



€300,000,000

10.25 per cent. Loan Participation Notes due 2004
issued in relation to a loan to

The City of Moscow

acting through

The Committee of Municipal Debt,
Securities and Capital Market Development
of the Government of the City of Moscow

Issue Price: 100 per cent.

The €300,000,000 10.25 per cent. Loan Participation Notes due 2004 are issued by,
but with limited recourse only to,

BHF-BANK Aktiengesellschaft

which is incorporated with limited liability under the
laws of the Federal Republic of Germany

BHF-BANK Aktiengesellschaft (the “Issuer” or the “Bank”) is issuing the €300,000,000 10.25 per cent. Loan Participation Notes due 2004 (the “Notes”) for the purpose of financing a three year loan (the “Loan”) to The City of Moscow (the “Borrower”, the “City” or “Moscow”) acting through the Committee of Municipal Debt, Securities and Capital Market Development of the Government of the City of Moscow pursuant to a credit facility agreement dated 23rd October, 2001 (the “Credit Facility Agreement”) between the Issuer as lender and the City as Borrower. The Notes will be issued on 25th October, 2001 and constituted by a Trust Deed dated 25th October, 2001 (the “Trust Deed”) between the Issuer and The Chase Manhattan Bank, London Branch (the “Trustee”).

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “INVESTMENT CONSIDERATIONS”.

In each case where amounts of principal, interest and additional amounts (if any) are stated 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, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement. The Issuer will have no other financial obligation under the Notes.

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 as defined in the Terms and Conditions of the Notes.

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

The Notes will be in registered form in the denomination of €1,000. The Notes shall be held and transferred, and will be offered and sold, in the principal amount of €1,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the “Global Note Certificate”) registered in the name of Chase Nominees Limited as nominee for, and deposited with, The Chase Manhattan Bank as common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or about 25th October, 2001. Individual note certificates (“Individual Note Certificates”) evidencing holdings of Notes will only be available in certain limited circumstances. See “Summary of the Provisions relating to the Notes in Global Form”.

ING Barings

BNP PARIBAS

Dresdner Kleinwort Wasserstein

JPMorgan

Caboto (Gruppo IntesaBci)

Westdeutsche Landesbank Girozentrale

UBS Warburg

Commerzbank Securities

HypoVereinsbank

Merrill Lynch International

UBM-UniCredit Banca Mobiliare

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the “Securities Act”). The Notes are being offered outside the United States of America by the Managers (as defined below) 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.

In addition, the Issuer has not authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) (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.

The City, having made all reasonable enquiries, confirms that this Offering Circular contains all information regarding the City, the Credit Facility Agreement and the Notes which is (in the context of the issue of the Notes) material; that such information is true and accurate in every material respect and is not misleading in any material respect; any opinions, assumptions or intentions expressed in this document on the part of the City are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect; this document does not omit to state any material fact necessary to make such information, opinions, assumptions or intentions not misleading; and all proper enquiries have been made to ascertain and verify the foregoing. The City accepts responsibility for the information contained in this document.

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.

None of the managers named under “Subscription and Sale” (the “Managers”), the Trustee and, except as specifically stated otherwise herein, the Issuer makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this document. Each person receiving this document acknowledges that such person has not relied on the Managers, the Trustee, or, except as specifically stated otherwise herein, the Issuer or any person affiliated with the Managers, the Issuer or the Trustee, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigations and analysis of the creditworthiness of the City and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. The Issuer accepts responsibility for the information in this document relating to the Issuer.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by the City, the Issuer, the Trustee or the Managers.

Neither the delivery of this document 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 or the Issuer since the date of this document.

This document does not constitute an offer of, or an invitation to subscribe for, or purchase, any Notes. The distribution of this document and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this document and other offering material relating to the Notes, see “Subscription and Sale”.

IN CONNECTION WITH THIS ISSUE, ING BANK N.V., LONDON BRANCH MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In this document, all references to “roubles” and “Rbl” are to the lawful currency for the time being of the Russian Federation, all references to “dollars”, “U.S. dollars” and “U.S.\$” are to the lawful currency for the time being of the United States of America and all references to “euro” and “€” are to the currency introduced

at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from roubles to dollars are solely for the convenience of the reader and are made at various exchange rates. No representation is made that the rouble or euro amounts referred to herein could have been converted into euro or roubles, as the case may be, at any particular exchange rate or at all. The Central Bank of the Russian Federation's rouble/euro exchange rate as reported on 28th September, 2001 was roubles 27.02 to the euro.

The rouble was redenominated as of 1st January, 1998 in the ratio of 1,000 old roubles to each new rouble ("New Roubles"). Unless otherwise stated, all references in this document are to New Roubles.

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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 on budgeting process in Moscow* adopted by the Moscow City Duma (the “City Duma”) on 6th September, 1995, as amended on 29th October, 1997 (the “City Budget Law”) and pursuant to the procedures prescribed by the *Budgetary Code of the Russian Federation* of 31st July, 1998 as amended on 5th August, 2000 (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 execution of the Budget”.

As a result of the introduction of the Budget Code, a number of changes have been made to the budgetary and accounting policies adopted by the City from 1st January, 2000. See “City Budget and Financial Accounts—City Budget”. The budgetary and accounting principles applicable to the City continue to evolve with an increasing emphasis being placed on the level of detail to which the City Budget is prepared and implemented and control over the flow and use of Budget funds. This process is expected to continue.

Financial Information for 1997, 1998 and 1999

The financial information set forth in this Offering Circular for the years ended 31st December, 1997, 1998 and 1999 is based upon figures which have been approved by the City Government (as herein defined) and the City Duma in accordance with the City Budget Law. See “City Budget and Financial Accounts—City Budget—Budget Procedure”.

Financial Information for 2000

The information set forth in this Offering Circular with respect to the City’s budget for 2000 is derived from the preliminary results of implementation of the City Budget for 2000 (the “2000 City Budget”) which was approved by City Government Resolution No. 298-PP of 27th March, 2001, unless stated to derive from the City Duma by *Moscow Law No. 40* of 24th December, 1999, as amended.

Financial Information for 2001

The information set forth in this Offering Circular with respect to the City’s Budget for 2001 (the “2001 City Budget”) was approved by the City Duma by *Moscow Law No. 41* of 27th December, 2000 (the “2001 City Budget Law”). On 6th July, 2001 amendments to the 2001 City Budget set out in *Moscow Law No. 30* were approved by the City Duma. These amendments reflected the requirement of the Budget Code in relation to sub-federal borrowings and a number of other provisions of the Budget Code. The calculation of revenue and expenditure items in the original 2001 City Budget were based on an assumed

average annual rate of inflation of 15 per cent. It is likely that certain further amendments, unrelated to the City's borrowing programme, will be made to the 2001 City Budget later in the year.

Restatement of Financial Information

The City's revenue and expenditure items were reclassified during each of 1997, 1998 and 1999 as the City has sought to identify a consistent and accurate classification of budgetary items. Accordingly, the financial information appearing in this document for the years ended 31st December, 1997 and 1998 has been restated in accordance with the classification set out by the City Duma for the 1999 City Budget.

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. See "Investment Considerations—Risks Associated with the Russian Federation—Inflation".

The following table sets forth the average annual percentage change in the consumer and producer price indices for the City and the Federation for each of the years ended 31st December, 1995, 1996, 1997, 1998 and 1999, preliminary data for the year ended 31st December, 2000 and a forecast for the year ended 31st December, 2001 (expressed as a percentage increase over the previous year):

	1995		1996		1997	
	Moscow	Federation	Moscow	Federation	Moscow	Federation
Consumer Price Index	237.0	198.0	48.0	48.0	15.6	14.8
Producer Price Index	214.0	239.0	48.6	42.0	8.3	14.8

	1998		1999 (Preliminary)		2000 (Preliminary)		2001 (Forecast)	
	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation
Consumer Price Index	39.3	27.7	105.9	85.7	24.4	20.8	22.0	22.0
Producer Price Index	19.4	7.0	60.4	58.0	29.2	44.1	22.5 ⁽¹⁾	16.5

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

Note:

- ⁽¹⁾ The 2001 City Budget was drawn up on the basis of an assumption of annual producer price inflation of 15 per cent., which was more optimistic than the more recent forecast for 2001 contained in the above table prepared by the Department of Economic Policy and Development.

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 the initiation of economic reform in the Russian Federation, high inflation has caused a generally consistent decline in the value of the rouble in nominal terms. From 1992 to 1995, the rouble fell in value relative to the U.S. dollar at a rate slower than the inflation rate, thus appreciating in real terms against the U.S. dollar. This real appreciation amounted to 263 per cent. in 1992, 249 per cent. in 1993, 11 per cent. in 1994 and 77 per cent. in 1995. The rouble depreciated by 1.2 per cent. in real terms against the U.S. dollar in 1996, reflecting the relatively low rate of inflation for the year. In 1997 the rouble appreciated by 4.38 per cent. against the U.S. dollar. As a result of the events of 17th 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 Central Bank's (as defined below) tightening of monetary policy, the rouble remained relatively stable in 1999, appreciating against the U.S. dollar in real terms by 2.2 per cent. while depreciating against the U.S. dollar in nominal terms by 30.8 per cent.

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
1995	—	—	—	5.13	3.62	4.64
1996	—	—	—	5.56	4.66	5.56
1997	—	—	—	5.96	5.56	5.96
1998	—	—	—	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 (to 30th June, 2001)	27.18	24.57	24.57	29.16	28.16	29.07

Source: Central Bank.

Between 1992 and 1994, the rouble fluctuated widely in value, resulting in uncertainty within the Russian economy and inhibiting progress toward financial stabilisation. In 1995, the Central Bank of the Russian Federation (the "Central Bank") sought to stabilise the value of the rouble by intervening in the currency markets to maintain the value of the rouble against the U.S. dollar within a pre-set range (the "rouble corridor").

- From 1st October, 1995 until 31st December, 1995 the Central Bank maintained the rouble corridor at between 4.30 and 4.90 roubles to the U.S. dollar.
- From 31st December, 1995 until 30th June, 1996, the Central Bank maintained the rouble corridor at between 4.55 and 5.15 roubles to the U.S. dollar.

Thereafter the Central Bank allowed the exchange rate to be set daily within an "inclined" rouble corridor:

- From 1st July, 1996 until 31st December, 1996, the rouble corridor "inclined" from between 5.00 and 5.60 roubles to the U.S. dollar to between 5.50 and 6.10 roubles to the U.S. dollar.
- From 1st January, 1997 until 31st December, 1997, the rouble corridor "inclined" from between 5.50 and 6.10 roubles to the U.S. dollar to between 5.57 and 6.35 roubles to the U.S. dollar.

In November 1997, the Central Bank announced that it would establish a flat trading band of between 5.25 and 7.15 roubles to the U.S. dollar, representing a permitted variance of 15 per cent. on either side of the central exchange rate of 6.2 roubles to the U.S. dollar, for the three year period between 1998 and 2000. This policy was abandoned, however, following the sharp devaluation of the rouble and collapse of the Russian financial and banking system in August 1998.

As a result of the financial crisis in August 1998, the Central Bank could no longer intervene in the currency markets to maintain the exchange rate of the rouble, which was allowed to float. However, the Central Bank undertook a number of measures to restrict foreign exchange speculation, and reduce capital outflows and improve regulatory supervision of foreign currency transactions. These measures included:

- Requiring enterprises to make obligatory purchases of roubles with 50 per cent. of their export revenue in a separate morning trading session of Moscow Interbank Currency Exchange ("MICEX") and, on 1st January, 1999, increasing the amount required to be converted to 75 per cent. of export revenue. From 10th August, 2001 the amount to be so converted was reduced to 50 per cent.
- In addition, the Central Bank required enterprises to make a 100 per cent. prepayment for any purchase of foreign exchange to pay for imports.
- Prohibiting commercial banks from purchasing foreign currency other than pursuant to clients' orders or to fulfil obligations to financial counterparties or from having an open position in the foreign currency at the end of the day. Foreign banks were prohibited from purchasing hard currency with roubles in their correspondent accounts with Russian banks.

