qualificati*) either in the primary or in the secondary market, as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy must be made:

- (a) by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, the Consolidated Banking Act and the implementing regulations;
- (b) in compliance with Article 129 of the Consolidated Banking Act and the implementing guidelines of the Issuer of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Issuer of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Austria

The offer of the Notes does not, and shall not be construed to, constitute a public offering of securities in Austria as defined in the Austrian Capital Markets Act 1991 (*Kapitalmarktgesetz*), as amended, and no audited prospectus has therefore been published.

Each Manager has represented and agreed that the Notes will only be offered in Austria to a certain limited range of persons who purchase and sell Notes as part of their profession or business pursuant to §3 para.1 No/ 11 of the Austrian Capital Markets Act and in accordance with any other applicable Austrian provision or statute governing the issue, sale, resale and offering the Notes.

This Offering Circular (and any other documents connected therewith) is not, and may not be, distributed to the public in Austria. Neither this Offering Circular nor any other documents connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Circular nor any other document connected therewith shall be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Managers. No steps have been taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria.

Switzerland

Each Manager has represented, warranted and undertaken that the Notes will not be offered, directly or indirectly, to the public in Switzerland and that this Offering Circular does not constitute a public offering prospectus as that term is understood pursuant to article 652a or art. 1156 of the Swiss Federal Code of Obligations. The Issuer has not applied for a listing of the Notes pursuant to this Offering Circular on the SWX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing rules of the SWX Swiss Exchange.

General

Each Manager has undertaken that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Bank or the Borrower.

The Borrower is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Managers and the Bank therein.

Application has been made for the Notes to be listed on the Luxembourg Stock Exchange. No action has been or will be taken in any jurisdiction by the Bank, the City or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the City, the Bank and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

General Information

1. The Notes represented by the Global Note Certificate have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 20235616. The International Securities Identification Number is XS0202356167.
2. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, a copy of a legal notice relating to the issue of the Notes and the articles of association of the Issuer will be deposited prior to listing with the *Registre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request. So long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, the Issuer will maintain a paying agent and transfer agent in Luxembourg. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the Specified Offices of the Transfer Agent and the Paying Agent during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are listed on the Luxembourg Stock Exchange:
 - (a) the Agency Agreement;
 - (b) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificates;
 - (c) copies (with an English translation) of the authorisations listed below;
 - (d) the Credit Facility Agreement; and
 - (e) the Subscription Agreement.
3. The Loan and the City Agreements have been approved and authorised by the 2004 City Budget Law, the Resolution of the Government of the City of Moscow No. 623–PP dated 14 September 2004 “On Borrowing”.
4. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes.
5. Save as disclosed in this Document, since 31 December 2003 there has been no material adverse change or any development involving a prospective material adverse change in the sources and amounts of revenue of the City or in the proposed expenditure of the City, each as set out in the Budget Accounts, that is material in the context of the issue of the Notes. The 2004 City Budget provides for revenues and expenditures planned for 2004. The 2004 City Budget was enacted prior to the commencement of the 2004 budget year. See “Presentation of Financial and Other Information”. The final results of implementation of the 2004 City Budget will be approved by the City by means of a special City law following the 2004 budget year. Historically, the City’s planned revenues and expenditures have differed materially from the results of implementation of a given City Budget. Accordingly, there can be no assurance that the results of implementation of the 2004 City Budget will not differ materially from the information relating to the 2004 City Budget contained herein.
6. Save as disclosed in this document, the City has obtained all necessary consents, approvals and authorisations in Russia in connection with the Loan.
7. Save as disclosed herein, there are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the City, threatened before any court, tribunal, arbitration panel or agency which might be material in the context of the offering of the Notes.
8. Under current Russian federal law, state duty will be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the Notes in any court of the Federation.

9. The EU Transparency Obligations Directive is currently being finalised and may be implemented in Luxembourg in a manner that is unduly burdensome for the Bank and/or the City. In such circumstances the Bank and/or the City may, subject to the provisions of the Trust Deed, decide to seek an alternative listing for the Notes on a stock exchange outside the European Union in which case a formal application for delisting will be made by the Bank and/or the City and notice given to Noteholders in accordance with Condition 14.

THE BORROWER

The City of Moscow acting through the State Debt Committee of the City of Moscow
2 Yakimanskaya Naberezhnaya
“Golutvinsky Dvor” Office Centre, 4th Floor
119180 Moscow
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REGISTERED OFFICE OF THE BANK

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PAYING AGENT, TRANSFER AGENT AND LISTING AGENT

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