As a result of these measures, the Central Bank managed to impose relative stability on the foreign exchange market and as at 1st July, 2001 gold and foreign currency reserves of the Russian Federation increased to U.S.\$35.05 billion. Following a devaluation of 47 per cent. in the period between August and December of 1998, the real value of the rouble against the U.S. dollar stabilised. As part of the economic programme agreed with the International Monetary Fund, the Central Bank took steps towards liberalising the foreign exchange market. At the end of June 1999, the MICEX returned to a single trading session, and foreign banks were allowed to purchase hard currency with roubles in their corresponding accounts with Russian banks. The rouble continued to trade within a stable range in 2000 and the first half of 2001. 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 "Investment Considerations—Risks Associated with the Russian Federation—Exchange Rates, Exchange Controls and Repatriation Restrictions".

SUMMARY OF THE OFFERING

The following is a summary of certain information contained elsewhere in this document. Reference is made to, and this Summary is qualified in its entirety by, the more detailed information and Budget Accounts, and notes thereto, contained elsewhere in this document.

Issuer:	BHF-BANK Aktiengesellschaft
Borrower:	The City of Moscow acting through the Committee of Municipal Debt, Securities and Capital Market Development of the Government of the City of Moscow
Lead Managers:	ING Bank N.V., London Branch UBS AG, acting through its business group UBS Warburg
Managers:	BNP Paribas, Chase Manhattan International Limited, Commerzbank Aktiengesellschaft, Dresdner Bank AG London Branch, Bayerische Hypo- und Vereinsbank AG, Merrill Lynch International, Caboto Holding SIM S.P.A., UniCredit Banca Mobiliare S.p.A. and Westdeutsche Landesbank Girozentrale, London Branch.
Issue Amount:	€300,000,000 principal amount
Issue Price:	100 per cent. of the principal amount of the Notes
Maturity Date:	25th October, 2004
Trustee:	The Chase Manhattan Bank, London Branch
Registrar:	Chase Manhattan Bank Luxembourg, S.A.
Paying Agent:	Chase Manhattan Bank Luxembourg, S.A.
Principal Paying Agent:	The Chase Manhattan Bank
Interest:	The Notes will bear interest from 25th October, 2001 at a rate of 10.25 per cent. per annum payable annually in arrear on 25th October in each year commencing on 25th October, 2002 (each an "Interest Payment Date").
Status:	The Notes will constitute the obligations of the Issuer to apply an amount equal to the proceeds of the issue of the Notes solely for the purpose of financing a three year loan (the "Loan") to the Borrower pursuant to the terms of a credit facility agreement made between the Issuer and the Borrower and dated 23rd October, 2001 (the "Credit Facility Agreement"). The Issuer will account to the holders of the Notes solely for all amounts equivalent to those (if any) received from the Borrower under the Credit Facility Agreement less amounts in respect of certain Reserved Rights (as defined in the Terms and Conditions of the Notes).
Form:	The Notes will be issued in registered form. The Notes will be in the denomination of €1,000 each and will be represented by a Global Note Certificate which will be exchangeable for Notes in individual form in the limited circumstances specified in the Global Note Certificate.
Early Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Trustee, at the principal amount thereof together with accrued interest to the date of redemption, upon receiving notice that the Borrower has prepaid the Loan for tax reasons or by reason of increased costs, or in the event that it becomes unlawful for the Lender to fund the advance or allow to remain outstanding the Loan under the Credit Facility Agreement as more fully described in Clause 10 of the Credit Facility Agreement. See also Condition 5 "Redemption and Purchase".

Certain Covenants:	As long as any of the Notes remains outstanding, 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, except as otherwise expressly provided in the Trust Deed or the Credit Facility Agreement.
Negative Pledge:	The Credit Facility Agreement contains a negative pledge in relation to Public External Indebtedness of the Borrower as set out in the Credit Facility Agreement.
Events of Default/Relevant Event: .	<p>In the case of an Event of Default (as defined in the Credit Facility Agreement), or a Relevant Event (as defined in the Terms and Conditions of the Notes), the Trustee may, subject as provided in the Trust Deed, (1) require the Lender 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).</p> <p>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.</p>
Rating:	<p>The Notes have been rated B by Standard & Poor's Rating Services, B2 by Moody's Investors Service, Inc. and B 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>
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of taxes, duties, fees or other charges of the Federal Republic of Germany or the Russian Federation save as required by law. If any taxes, duties, fees or other charges are payable in the above jurisdictions, the sum payable by the Borrower will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum which it would have received and retained free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Borrower to the Noteholders. See "Terms and Conditions of the Notes".
Listing:	Luxembourg Stock Exchange.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in Germany only in compliance with applicable laws. The Notes may not be sold in Russia. The offer and sale of the Notes may also be restricted in other jurisdictions. See "Subscription and Sale".
Governing Law:	The Notes will be governed by English law.
Investment Considerations:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "Investment Considerations".

INVESTMENT CONSIDERATIONS

Prospective investors should carefully review this entire Offering Circular, and in particular the information set forth below, before making a decision to invest in the Notes.

Risks Associated with the Russian Federation

Political Transformation of the Russian Federation

Since late 1991, the Russian Federation has been evolving from a socialist state with a centrally planned economy to a pluralist democracy with a market economy. The process of political and economic reform has been difficult and is not yet completed. Changes to the economic policies of the government of the Russian Federation (the “Federal Government”) or to the economic environment of the Russian Federation generally could have a material adverse effect on the ability of the City to comply with its obligations under the Credit Facility Agreement.

The Federal Government has until recently been characterised by frequent change, having experienced five changes in prime minister between March 1998 and the beginning of 2000. The ability of the City to comply with its obligations under the Credit Facility Agreement could be reduced if such frequent change resumes or if the current President or Federal Government choose to curtail political liberties or move away from market-oriented reforms.

There can be no assurance that the current or successor Federal Government will not implement policies that will have a material adverse effect on the economy of the Russian Federation or the economy of the City and, consequently, the ability of the City to comply with its obligations under the Credit Facility Agreement.

In addition, as the Russian Federation is a federation of republics and sub-federal and other regions, conflicts between central and regional authorities and other conflicts could create an uncertain political environment. Struggles along ethnic, religious and historical lines have given rise to tensions, and, in some cases, military conflict. Such events could materially adversely affect the ability of the City to comply with its obligations under the Credit Facility Agreement.

Economic Transition of the Russian Federation

The economic transition in the Russian Federation from a centrally planned economy to a market economy has progressed as policies of liberalisation, privatisation and financial stabilisation have been adopted and implemented by the Federal Government. There can be no assurance that this economic transition will continue or that it will be successful. This rapid transformation has been marked by periods of significant instability. In particular, the Federal Government’s decision in August 1998 temporarily to stop (1) supporting the rouble by its abandonment of the adjustable currency corridor and by allowing exchange rates to float freely and (2) its servicing of certain domestic and foreign debts, caused the currency to collapse and led to an overall financial crisis, a sharp devaluation of the rouble, crisis in the banking system and widespread default by Russian borrowers. It is possible that the Russian Federation or other Russian borrowers may default on their domestic and foreign debt in the future or take actions that could adversely affect financial stability. The ability of the Russian Federation to finance its spending commitments may depend on other economic factors, some of which are beyond its control, for example:

- failure by the Federal Government to maintain access to international sources of funding, including for the purposes of refinancing existing debt, such as the International Monetary Fund or to restore access to international capital markets or to improve and maintain the requisite level of tax collection;
- systematic problems of Russia’s economy, such as sustained periods of high inflation, a weak banking system, high government debt relative to gross domestic product, widespread tax evasion, organised criminal activity and corruption and substantial levels of unemployment and underemployment; and
- fluctuations in the global economy (including, in particular, fluctuations in world prices for oil or other commodities of which Russia is an exporter).

Any of the above circumstances may have a material adverse effect on the economy of the Russian Federation and, consequently, the ability of the City to comply with its obligations under the Credit Facility Agreement.

Inflation

Inflation in the Russian Federation remains high, although improvements have been made, in large part due to the gradual reduction of the Federal Budget deficit and the elimination of monetary financing of the deficit. Rouble inflation in the Russian Federation was 308 per cent. in 1994, 198 per cent. in 1995, 48 per cent. in 1996, 14.8 per cent. in 1997, 27.7 per cent. in 1998, 85.7 per cent. in 1999 and is estimated at 20.8 per cent. in 2000. Inflation in the City was 341 per cent. in 1994, 237 per cent. in 1995, 48 per cent. in 1996, 15.6 per cent. in 1997, 39.3 per cent. in 1998, 105.9 per cent. in 1999 and is estimated at 24.4 per cent. in 2000. Despite the decline in inflation in 2000, substantial rates of inflation have had and may continue to have significant adverse effects on the economy of the Russian Federation and the economy of Moscow and, consequently, on the ability of the City to comply with its obligations under the Credit Facility Agreement.

Exchange Rates, Exchange Controls and Repatriation Restrictions

In recent years, the rouble has experienced a significant depreciation relative to the dollar and there has been significant instability in the rouble exchange rate. See “Presentation of Financial and Other Information—Exchange Rates” and “Russian Federation”.

The rouble is 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. There can be no assurance that such a market will continue indefinitely. Subject to the terms of the relevant Central Bank licence, current Russian law permits the City to convert its roubles into foreign currency to make payments to meet its financial obligations but there can be no guarantee that such conversion will be permitted in the future. The terms of the Central Bank Licence granted in respect of the Loan (as defined herein) are described further in “General Information”. Moreover, the banking system in Russia is not yet as developed as the systems in its Western counterparts and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. 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.

Legal Environment

The Russian Federation lacks a fully developed legal system. Russian law is evolving rapidly and in ways that may not always coincide with market developments, resulting in ambiguities, inconsistencies and/or anomalies, and consequently in investment risks that would not exist in more developed legal systems. Furthermore, effective redress in Russian courts in respect of a breach of law or regulation, or in an ownership dispute, may be difficult to obtain. Risks associated with the Russian legal system include: (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies between laws, Presidential decrees and Federal Government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on the interpretation of applicable rules; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and national rules and regulations; and (vi) the relative inexperience of judges and courts in interpreting new legislation. No assurance can be given that the evolution of the laws of the Russian Federation and the issuance of Federal Government resolutions or Presidential decrees will not have a material adverse effect on foreign investors or private investors generally.

Risks Associated with 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 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 Article 437 of the Civil 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 issues. 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. Furthermore, under the Constitution and laws of the Federation, certain assets of the City are not available to satisfy the claims of creditors, including the Issuer. The City has agreed that, in relation to any claim by the Issuer (or, following the transfer 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 UNCITRAL Arbitration Rules (the "Rules") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) 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 10th 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 issues, subject to certain qualifications, for example, that a court of the Federation may refuse or limit enforcement of such award on public policy grounds. Furthermore, under the Constitution and laws of the Federation, certain of the City's assets are not available to satisfy the claims of creditors, including the Noteholders.

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 the Issuer. In particular, Article 126 of the Civil Code of the Russian Federation 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 No. 15 of 18th April, 2001 "On the State Debt of the City of Moscow", the City's debt is serviced by reference to the assets of the City's "treasury". In accordance with Article 20 of 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.

Non-Payment of Financial Obligations

The Russian financial system suffers from chronic and endemic problems relating to the non-payment of financial obligations. At any one time, the City, like most other constituent Subjects of the Federation is owed considerable amounts of unpaid taxes. As at 1st January, 2001 approximately Rbl 21.9 billion (or approximately €838 million) of taxes 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 Issuer to comply with its obligations under the Notes. 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 that of the City has decreased. This trend is likely to continue with the phased abolition of turnover taxes and the further reform of Federal tax and budgetary legislation. 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 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 of Moscow—Litigation".

Risks Associated with the Notes

Payments under the Notes limited to payments received by the Issuer under the Credit Facility Agreement

The Issuer 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 Issuer pursuant to the Credit Facility Agreement (less any amount in respect of the Reserved Rights). Consequently, if the Borrower fails fully to meet its obligations under the Credit Facility Agreement this will result in the Noteholders receiving less than the scheduled amount of principal or interest on the relevant due date (see also "Taxation Risks" below).

No direct recourse of the Noteholders to the Borrower

Except as otherwise expressly provided in the Terms and Conditions 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.

In addition, under the Terms and Conditions of the Notes, Noteholders will be 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 (acting as 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, subject to certain qualifications set forth in Clause 11.7 (*Valid and Binding Obligations*) of the Credit Facility Agreement, 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.

Discharge of Issuer's Obligations

Payments of principal and/or interest 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 and consequently Noteholders will have no further recourse against the Issuer or the Borrower after such payment is made.

Investment Consideration relating to the German Insolvency Code

Section 4 of the Trust Deed provides for, *inter alia*, an English law charge and pledge in favour of the Trustee for the benefit of Noteholders over certain receivables of the Issuer under the Loan. Section 166(2) of the German Insolvency Code provides that receivables assigned for security purposes may, after the commencement of insolvency proceedings, not be enforced by the assignee but by the insolvency administrator which will be entitled to deduct from the enforcement proceeds up to 9 per cent. of the fees plus value added tax thereon. Section 166(2) may affect the security given pursuant to Clause 4 of the Trust Deed, since it cannot be excluded that a German court would hold that an English law charge should be subject to such new Section 166(2).

Taxation Risks

Russian Withholding Tax

In general, payments of interest on borrowed funds by a Russian entity to a non-resident person are subject to Russian withholding tax at the rate of 15%, absent reduction or elimination pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, the City believes that payments of interest on the Loan will not be subject to withholding under the terms of the double taxation treaty between the Russian Federation and the Federal Republic of Germany. However, there can be no assurance that such exemption is or will continue to be available.

Consequences of Russian Withholding

If the payments under the Loan Agreement are subject to any withholding (as a result of which the Bank would reduce payments under the Notes in the amount of such withholding), the City is obliged in certain circumstances to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding.

While there is doubt as to whether the gross-up clause contained in the Credit Facility Agreement is enforceable under Russian law, a failure by the City to pay additional amounts would be an event of default under the Loan Agreement. In the event that the City would become obliged to pay additional amounts, the City may prepay the Loan at its principal amount, together with accrued interest and thereupon (subject to receipt of the relevant funds from the City) all outstanding Notes will be prepaid by the Issuer.

Withholding tax risk—Enforcement of the security under the Trust Deed

In the event that the Trustee enforces the security under the Trust Deed, the Trustee will be entitled to payments of principal and interest under the Credit Facility Agreement. Consequently, payments under the Credit Facility Agreement may then cease to have the benefit of the Russian/German double taxation treaty and consequently may become subject to Russian withholding tax. The Borrower will not be required to gross-up in such circumstances and consequently Noteholders will receive payments net of any such tax and will have no right to require their Notes to be prepaid.

Withholding tax risk—Circumstances where Issuer is not a Qualifying Lender

There will be a withholding under the Credit Facility Agreement in circumstances where the Issuer is not a “Qualifying Lender” (as defined in the Credit Facility Agreement on page 33). Where this is the case, the Borrower will only be required to gross up in the event that the Issuer has never been a Qualifying Lender or there has been a change of law. Consequently should the Issuer cease to be a Qualifying Lender 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.

General

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 Clause 8 (*Taxes*) and Clause 10.4 (*Mitigation*) of the Credit Facility Agreement.

Authorisation by the City

The Mayor of the City of Moscow, by the Mayor’s Directive No. 836-RM of 17th August, 2001 “On borrowings”, and the Government of the City of Moscow, by City Government Resolution No. 743-PP of 14th August, 2001 “On borrowings”, have authorised the Committee for Municipal Debt and Capital Market Development of the Government of the City of Moscow (the “Committee”) to enter into the agreements required to be entered into by the City in connection with the issue of the Notes (the “City Agreements”) on behalf of the City and have instructed the Chairman of the Committee to sign the City Agreements. Furthermore, the authority of the Chairman of the Committee in relation to the City Agreements was confirmed by a power of attorney issued by the Mayor of the City on 19th September, 2001.

The City believes that the above authorisations are sufficient to enable the Committee to enter into and acquire valid and binding rights and obligations in accordance with the terms of, the City Agreements. However, in this connection certain ambiguities arise from the Law of the City of Moscow No. 11 of 11th March, 2001 “On Contracts and Agreements of the City of Moscow” (the “Moscow Contracts Law”), which provides that loan agreements may be entered into by the City Government with foreign parties and that such agreements should be signed by the Mayor or, on his instruction, by a “member of the Government” appointed as the “head of delegation”. The Chairman of the Committee is not a member of the City Government and has not been appointed as the “head of delegation”.

Although there are strong arguments supporting the view that the requirement to have the City Agreements signed by a member of the City Government appointed as the “head of delegation” does not apply where such documentation is not entered into by the City Government but the right to enter into such documentation has instead been duly delegated to the Committee, there is some risk that this position may be challenged on the basis that *inter alia* the Moscow Contracts Law may be interpreted as generally

limiting the power of the City Government to delegate the entry into the City Agreements. Were such challenge to be successful, there is consequently a technical risk that the City Agreements may be regarded as invalid as a matter of Russian law.

No Existing Market/Market Volatility

While application has been made to list the Notes on the Luxembourg Stock Exchange there can be no assurance that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued, directly or otherwise, by Russian issuers is influenced by economic and market conditions in the Russian Federation and, to varying degrees, market conditions in other Eastern European countries and elsewhere. Access of Russian issuers to international financial markets has been significantly limited since the Russian financial crisis of August 1998. Following the financial crisis of August 1998, securities of Russian issuers lost a significant proportion of their value and extreme volatility and illiquidity was experienced in the market for debt securities issued by Russian issuers, including the City. There can be no assurance that similar events will not recur and cause market volatility, significant illiquidity or adversely affect the price of Notes.

DESCRIPTION OF THE TRANSACTION AND THE SECURITY

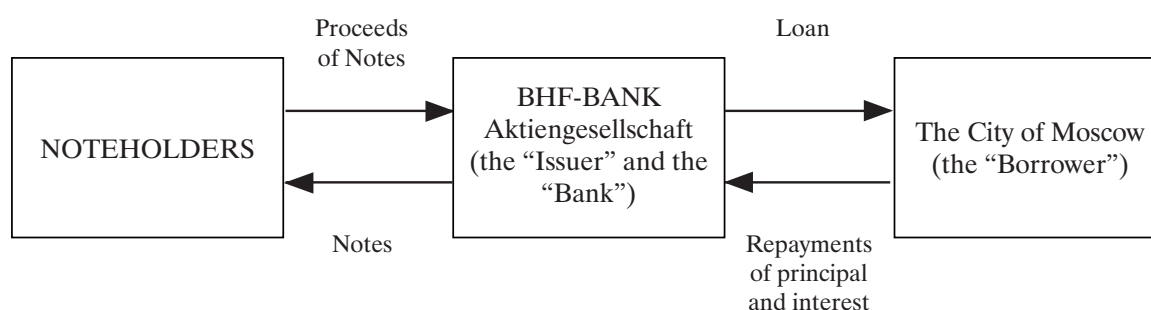
The transaction will be structured as a loan to the City by the Bank.

The Bank will issue the Notes which will be limited recourse loan participation notes for the sole purpose of funding the Loan to the City. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Bank will (a) charge and pledge by way of security to the Trustee its rights to principal, interest and other amounts under the Credit Facility Agreement (other than certain Reserved Rights (as defined in the Trust Deed)); (b) charge and pledge by way of security to the Trustee sums held on deposit in an account with The Chase Manhattan Bank, London branch account number 24412001 in the name of the Bank together with the debt represented thereby (other than interest from time to time earned thereon) (the "Account") pursuant to the Trust Deed; and (c) transfer its administrative rights under the Credit Facility Agreement to the Trustee, for the benefit of the Noteholders. The Borrower will be obliged to make payments under the Loan to the Bank in accordance with the terms of the Credit Facility Agreement to the Account. The Bank will agree in the Trust Deed not to 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 unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and Credit Facility Agreement. The Bank will further agree to act at all times in accordance with any instructions of the Trustee 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 and shall be binding on the Noteholders. The Bank will also agree in the Agency Agreement to require the Borrower to make all payments under the Credit Facility Agreement to the Account. Formal notice of the security interests created by the Trust Deed will be given to the Borrower, The Chase Manhattan Bank, London Branch and The Chase Manhattan Bank Luxembourg, S.A. who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

This offering is made on a limited recourse basis and the Bank will not have any obligations to the Noteholders save for the obligation to account to the Noteholders in respect of the payments of principal and interest under the Loan if, and only to the extent, received from the Borrower and retained, less the Reserved Rights (as defined in Terms and Conditions of the Notes) which the Issuer is entitled to retain from any amounts actually received. The Borrower has agreed pursuant to the Credit Facility Agreement and in a letter dated 23rd October, 2001 and the Noteholders will be deemed to have acknowledged, accepted and agreed that the Bank is entitled to deduct the Bank's fees and expenses from any initial and/or future amounts, as the case may be, to be received by the Borrower pursuant to the Credit Facility Agreement.

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



TERMS AND CONDITIONS OF THE NOTES

The €300,000,000 10.25 per cent. Loan Participation Notes due 2004 (the “Notes”, which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of BHF-BANK Aktiengesellschaft (the “Issuer”) are constituted by, are subject to, and have the benefit of, a trust deed dated 25th October, 2001 (as amended or supplemented from time to time, the “Trust Deed”) between the Issuer and The Chase Manhattan Bank, London branch 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 €300,000,000 loan (the “Loan”) to City of Moscow (the “Borrower”), acting through the Committee of Municipal Debt, Securities and Capital Market Development of the Government 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 23rd October, 2001 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) has:

- (A) charged and pledged by way of security to the Trustee its rights to principal, interest and other amounts paid and payable under 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 7.4, second sentence thereof (*Costs of Prepayment*), Clause 7.5 (*No Other Repayments and no Reborrowing*), Clause 8.3(1) (*Tax Indemnity*), Clause 10 (*Changes in Circumstances*), Clause 19 (*Costs and Expenses*) 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 and pledged by way of security to the Trustee sums held on deposit from time to time, in an account in London with The Chase Manhattan Bank, London branch, account number 24412001 in the name of the Issuer together with the debt represented thereby (other than interest from time to time earned thereon) (the “Account”) pursuant to the Trust Deed and a German law pledge agreement between the Issuer and the Trustee dated 25th October, 2001 (the “Pledge Agreement”); and
- (C) transferred its administrative rights under the Credit Facility Agreement (save for those rights charged or excluded in (A) above) to the Trustee (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 25th October, 2001 (as amended or supplemented from time to time, the “Agency Agreement”) between the Issuer, The Chase Manhattan Bank, Luxembourg, S.A. as registrar (the “Registrar”, which expression includes any successor registrar appointed from time to time in connection with the Notes), The Chase Manhattan Bank, London 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), The Chase Manhattan Bank, Luxembourg, S.A. 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) 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 Trinity Tower, 9 Thomas More Street, London E1W 1YT 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 €1,000 each (the “Denomination”) or integral multiples thereof, without 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 and pledged 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 (acting as 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, subject to certain qualifications set forth in Clause 11.8 (*Valid and Binding Obligations*) of the Credit Facility Agreement, 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 pursuant to the Credit Facility Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged and pledged by way of security to the Trustee 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 and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

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, 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 remain 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 and the Credit Facility Agreement. 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 25th October, 2001 (the “Issue Date”) at the rate of 10.25 per cent. per annum (the “Rate of Interest”), payable annually in arrear on 25th 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 principal amount of such Note and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "Accrual Date") to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

- (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 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 25th October, 2004, 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 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 10.3 (*Illegality*) of the Credit Facility Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two officers 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 10.3 (*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 purchased by the Borrower pursuant to Clause 7.6 (*Purchase of Instruments issued to the Agreed Funding Source*) of the Credit Facility Agreement shall 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. Payments of Interest due on an Interest Payment Date will be paid to the person shown as the Holder on the Record Date (as defined below). Payments of Interest due otherwise than on an Interest Payment Date will only be paid 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 and London and a day on which the Trans-European Automated Real-Time Gross Settlement Express 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 any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 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.

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, and claims for interest due other than on redemption shall become void unless made, within ten 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, and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the Rules of that Exchange so require, at the office of the Paying Agent in Luxembourg 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 sub-division 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 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.

If any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, the Issuer will ensure that, as soon as practicable, thereafter it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

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 any breach or proposed breach of the Notes or the Trust Deed 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.

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 Lender 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 the failure by the Issuer to make any payment of principal or interest on the Notes when due, the filing of an application for the institution for bankruptcy, insolvency or composition proceedings over the assets of the Issuer in Germany, the filing of a notice of the Issuer with the Federal Banking Supervisory Authority (*Bundesaufsichtsstamt für das Kreditwesen*) pursuant to Section 46b of the Banking Act (*Kreditwesengesetz*) or the taking of any action in furtherance of the dissolution (*Auflösung*) of the Issuer.

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.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, being €297,358,600, will be used by the Bank for the sole purpose of financing the Loan. The Loan, in the principal amount of €300,000,000, which is being funded in full by the Notes, will, after deduction of the Bank's arrangement fee incurred in connection with the offering of the Notes and financing the Loan, be applied towards the satisfaction of the City's budgetary expenditure objectives.

SUMMARY OF THE 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 Chase Nominees Limited as nominee for, and deposited with, Chase Manhattan Bank Luxembourg, S.A., a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate is exchangeable in whole (but not in part) for individual note certificates (“Individual Note Certificates”) if any of the following events occur: (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; (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two Members of the Management Board of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Note Certificate for 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 within five business days of the 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 is required to complete and deliver such Individual Note Certificates (including, without limitation, 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 (as defined in the Agency Agreement) of the Registrar. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, 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 exchange.

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 certain terms of this provision:

Payments: Payments of principal and interest in respect of Notes represented by the Global Note Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”), notices to holders of Notes represented by the Global Note Certificate (“Noteholders”) 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, so 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*).

Trustee’s Powers: In considering the interests of Noteholders in circumstances where the Global Note Certificate is held on behalf of Euroclear, Clearstream Luxembourg and/or any Alternative Clearing System, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Global Note Certificate and (b) consider such interests on the basis that such accountholders were the Holders.

Meetings: The Holder shall be treated at any meeting of Noteholders as having one vote in respect of each €1,000 principal amount of Notes for which the Global Note Certificate may be exchanged.

Prescription: Claims against the Issuer in respect of principal, premium and interest on the Notes while the Notes are represented by the Global Note Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

TERMS OF THE CREDIT FACILITY AGREEMENT

The following is the text of the Credit Facility Agreement (other than the Schedules) which has been entered into between the Issuer and the City.

THIS AGREEMENT is made the 23rd day of October, 2001

BETWEEN

- (1) **CITY OF MOSCOW** (the “**Borrower**”), **ACTING THROUGH THE COMMITTEE OF MUNICIPAL DEBT, SECURITIES AND CAPITAL MARKET DEVELOPMENT OF THE GOVERNMENT OF THE CITY OF MOSCOW**; and
- (2) **BHF-BANK AKTIENGESELLSCHAFT**, incorporated in the Federal Republic of Germany and having its registered office at Bockenheimer Landstrasse 10, 60302, Frankfurt am Main, Federal Republic of 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:

“**Advance**” means €297,358,600 made (or to be made) by the Lender hereunder;

“**Account**” means an account of the Lender with The Chase Manhattan Bank, London branch, Account Number 24412001;

“**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 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;

“**Basle Paper**” means the paper entitled “International Convergence of Capital Measurement and Capital Standards” dated July 1988 and prepared by the Basle Committee on Banking Regulations and Supervision, as amended in November 1991;

“**Budget Accounts**” means the 2000 Budget of the Borrower, as approved by the law of the City of Moscow N40 dated 24th December, 1999 “On the Budget of the City of Moscow for 2000” as amended, together with any further amendments thereto, the preliminary report on the implementation of the 2000 Budget of the Borrower as approved by the Resolution of the Government of the City of Moscow No. 298-PP of 27th March, 2001 and the 2001 Budget, as approved by the law of the City of Moscow N41 dated 27th December, 2000 “On the Budget of the City of Moscow for 2001” as amended on 6th July, 2001, together with any further amendments thereto, of the Borrower;

“**Capital Adequacy Requirement**” means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the Basle Paper or which increases the amounts of capital required thereunder, other than a request or requirement made by way of implementation of the Basle Paper in the manner in which it is being implemented at the date hereof;

“**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 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, regulations, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by or requirement of 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;

“**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 €300,000,000 term loan facility granted to the Borrower by the Lender in this Agreement;

“**Fees Letter**” means a letter from the Lender to the Borrower in form and substance satisfactory to the Lender and the Borrower setting out the Lender’s fees in connection with the Facility;

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

“**Interest Payment Date**” means 25th October in each year in which the Facility remains outstanding, being the last day of the corresponding Interest Period;

“**Interest Period**” means, save as otherwise provided herein, any of those periods mentioned in Clause 4.1 (*Interest Periods*);

“**Interest Rate**” means, save as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*);

“**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));

“**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 the third anniversary of the date, referred to in Clause 3 (*Availability of the Facility*), on which the Advance is made hereunder, 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; and

“**State Debt Book**” means the register of the indebtedness of the Borrower maintained in accordance with the requirements of the Budgetary Code of the Russian Federation dated 31st July, 1998, as amended, and the law of the City of Moscow N15 dated 18th April, 2001 “On the State Debt of the City of Moscow”.

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;

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 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;

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);

“**tax**” shall be construed so as to include any tax, duty, assessment or governmental charge of whatsoever nature (including, without limitation, any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) and any VAT or reverse charge VAT;

“**ultimate holding company of the Lender**” shall mean ING Groep N.V., a company incorporated in The Netherlands, or any successor thereof; and

“**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 lawful currency of the United States of America, “**roubles**” denotes the lawful currency of the Russian Federation and “**€**” and “**euro**” denote the lawful currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam.

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, the Fees Letter or any other agreement or document shall be construed as a reference to this Agreement, the Fees Letter 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 €300,000,000, funded by an agreed funding source.

2.2 Purpose and Application

The Facility 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 25th October, 2001 (or such later date as may otherwise be agreed by the parties to this Agreement) if:

- (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;
- (2) the Lender has received funding of the Advance from an agreed funding source;
- (3) the proposed amount of such Advance is equal to or less than the amount of the Facility; and
- (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

4.1 Interest Periods

The period for which the Advance is outstanding shall be divided into successive periods, each of which (other than the first, which shall commence on (and shall include) 25th October, 2001) shall start on (and shall include) the last day of the preceding such period (each, an “**Interest Period**”). Each Interest Period shall, save as otherwise provided herein, be of a duration of one year.

4.2 Duration

Each Interest Period shall be from (and shall include) 25th October, 2001 or any Interest Payment Date to (but shall exclude) the first, or next following, Interest Payment Date.

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 pay accrued interest (calculated to the last day of each 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 10.25 per cent. per annum to the amount of the Facility and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number

of days in the period from (and including) the date from which interest begins to accrue (the “**Accrual Date**”) to (but excluding) the date on which it falls due divided by (b) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Interest Payment Date.

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 additional 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 Clauses 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 Notice of Prepayment

Any notice of prepayment given by the Borrower pursuant to Clauses 7.1 (*Prepayment for Tax Reasons*) or 7.2 (*Prepayment for Reasons of Increased Costs*) shall be 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.

7.4 Costs of Prepayment

The Borrower shall, on the date of prepayment, pay all accrued interest as of such date of prepayment and all other 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*).

7.5 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.

7.6 Purchase of Instruments Issued to the Agreed Funding Source

The Borrower may purchase instruments issued to the agreed funding source at any time in the open market. If such instruments are surrendered by the Borrower to the Lender (as issuer of such instruments) for cancellation, the Lender shall credit the Borrower with the prepayment of an amount of the loan equal to the principal amount of such cancelled instruments.

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 such payment is withheld, 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*),

- (1) 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; or
- (2) 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 any additional 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

- (1) If an additional amount is paid under Clauses 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 additional payment or, in the case of an additional 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 additional 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.
- (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 tax authorities for a tax refund and such tax refund is credited by the Russian tax authorities 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 jurisdiction which has a double tax treaty with the Russian Federation under which the payment of interest by Russian borrowers to German lenders is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto) (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 such double tax treaty, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Germany and the Russian Federation.

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 Clauses 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 Delivery of Forms

The Lender shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) deliver to the Borrower such duly completed application and, if required, other forms, together with a power of attorney authorising the Borrower to make the relevant filings with the Russian tax authorities and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The Lender shall, within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Germany and the power of attorney shall be duly signed and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (i) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (ii) thereafter furnish the Borrower with the details of such rouble bank account.

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 taxation 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 thirty 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 or the amounts required pursuant to the Fees Letter) 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, the Federal Republic of Germany or The Netherlands:

- (1) the Lender or the ultimate holding company of 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
- (2) the Lender or the ultimate holding company of 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 30 days of demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it or the ultimate holding company of the Lender from and against, as the case may be, such properly documented (1) cost or (2) 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 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:

- (1) if the Advance has not then been made, the Lender shall not thereafter be obliged to make the Advance; and

- (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 Advance together with accrued interest thereon and all other amounts owing to the Lender hereunder.

10.4 Mitigation

If circumstances arise which would result in:

- (1) any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);
- (2) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Tax Gross-up*); or
- (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 11.15 (*Compliance with Laws*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties. The representations and warranties set out in Clauses 11.2 (*Due Authorisation*), 11.3 (*Governmental Approvals*), 11.5 (*Pari Passu Obligations*), 11.6 (*Governing Law*), 11.7 (*Validity and Admissibility in Evidence*), 11.8 (*Valid and Binding Obligations*), 11.9 (*No Stamp Taxes*), 11.14(2) (*Execution of Agreement*) and 11.15 (*Compliance with Laws*) are subject to the qualifications contained in the Russian legal opinion of Linklaters & Alliance mentioned in the First Schedule (*Condition Precedent Documents*) hereto.

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 (including exchange control approval), authorisation, order, licence or qualification of or with any court or governmental agency (including, without limitation, the licence of the Central Bank of the Russian Federation)), 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 (subject to the qualification, if any, as to enforceability set out in the Russian legal opinion referred to above) 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 a judgment rendered against the Lender by a Treaty Court would be recognised and enforced by the courts of the Russian Federation without re-examination of the issues subject to the qualifications as to such observance and the recognition and enforcement of such judgments by the courts of the Russian Federation as set out in the legal opinions referred to above. For the purposes of this representation and warranty, “**Treaty Court**” means a competent court of a jurisdiction with which the Russian Federation has entered into an agreement on legal assistance in civil matters providing for the mutual recognition and enforcement without re-examination of the issues in the Federation of foreign court judgments.

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 the qualifications as to enforceability, if any, set out in the Russian legal opinion referred to above.

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 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*).

11.11 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.

11.12 Budget Accounts

The Budget Accounts of the Borrower have been prepared in accordance with the Budgetary Code of the Russian Federation dated 31st July, 1998, as amended, and the law of the City of Moscow N17 dated 6th September, 1995 “On Budgeting Process”, as amended.

11.13 No Material Adverse Change

Save as disclosed in writing to the Lender prior to the date hereof, since 31st December, 2000 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.

11.14 Execution of Agreement

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

- (1) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material indenture, trust deed, mortgage or other material 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;
- (2) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court in Russia binding upon the Borrower; or
- (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.

11.15 Compliance with Laws

Neither the entry into nor performance by the Borrower of its obligations under this Agreement will violate any laws and regulations and all directives of governmental authorities having the force of law.

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 for the making of the Advance and updated as at date thereof on each Interest Payment Date, except that the words “or the passage of time” in Clause 11.10 (*No Events of Default*) shall be deemed deleted in relation to every such updating.

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 is duly incorporated under the laws of the Federal Republic of Germany and 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 Bank of the obligations expressed to be undertaken by it herein have been obtained and are in full force and effect.

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 article 18 of the German Kreditwesengesetz 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:

- (a) each set of budget accounts delivered by it pursuant to Clause 13.1 (*Delivery*) is prepared in accordance with the Budgetary Code of the Russian Federation dated 31st July, 1998, as amended, and the law of the City of Moscow N17 dated 6th September, 1995 “On Budgeting Process”, as amended; and
- (b) it provides to the Lender within 10 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 accounts are 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, including the registration of the Facility and this Agreement in the State Debt Book maintained by the Finance Department of the Moscow Government, with the Ministry of Finance of the Russian Federation and with the depositary to be appointed pursuant to the Law of the City of Moscow on Contracts and Agreements of the City of Moscow dated 28th March, 2001, pursuant to the Budgetary Code of the Russian Federation, the Moscow law on Agreements and Contracts and the Moscow law on the State Debt of the City of Moscow. Provided however that compliance by the Borrower with this Clause 14.1 is subject to the qualifications contained in the legal opinion of Linklaters & Alliance mentioned in the First Schedule (*Condition Precedent Documents*) and in particular (without limitation to the foregoing) 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 of 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 (*Advances 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 15 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 60 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.\$20,000,000 (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 judgment of any court in connection herewith is not paid on the date of such 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 (*Default Interest and Indemnity*)) 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 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*)) be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) 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 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 it shall pay (and the Lender shall be entitled to deduct from the Advance, prior to payment to the account referred to in Clause 18.1 (*Payments to the Lender*)) an amount in respect of the arrangement fee of the Lender as specified in the Fees Letter, Provided that the Lender provides to the Borrower written evidence of the composition and calculation of such arrangement fee.

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:

- (1) the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;
- (2) any actual breach by the Borrower of its obligations hereunder; or
- (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 enure 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

- (A) 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:
- (a) in favour of the agreed funding source; or
 - (b) 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.
- (B) 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

Default interest shall accrue from day to day and shall be calculated on the basis of a year of 360 days and the actual number of days elapsed.

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.

22.3 This Agreement shall come into force and be effective and binding for the parties to this Agreement irrespective of the registration of this Agreement under the Law of the City of Moscow on Contracts and Agreements of the City of Moscow dated 28th March, 2001.

23. NOTICES; LANGUAGE

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 signed in English and Russian language versions but, in the event of a conflict, the English language version shall prevail. 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.

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

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (or any supplement, modifications or additions thereto) (each a "Dispute"), the Lender may elect, by notice in writing to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) 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 language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the London Court of International Arbitration.

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 ISSUER

The Issuer was formed in 1970 following the merger between Frankfurter Bank and Berliner Handelsgesellschaft, founded in 1854 and 1856, respectively.

The Issuer is a commercial bank licensed under the laws of the Federal Republic of Germany and is supervised and regulated by the German Federal Banking Supervisory Authority, the German Bundesbank and the German Federal Supervisory Authority for Securities Trading.

ING Groep N.V., Amsterdam, The Netherlands, indirectly holds approx 98 per cent. of the Issuer's share capital.

As at 31st December, 2000, the fully paid-up share capital of the Issuer was €215,175,152.64, and its capital reserve amounted to €1,194 million. As at 30th June, 2001, the total number of staff was 2,789.

The members of the Board of Managing Directors of the Issuer are Dr. Peter Gloystein, Ulrich H. Leistner, Rudolf Rhein, Roland Scharff, Dietmar Schmid and Louis Graf von Zech.

Financial information relating to the Issuer is not included in this Offering Circular as the Issuer's sole obligation in respect of the Notes is to make certain payments as and when payments on the Loan are received pursuant to the Credit Facility Agreement.

None of the Issuer, nor any of its affiliates are affiliated to the Borrower.

THE CITY OF MOSCOW

Introduction and History

Moscow is the capital of the Russian 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 (a “Subject”). Each of the 89 Subjects within the Federation, which comprise 21 republics, six provinces, 49 regions, one autonomous region, ten autonomous districts and two cities, Moscow and St. Petersburg, is governed by its own executive and legislative branch, as well as certain local self-governing bodies.

Moscow lies within the central part of the most highly developed and densely populated area of the Russian Federation and stands on 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 average temperature in Moscow ranges from approximately 18°C in July to approximately minus 10°C in January.

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 city of Russia until 1712. Thereafter, St. Petersburg was the capital until 1918, when the status of capital city was returned to Moscow. 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, the City remained the capital of the Russian Federation and the seat of the Federal Government. Its status as the capital city is established by the Constitution and the Federal Law on Status of the Capital of the Russian Federation enacted on 15th April, 1993 and amended on 18th July, 1995 (the “Federal Capital Law”).

Selected Financial and Economic Data

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

	Year ended 31st December,				
	1997	1998	1999	2000 ⁽¹⁾	2001 ⁽²⁾
	(millions of roubles)				
City Financial Data:					
Revenue:					
Budget revenue:					
Tax revenue	49,065	45,692	79,324	132,295	153,599
Non-tax revenue	3,592	3,877	8,366	26,967	27,590
Grants	2,497	665	—	(20,209)	(17,834)
DPFs revenue	—	—	19,899	56,798	49,197
Total budget revenue	55,154	50,234	107,589	195,851	212,552
NBFs revenue	20,351	21,141	20,393	—	—
Total City revenue	75,505	71,375	127,982	195,851	212,552
Expenditure:					
Budget expenditure	53,251	50,124	87,289	116,666	163,355
DPF expenditure	—	—	19,866	56,551	49,197
Total budget expenditure	53,251	50,124	107,155	173,217	212,552
NBFs expenditure	18,743	20,447	20,223	—	—
Total City Expenditures	71,994	70,571	127,378	173,217	212,552
Surplus (deficit):					
Budget surplus (deficit)	1,903	110	434	22,634	—
NBF surplus (deficit)	1,608	694	170	—	—
Combined surplus (deficit)	3,511	804	604	22,634	—

	Year ended 31st December,			
	1997	1998 ⁽¹⁾	1999 ⁽¹⁾	2000 ⁽³⁾
	(millions of roubles except per capita GCP and GDP, population and inflation rates)			
City Economic Data:				
GCP at current prices:				
Industry	72,835	81,981	128,632	n/a
Services	203,532	246,517	455,574	n/a
Net taxes	41,355	42,101	93,166	n/a
Total GCP at current prices	317,722	370,599	677,372	n/a
Population (<i>thousands</i>)	8,540	8,540	8,540	n/a
GCP per capita at current prices (<i>in roubles</i>)	37,203	43,396	79,317	n/a
City average annual rate of inflation:				
Consumer Price Index (<i>per cent.</i>)	15.6	39.3	105.9	24.0
Producer Price Index (<i>per cent.</i>)	8.3	19.4	60.4	29.2
Federation Economic Data:				
GDP at current prices	2,478,6	2,696,4	4,545,5	n/a
	n/a	n/a	n/a	n/a
GDP per capita at current prices (<i>in roubles</i>)	16,826	18,355	31,068	n/a

Notes:

(1) Preliminary data.

(2) Figures reflect the planned Budget as approved by the City Duma, not the results of implementation.

(3) Data will be available not earlier than January 2002.

See “Presentation of Financial and Other Information—Exchange Rates” for the relevant U.S. dollar exchanges rates.

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 to the Federal authorities, including management of Federal state property, the issue 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. The Constitution also confers on the Subjects jurisdiction over all matters not specifically reserved to the Federation or the joint jurisdiction of the Federation and its Subjects.

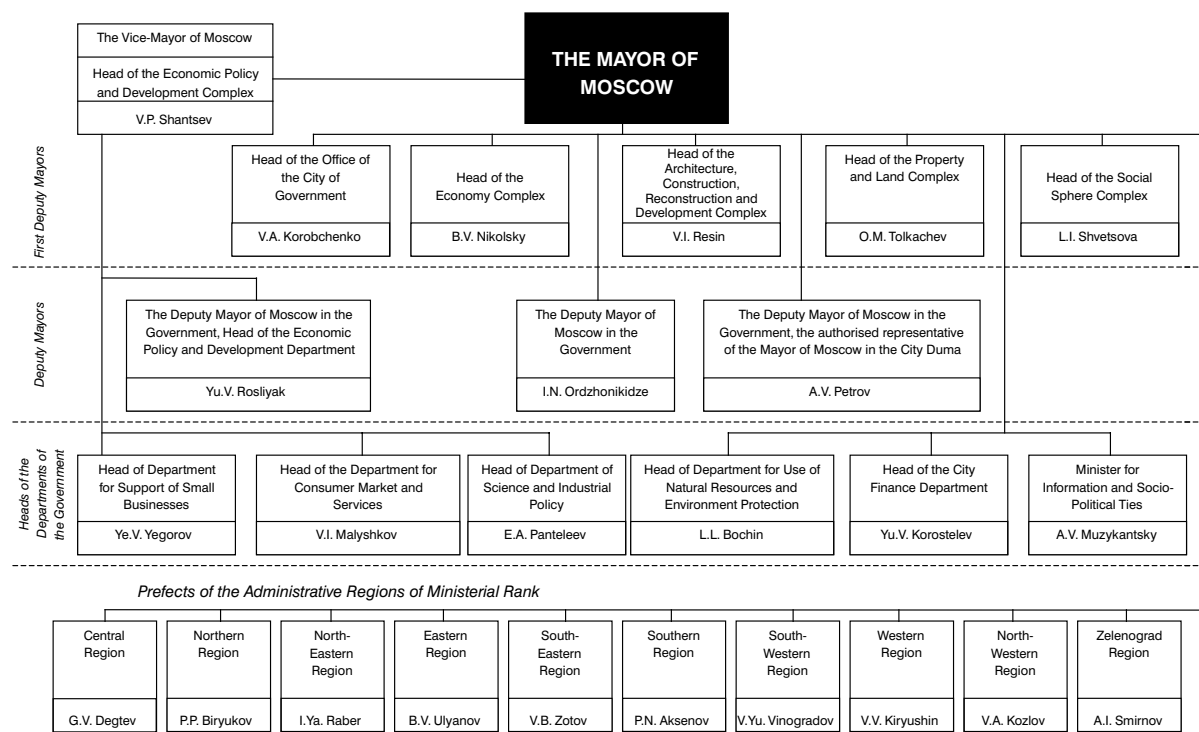
The City's administrative structure is prescribed by the Charter of the City, as adopted on 28th June, 1995 and restated by the Law of the City of Moscow No. 32 of 13th July, 2001, which is the constitutive legal document of the City (the "City Charter"). The City Charter may be amended by the City Duma within the limits set by applicable federal laws. The City Charter was originally adopted pursuant to the Constitution of the Russian Federation and was subsequently restated as required by the Federal Law No. 184-FZ of 6th October, 1999 "On the General Principles of Organisation of Legislative (Representative) and Executive Bodies of State Power in the Subjects of the Russian Federation" (the "Organisation of Subjects Law") with immediate effect. The City Charter as restated significantly changes the structure and procedures for the operation of the City Government. Certain of its provisions are yet to be implemented.

The City is governed by executive, legislative and judicial branches which are legally separate from each other. The executive branch is headed by the Mayor and currently is composed of various departments, committees, branches and their respective subsidiary organisations responsible for the administration and operation of the City (the "City Administration") under the supervision of senior officials who constitute the City's government (the "City Government"). However, the City Charter as restated has abolished the City Administration. As a result, the City Government is now the highest executive authority of the City. 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, adopts City budgets and approves reports on their performance, gives its consent to the appointment of certain law enforcement officials, defines the framework for the activities of local government bodies in the City and exercises certain other powers in accordance with the City Charter and the laws of the Russian Federation.

Under Federal legislation, the Chairman of the City Duma and the Mayor of Moscow are also members of the Federation Council (the upper house of the parliament of the Russian Federation, the Federal Assembly). Pursuant to a Federal law adopted in August 2000, the Mayor will, by no later than 1st January, 2002, be, and the City Duma Chairman has recently been, replaced as the City's representatives in the Federation Council by two elected representatives.

THE GOVERNMENT OF MOSCOW



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, not taking into account terms which started running before October 1999 when the Organisation of Subjects Law entered into force. The Mayor is the highest official within the City and heads the City Government. 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 Duma for consideration with or without amendments. The current Mayor is Mr. Yuri Luzhkov who was re-elected on 19th December, 1999 for a second four-year term. The Mayor can be removed from office on his resignation, physical disability, dismissal by the President of the Russian Federation in instances set by Federal laws, impeachment, conviction of a criminal offence, loss of civil capacity, loss of Russian citizenship or relocation of permanent residence outside Russia.

The Fatherland-All Russia ("OVR") movement was formed in mid-1999 on the basis of the Otechestvo (Fatherland) movement lead by Mr. Luzhkov and a group of regional leaders known as Vsyta Rossia (All Russia) led by the former prime minister, Yevgeny Primakov. OVR won over 13 per cent. of the votes in the party-list vote in the Federal Duma elections in 1999.

The Vice-Mayor of Moscow

The Vice-Mayor is a deputy of the Mayor. Within the scope of authorities granted by the Mayor, the Vice-Mayor is entitled to issue directives. The Vice-Mayor is elected by the citizens of Moscow simultaneously with the Mayor and according to the same procedure. The Vice-Mayor can be removed from office on the same grounds as the Mayor (save for impeachment and dismissal by the President of the Russian Federation) and also as a result of repeated failure to perform instructions received from the Mayor. In the case of an early termination of the Mayor's authorities as described above, the Vice-Mayor would succeed to the Mayor's office pending a new mayoral election. The current Vice-Mayor is Mr. Valeriy P. Shantsev who was re-elected along with Mr. Luzhkov on 19th December, 1999 for a second four-year term.

The City Government

The City Government is, in accordance with the restated City Charter, the highest executive authority of the City. The senior member of the City Government was the Premier (a role most recently filled by the

Moscow Mayor, Mr. Luzhkov). The City Charter as restated abolished the office of Premier and the City Government is now headed by the Mayor. The Mayor appoints and removes the other members of the City Government. The powers of the Government are limited by the term of the powers of the Mayor. The primary spheres of activity of the Government of Moscow 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 providing 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.

Each such primary sphere of activity is managed by the City executive authorities and enterprises that are either controlled by the City or under contract with the City.

Because the City Charter was only restated recently, not all of the changes to the structure of the City Government have yet been made. However, the members of the City Government under the City Charter as restated include:

- the Mayor, who under the City Charter as restated is the Head of the City Government;
- the Vice-Mayor;
- First Deputy Mayors;
- Head of the Office of the City Government;
- Deputy Mayors;
- Ministers of the Government, who are responsible for certain activities of the City and are in charge of departments, committees and directorates;
- Prefects of the Administrative Regions, who are in charge of the City's regions.

Under the City Charter as restated the offices of the Deputy Premiers are abolished while the offices of Deputy Mayors are introduced and the office of the Head of the City Administration Management Department is abolished while the office of the head of the City Government Administration, being a member of the City Government, is introduced.

The senior members of the City Government are as follows. First Deputy Premiers and Deputy Premiers have been reappointed as First Deputy Mayors and Deputy Mayors respectively in accordance with the restated City Charter.

Yuri M. Luzhkov is the Mayor of Moscow and the Head of the Government of Moscow. 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 responsible for the Economic Policy and Development Complex. His areas of responsibility include co-ordination of the City Government's economic policy, development of scientific research and industry in Moscow and meeting the City's needs in consumer goods and services. Mr Shantsev was born in 1947 and is a graduate of the Moscow Institute of Radio Technology, Electronics and Automatics.

Boris V. Nikolskiy is the First Deputy Mayor responsible for the Economy Complex. His areas of responsibility include the development of power and water supply and drainage systems, roads, transport and communications, landscaping and engineering maintenance for residential housing and the supply of oil products and foodstuffs. Mr Nikolskiy was born in 1937 and is a graduate of the Moscow Institute of Mechanisation and Electrification of Agriculture.

Vladimir I. Resin is the First Deputy Mayor responsible for the Architecture, Construction, Reconstruction and Development Complex. His areas of responsibility include the development and execution of the general plan for the City development, the improvement of the City's architecture and the implementation of construction programmes in the City. 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.

Oleg M. Tolkachev is the First Deputy Mayor responsible for the Property and Land Complex. His areas of responsibility include management of the City's property and land, including privatisation of the City's property. Mr Tolkachev was born in 1948 and is a graduate of the Moscow Institute of Physics and Engineering.

Ludmila I. Shvetsova is the First Deputy Mayor responsible for the Social Sphere Complex. Her areas of responsibility include co-ordination of the City Government's social policy, including education, health care, employment, culture and sport as well as family and youth issues. Ms Shvetsova was born in 1949 and is a graduate of the Kharkov Institute of Aviation.

Yuri V. Rosliyak is a Deputy Mayor and the Head of the Economic Policy and Development Department. Mr Rosliyak reports to the Mayor and the First Deputy Mayor in charge of the Economic Policy and Development Complex. His areas of responsibility include planning and implementation of the City's economic, investment, financial and taxation policy, as well as development of the City's economy. Mr Rosliyak was born in 1954 and is a graduate of the Moscow Institute of Engineering and Construction.

Iosif N. Ordzhonikidze is the Deputy Mayor responsible for International Relations. Mr Ordzhonikidze reports to the Mayor. His areas of responsibility include international economic, social, cultural and political relations, the raising of finance for the City's investment programmes and co-ordination of the international activities of all departments, committees and directorates of the City Government. Mr Ordzhonikidze was born in 1948 and is a graduate of the Lenin Polytechnic Institute in Georgia.

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

The City Government ordinarily sits weekly.

The City Executive

The City executive comprises various departments, committees, directorates and their respective subsidiary organisations primarily established pursuant to the City Charter. It directly employs approximately 14,000 people. Under the City Charter as restated the City Administration as an executive authority was abolished and the City Government became the highest executive authority of the City. The City Government controls the activities of the other executive bodies with the right to appoint the heads of such bodies and the right to approve the powers and functions of such bodies.

The five principal divisions, or complexes, of the City Government are as follows: the Economic Policy and Development Complex which directly employs approximately 1,000 people, the Economy Complex which directly employs approximately 460 people, the Architecture, Construction, Reconstruction and Development Complex which directly employs approximately 350 people, the Property and Land Complex which directly employs approximately 160 people and the Social Sphere Complex which directly employs approximately 7,500 people. Each Complex is run by a First Deputy Mayor. Certain other departments and branches of the City Administration, such as the Finance Department, fall outside these five principal sectors.

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 122 Districts. In addition there are three districts which are located outside the Administrative Regions. Districts of the City formally have the status of municipalities. The division into Administrative Regions is governed by City law. 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 and 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 executive 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 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 Assembly and has a casting vote in the

Assembly. At this level local matters primarily connected with the economy and social services are administered.

The City Charter as restated introduces a new framework for local government in the Districts. However, these provisions are to enter into force only by January 2003, when the mandates of the District Assemblies elected on 19th December, 1999 expire.

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 of the City Duma and the Vice-Chairmen are elected by secret ballot from among the deputies. The Chairman and Vice-Chairmen 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 12th December, 1993; the second election of deputies took place on 14th December, 1997. Although 9 deputies are currently associated with the Union of Right Forces, the workings of the City Duma are not characterised by formal political party affiliations.

The City Duma is responsible for enacting local laws of the City as well as controlling their implementation, including the City Budget laws, reviewing the City Budget's implementation, and approving and controlling the use of designated-purpose budgetary funds. The City Duma is also empowered 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 works in sessions, although there are also a number of working groups and committees. The City Duma's principal permanent committees comprise (i) the Budgetary and Finance Committee which is responsible for the City Budget and designated-purpose budgetary funds, the local taxation system and tax collection in the City; (ii) the Committee on Economic Policy which is responsible for the management of City property and the privatisation of municipal and Federal assets in Moscow; (iii) the Social Policy Committee which is responsible for social welfare, education, healthcare, the arts and the environment; (iv) the Law Enforcement 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 Administrative and Self-Governance Development Committee which is responsible for the organisation and co-ordination of activities of the City Administration under the City Charter; (vi) the Committee on City Duma Activities whose responsibilities include agreeing the agenda for the City Duma sessions and the co-ordination of the City Duma's activities; (vii) the Committee on Enterprise which is in charge of development of various entrepreneurial activities in the City; (viii) the Housing Policy and Reforms Committee which is responsible for the development of the housing and utilities sector of the City's economy, and (ix) the Committee on Environmental Policy which is responsible for rationalising the 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, approved by the Mayor and then submitted to the City Duma by the Mayor. Departments of the City Administration, City enterprises and other official organisations are obliged to provide, at the City Duma's or a Deputy's request, information in relation to their activities and to render assistance in order that the City Duma may fulfil its responsibility and to ensure that the laws of the City are implemented.

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 the City Government or in particular officials including the Mayor.

The City Judicial System

The Russian Federation operates a unified judicial system with Federal courts operating throughout the Russian Federation, including the Moscow City Court of Arbitration, the Moscow City Court and the Intermunicipal or District courts. The Moscow City Court of Arbitration hears disputes relating to the commercial interests of enterprises, organisations and citizens. The Moscow City Court and the Intermunicipal or District courts of Moscow are courts of general jurisdiction and 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 High Court of Arbitration of Russia (in the case of the Moscow City Court of Arbitration) 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 courts of arbitration by the High Court of Arbitration of the Russian Federation.

The City Charter as restated introduces the Charter Court of the City of Moscow with the authority to consider compliance of the legislation of the City and of the acts of the bodies of local government with the City Charter and to interpret the City Charter.

The Prosecutor of the City is appointed by the Prosecutor General of the Russian Federation upon agreement with the City Duma and the Moscow Mayor.

Major Activities of the City

Overview

The City's primary function is to provide basic services to residents. In 1999, approximately 56 per cent. of total expenditure of both the City Budget and its various Non-Budgetary Funds was spent on eight primary activities: housing and utilities; healthcare; education; social services; transport and communications; industry, energy and construction; law enforcement; environmental protection. These services are provided directly by the City as well as by various enterprises, which are either controlled by the City or independent, at prices subsidised by the City.

Housing and Utilities

Moscow has approximately 188 million square metres of residential housing stock, including 150 million square metres of municipal housing stock. Since the initiation of privatisation in the early 1990s, approximately 43 per cent. of the City's residential municipal housing stock has been transferred free of charge to its occupants as part of the City's privatisation process. Most of the remaining housing in Moscow is owned by the City and let to City residents at lower than market rates. The City also finances the construction of new housing which is either sold or transferred free of charge to City residents.

The City subsidises the cost of utilities such as heat and water, services such as building maintenance and others. Electric power for Moscow is generated by OAO MosEnergo, in which RAO United Energy Systems, the Federal energy provider, owns a 50.87 per cent. interest. The City has provided financing for capital expenditures by OAO MosEnergo and currently holds a 2.95 per cent. stake in the company. The City continues to negotiate to acquire interests in OAO MosEnergo proportionate to its capital contributions.

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. 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 MosGorTeplo, another City enterprise. A further City enterprise, MosTeploEnergo, also generates and transfers steam heat to City residents. In 1998, City residents paid approximately 31 per cent. of the cost of such heat, in 1999 43 per cent. and 53 per cent. in 2000, as compared with a ceiling of 15 per cent. set in 1994. The remainder was paid by the City.

The City owns and controls its water supply and sewage system through a State Enterprise, MosVodoKanal, which is wholly controlled by the City. In 1999 MosVodoKanal supplied on average approximately 5.4 million cubic metres of drinking water per day (5.2 million in 2000) from two water systems, the Moscow and Volga river systems. MosVodoKanal operates 4 waste water processing facilities supplied by 139 pump stations. In 1998 Moscow citizens paid 47 per cent. of the cost of water, 47 per cent. in 1999 and 57 per cent. in 2000, as compared with a ceiling of 15 per cent. set in 1994. The remainder was paid by the City. The City intends to continue to increase the percentage of the estimated costs of providing heat and water that is paid by City residents.

The City is responsible for the maintenance of City-owned apartment buildings in Moscow including buildings in which apartments have been transferred to City residents as part of the Free Housing

Programme. In 1998 the City residents paid 30 per cent. of the estimated cost of maintaining and providing communal services to their apartment buildings, in 1999 37 per cent. and in 2000 38 per cent. The City intends to transfer the full cost of maintaining housing to the general population over the long term.

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. In 1998, the City residents paid 71 per cent. of the cost of waste disposal services, in 1999 100 per cent. and in 2000 77 per cent.

Healthcare

State guaranteed medical care for Moscow residents is provided through designated-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. The Moscow territorial division of the Federal Fund of Compulsory Medical Insurance is mainly financed from the Federal proportion of receipts from the single social tax. See “City Budget and Financial Accounts—Tax Revenues—Single Social Tax”. In 2000 the City Budget financed the functioning of 819 medical institutions of the Moscow Committee of Health Care, including 156 hospitals, 591 outpatient clinics and sub-clinics and 72 other medical care institutions such as sanatoria and child-care homes. The activities of medical institutions of the City are performed in accordance with the City Health Care Programme which operates pursuant to the Concept Plan of Health Care Development of the City of Moscow. The total cost of implementation of the Programme in 2000 and 2001 financed both from City budget and other sources, is estimated at Rbl 45.585 billion, including Rbl 19.820 billion spent in 2000.

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 Federal budget and other sources and not from the City Budget.

Moscow has a centralised ambulance service which includes approximately 50 substations located across the City operated by the Moscow Committee of Health Care and Federal bodies. The City has successfully completed the refurbishment of a number of these substations and plans to continue building new substations.

Education

As at 1st January, 2000, there were 3,929 educational institutions operating in the City and supervised by the Committee for Education for the benefit of approximately 1.625 million persons, including 1,489 schools, 1,774 kindergartens, 164 vocational schools, 35 technical schools and 3 institutions of higher education. 73 of these institutions were private, self-financed institutions. In addition, many Federal educational establishments are located in the City but are not financed from the City Budget.

In 1998, the First Deputy Premier of the Government of Moscow passed the Programme of construction and reconstruction of public schools in the Central administrative district of Moscow. Under this Programme old school buildings are to be demolished and replaced by modern premises. In 1998 3 schools for the benefit of 690 students were built and 8 schools for 4,306 students were built from 1998 to 1999.

The City Government has passed a number of further programmes for the development of public education and the construction and refurbishment of schools and kindergartens.

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. There are 113 social service centres operating in the City. In 1999 approximately 510,000 people received some form of social welfare service. The City has and continues to run a range of social services programmes ranging from the provision of free housing to transport subsidies, free medicine, free meals for school children, free healthcare for school children and young children as well as support for veterans, pensioners, invalids, low income families, orphans and the unemployed.

As at 1st January, 2000, approximately 3.5 million persons registered with Moscow Social Services received pensions and social benefits, including 2.3 million persons registered as pensioners. All pensions are paid out of a Federal non-budgetary fund (the “Federal Pension Fund”) although the City has

disbursed additional payments for unemployed pensioners and certain other categories of pensioners including veterans of the Second World War.

The City also provides financial support for invalids and low-income families and furthermore finances youth policy and child benefit programmes. Certain residents of the City are eligible for social support from federal funds such as and receive, for example child and maternity benefits.

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, on which more than 20 million passenger journeys are made per day. The City intends to continue to increase the proportion of the cost of public transport borne by users. The City continues to invest significant amounts in public transport projects. See “City Budget and Financial Accounts—Expenditure—Transport, Roads and Communications”.

Roads

As at 30th June, 2001 there were approximately 4,563 kilometres of roads in Moscow, including 16 radial highways and two ring roads, Sadovoye and Moscow. At present a third ring road is being built. The Moscow ring road is approximately 109 kilometres long and carries a high proportion of Moscow’s traffic as well as traffic transiting the City. Prior to 1996, the Federation funded renovations of the Moscow 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.

Metro

The Moscow metro extends over 264 kilometres and includes 162 stations and 11 lines. The metro is the major part of the City’s transportation system and is owned by the City. The City subsidises the metro operating and maintenance expenses not otherwise covered by passenger fares. The Federal Government provides funds for the construction of additional metro lines and stations in the City. In 1998 the Federal Budget allocated Rbl 903.3 million for the construction of additional metro lines and stations in the City and in 1999 Rbl 206.4 million. In 1999 the subsidies for running costs were approximately Rbl 1.5 billion and Rbl 1.7 billion in 2000.

Ground Transport

As at 1st January, 2001 the City’s ground public transport infrastructure consists of a 6,489-kilometre bus, trolley bus and tram network. There were 619 bus, trolley bus and tram routes and the City’s fleet of buses, trolley buses and trams numbered 5,072. Currently, ground transport services are subsidised by the City to cover operating and maintenance expenses, not otherwise covered by passenger fares. The companies of the ground transport system are owned and controlled by the City. In 1999 subsidies to cover running costs for ground transport equalled Rbl 2.8 billion, compared to Rbl 3.7 billion allocated in 2000.

Telecommunications

Moscow City Telephone Company owns and operates the public switched telecommunications network in Moscow. The City is not a shareholder in the company and does not provide financing from the City Budget for operational costs or the construction of telephone switch facilities.

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 the relevant City regulations. The City and Federation share the costs

associated with the Chief Directorate of Internal Affairs. In accordance with recent amendments to Federal law, the Heads of the Chief Directorates of Internal Affairs are to be appointed by the President of the Russian Federation and the Head of the Municipal Police is to be appointed by the Minister of Internal Affairs of the Russian Federation.

The City 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 competence of the Federal authorities.

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. On 3rd February, 1997 the City entered into a project financing agreement with Saarberg-Helter Proektgesellschaft ZUD Yuzhnoye Butovo GmbH for the construction of a waste water treatment facility at Yuzhnoye Butovo on a build, own, operate and transfer ("BOOT") basis. The facility commenced operations in 1999 at a total cost of DM 60.9 million. Repayment of principal and interest started on 1st January, 1999 and the final repayment and transfer date is scheduled for 2011.

The City plans construction of 31 surface water sewerage and purification facilities and reconstruction of 22 such facilities, as well as construction of 450 kilometres and reconstruction of 1,000 kilometres of the surface water sewerage network between 2001 and 2005. These and other measures should increase the proportion of built up areas of the City served by surface water sewerage and purification facilities to 64 per cent.

In accordance with the Programme of construction and reconstruction of sanitary and hygiene facilities of the City, two waste incineration plants, one waste incineration complex, four waste sorting stations and two sites for waste disposal are currently being constructed and completion of these projects is expected between 2001 and 2004. In 1999 two waste sorting stations were put into operation.

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, the installation of pollution control systems and imposition of reporting requirements for large polluters, the centralisation of waste collection and sorting and the improvement of standards of vehicle exhaust emissions.

City Economy

Demographics

The population of Moscow has grown rapidly since 1918 to a peak of approximately 9 million in 1990. Since then, the population has declined because of a decrease in the birth rate as well as migration away from the City particularly in 1992 and 1993. Despite this decrease, as at 30th June, 2001, Moscow remained the largest city in the Federation with a population of approximately 8.55 million compared with a total population of 144.4 million of the Federation. Due to a significant amount of people residing outside Moscow and working in the City, the so-called "daytime population" of Moscow varies from 11 to 11.5 million.

In 1999, the number of deaths in the City exceeded births by 60.8 thousand and the number of births declined by 1 per cent. compared with 1998. The mortality rate for residents of working age remains high. Deaths among people of working age amounted to 23 per cent. of all deaths in 1999, of which males constituted 79 per cent. Infant mortality has reduced from 14.5 per 1,000 in 1997 to 13 per 1,000 in 1998 and 12.6 per 1,000 in 1999.

The low birth level has led to a further increase in the average age of the population. At the beginning of 2000, 15.3 per cent. of the total population of the City was under 15 years of age and 25.9 per cent. of the total population of the City was over 55 years of age, as compared to 20 per cent. and 22 per cent. respectively in 1989. Average life expectancy of Muscovites has fallen from 69.9 years in 1991 to 68.5 years in 1998.

Nevertheless at present the City's labour force (those people capable of employment) is approximately 76 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.

Employment and wages

General

Employment levels in the City have remained relatively stable over the last five-year period. In 2000 the average employment level was approximately 83 per cent. of the City's labour force, a slight increase over the 1999 figure. In 2000 there were 5.4 million people working in the City (63 per cent. of Moscow's total resident population). In 2000 the public sector of the economy employed 1.8 million people and the private sector employed 3.6 million people. The gap between the number of people working in the public and the private sectors is gradually widening, with the number of private sector employees growing larger by comparison with the public sector. This trend is inhibited in part by the City's various construction activities, such as the building 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 following table shows the total number of people employed in the public and private sectors in both the City and the Russian Federation for the periods indicated, in millions of persons and percentages. Percentages are expressed as a proportion of the total labour force of the City or the Russian Federation, as the case may be:

Sectors	1995		1996		1997		1998		1999 ⁽¹⁾		2000 ⁽¹⁾	
	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation	Moscow	Federation ⁽²⁾
Public &												
Municipal	2,182	28,000	2,142	27,700	1,952	25,900	1,830	24,200	1,877	24,434	1,790	n/a
	36%	33%	35%	32%	32%	31%	29%	29%	29%	28%	28%	
Private, mixed,												
foreign	3,025	38,400	2,982	38,300	3,201	38,700	3,391	39,400	3,523	39,566	3,632	n/a
	50%	46%	49%	45%	52%	46%	54%	47%	54%	45%	56%	
Labour in												
employment . . .	5,207	66,400	5,124	66,000	5,153	64,600	5,221	63,600	5,400	64,000	5,422	n/a
	86%	79%	84%	77%	84%	77%	83%	76%	83%	73%	84%	
Labour force . . .	6,129	84,290	6,121	84,300	6,151	84,300	6,314	84,644	6,570	87,851	6,497	n/a

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

Note: ⁽¹⁾ Preliminary data.

⁽²⁾ Data unavailable.

Wages

In December 2000 the average nominal monthly wage in Moscow equalled Rbl 4,442.0, an increase of 30 per cent. by comparison with the level of December 1999, while the average real wage, adjusted to take into account increases in the consumer price index, was 6.4 per cent. higher than in December 1999.

In March 2001 the average nominal monthly wage equalled Rbl 4,581.0, which was a rise of 1.5 times in comparison with March 2000, while the real wage grew by 21.4 per cent. in comparison with March 2000.

In the last quarter of 2000, the richest 10 per cent. of the population of the City received 49.7 per cent. of total income, while the poorest 10 per cent. of the population received 0.8 per cent. In the last quarter of 1999, these figures equalled 51.8 per cent. and 0.7 per cent. respectively.

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 for the periods shown, expressed in percentage terms:

Industry	As at 31st December					
	1995	1996	1997	1998	1999	2000⁽¹⁾
Manufacturing	18.1	18.6	15.2	14.8	14.4	14.3
Construction	13.4	13.9	14.4	14.9	15.7	15.9
Transport and telecommunication	7.3	7.7	7.8	7.9	8.1	8.2
Retail and wholesale trade	15.8	13.3	15.4	17.4	18.6	18.8
Housing and utilities	4.2	3.6	4.2	4.2	4.2	4.2
Healthcare, physical education and welfare	6.2	6.0	6.0	6.0	5.9	5.9
Education, culture & arts	9.5	9.6	9.5	9.2	9.0	9.0
Science & scientific support	11.0	10.7	10.5	9.3	7.7	7.6
Financial services	2.6	2.8	2.9	2.5	2.5	2.5
State administration	3.0	4.3	3.7	3.8	3.8	3.9
Other	8.9	9.5	10.4	10.0	10.1	9.7
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.

In December 2000 the number of full-time employees in large and medium-size enterprises in Moscow was 2.8 million people or 51 per cent. of the total labour force in employment.

Unemployment

In December 2000, 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 185,000 or 3.3 per cent. The official rate only reflects unemployed persons who have formally registered as such.

The official rate of unemployment in the Federation in December 2000 was 9.6 per cent. according to ILO methodology. The City believes that unemployment remains low in the City and that this is attributable to the high level of investment and development in the City and to the high education levels in the Moscow labour force.

Gross City Product

Although large industries remain an important component of GCP the service sector has grown significantly in recent years. The following table sets out the amount of Moscow's annual GCP at current prices by sector expressed in billions of roubles:

Sectors	As at 31st December,				
	1995	1996	1997	1998	1999⁽¹⁾
INDUSTRY:					
Manufacturing	26,304	39,389	43,201	48,354	78,820
Construction	18,729	20,304	24,497	28,459	40,555
Other industrial sub-sectors	2,420	2,734	5,137	5,168	9,257
Total	47,453	62,427	72,835	81,981	128,632
SERVICES:					
Market services:					
Transport and telecommunications	14,345	22,792	34,434	36,934	63,323
Retail trade and catering	33,972	56,424	78,379	112,596	217,949
Logistics	2,085	1,949	3,877	3,672	11,245
Real estate	5,006	2,201	8,419	9,635	25,673
General commercial activities related to market operations	3,612	8,160	19,353	9,116	34,230
Housing and utilities	5,734	17,633	14,390	18,948	25,674
Science and scientific services	2,009	3,321	7,960	6,229	13,300
Insurance	1,709	2,539	5,385	8,989	13,167
Other market services	2,830	7,795	15,133	24,716	32,180
Total market services:	71,302	122,814	187,330	230,835	436,741
Non-market services	5,983	17,079	16,202	15,682	18,833
TOTAL SERVICES	77,285	139,893	203,532	246,517	455,574
Net taxes on products	19,632	34,003	41,355	42,101	93,166
GCP AT CURRENT PRICES	144,370	236,323	317,722	370,599	677,372

Sources: Department of Economic Policy and Development of the City of Moscow.

Note:

⁽¹⁾ Preliminary data.

The following table sets out the percentage of Moscow's annual GCP at current prices by sector:

Sectors	As at 31st December,				
	1995	1996	1997	1998	1999⁽¹⁾
INDUSTRY:					
Manufacturing	18.2	16.7	13.6	13.0	11.6
Construction	13.0	8.6	7.7	7.7	6.0
Other industrial sub-sectors	1.7	1.1	1.6	1.4	1.4
Total	32.9	26.4	22.9	22.1	19.0
SERVICES:					
Market services:					
Transport and telecommunications	9.9	9.6	10.8	10.0	9.4
Retail trade and catering	23.5	23.9	24.7	30.4	32.2
Logistics	1.4	0.8	1.2	1.0	1.7
Real estate	3.5	0.9	2.6	2.6	3.8
General commercial activities related to market operations . . .	2.5	3.5	6.1	2.4	5.0
Housing and utilities	4.0	7.5	4.5	5.1	3.8
Science and scientific research	1.4	1.4	2.5	1.7	2.0
Insurance	1.2	1.1	1.7	2.4	1.9
Other market services	2.0	3.3	4.9	6.7	4.7
Total market services:	49.4	52.0	59.0	61.2	64.5
Non-market services	4.1	7.2	5.1	4.2	2.8
Total services	53.5	59.2	64.1	66.5	67.2
Net taxes on products	13.6	14.4	13.0	11.4	13.8
GCP AT CURRENT PRICES	100.0	100.0	100.0	100.0	100.0

Sources: Department of Economic Policy and Development of the City of Moscow.

Note:

⁽¹⁾ Preliminary data.

Industry Sector

The industry sector as a percentage of total GCP decreased from 22.9 per cent. during 1997 to 22.1 per cent. in 1998 and further decreased to 19.0 per cent. in 1999. The decrease in the industry sector since 1997 is principally the result of a growth in the services sector as a percentage of GCP.

Manufacturing as a percentage of GCP decreased in 1998 from 13.6 per cent. to 13.0 per cent. During 1999 manufacturing as a percentage of GCP further decreased to 11.6 per cent. Manufacturing in 1997-1998 remained relatively stable as a percentage of the GCP. In 1999 manufacturing in the City employed 14.4 per cent. of the employed labour force in Moscow. See "—Employment—Composition of Employed Labour Force". Construction as a percentage of GCP remained at the same level of 7.7 per cent. of GCP during 1997-1998, then subsequently decreased to 6.0 per cent. during 1999. The decrease in construction activity as a percentage of GCP in 1999 reflected a significant growth in the services sector. In 1999 construction employed 15.7 per cent. of the labour force in Moscow.

Services Sector

The total market services sector, as a percentage of GCP, grew from 64.1 per cent. during 1997 to 66.5 per cent. during 1998 and subsequently increased to 67.2 per cent. during 1999.

Transport and telecommunications has remained relatively stable as a percentage of GCP, declining from 9.9 per cent. in 1995 to 9.4 per cent. in 1999. In 1999 transport and telecommunications employed 8.1 per cent. of the employed labour force in Moscow. See "—Employment—Composition of Employed Labour Force". Retail trade and catering increased steadily from 23.5 per cent. of GCP in 1995 to 32.2 per

cent. in 1999 and accounted for 18.6 per cent. of the employed labour force in the City in 1999, up from 15.8 per cent. in 1995. Housing and utilities rose from 4.0 per cent. of GCP in 1995 to 5.1 per cent. in 1998, but declined to 3.8 per cent. in 1999, employing 4.2 per cent. of the City's employed labour force in 1999.

Privatisation

The privatisation programme in Russia, including that in Moscow, was launched in 1992. Local authorities within the Subjects were responsible for the privatisation of small-scale and medium-sized enterprises where not in strategic sectors such as defence, the nuclear industry and aerospace. A Federal Privatisation Committee (the "State Committee for the Management of State Property") was responsible for the privatisation of large-scale enterprises and those in strategic sectors.

The Moscow privatisation programme comprises the distribution to employees of ownership interests in or outright sale of various enterprises, real estate interests, housing assets, uncompleted construction projects and buildings requiring repair. Privatisation procedures have taken various forms, including sales through the voucher scheme, auctions and open investment tenders. At the outset of the privatisation programme, the City Government wanted to avoid a rapid and disorganised sale of state assets which it believed would not be in the commercial interests of the City. Accordingly, privatisation by the City has proceeded at a relatively slower pace in comparison to that carried out by certain other Subjects. A number of Presidential decrees delegated certain powers to the City Government in relation to the privatisation process, including the authority to obtain realistic estimates of the value of property to be privatised. The City privatised approximately 25 enterprises in 1999 and 37 enterprises in 2000. During the first five months of 2001 23 enterprises which employed 1,279 people were privatised. The City's receipts from privatisation are typically not material in the context of the City Budget. See "City Budget and Accounts—Budget Revenues".

The main objective of the privatisation of small businesses in Moscow was the generation of proceeds to be allocated to fund the City's investment programmes. The results of the privatisation of small enterprises have primarily been the increase in trade and turnover throughout the City as a result of the greater numbers of trading entities in the City and an improvement in the supply of products and goods. Approximately 90 per cent. of small businesses in the City were privatised in 1992, generally through sales to employees. The majority of enterprises purchased from the City such equipment as was necessary for their businesses at its residual value. At the same time, pursuant to Federal land law and relevant City laws, the land necessary for these businesses has been leased by the City to such enterprises for up to a 49-year term.

The City has decided to retain a significant shareholding in certain privatised enterprises. See "City Budget and Financial Accounts—Property Holdings". In addition the City has sold a number of uncompleted construction projects in order to finance new construction and to attract investment to complete such projects.

A number of real estate sites in Moscow of historical and architectural interest require considerable investment for their restoration. The City has entered into contracts with private investors to restore these sites in return for the grant of a lease. The terms of such contracts stipulated that tenant investors had to carry out the restoration of real estate sites leased to them from the City. At the same time as privatisation of small businesses, the City is undertaking the privatisation of the residential sector. Residents may obtain title to the property in which they currently reside by concluding a transfer agreement with the City for a largely nominal sum.

The basic principles of privatisation in Moscow are provided in the City Law on Privatisation of State and Municipal Property in Moscow dated 11th April, 2001 No. 12. The Department of State and Municipal Property carries out the function of managing the assets owned by the city (for example acting as a shareholder in joint stock companies) and also is responsible for taking decisions on the privatisation of particular property.

Litigation

The City, the Department of Economic Policy and Development of the City (the "Department") and a Russian bank are co-respondents to a claim, currently being heard in an UNCITRAL arbitration proceeding in London, of an international bank in respect of a loan alleged to have been made by the Russian bank to the Department in which the City agreed to serve as a surety. The alleged loan was subsequently assigned to the international bank, which claims a sum of approximately CHF 180,000,000 as of 7th February, 2000 plus further interest and penalties accrued since that date. The City contests the claims of the international bank, in particular on the basis that the City never received the funds, which the

City believes were improperly appropriated by the Russian bank. The City believes it has strong arguments in defence of the claim and has made a counter-claim against the Russian bank in the London arbitration proceedings. A claim by the City against the Russian bank for the return of the funds from the City's current account was dismissed by the Moscow Arbitration Court in October 1999, which found on the facts that the City had never received the loan, so that there were no funds on the current account to return. The London arbitration proceedings are currently set to conclude at the beginning of 2002. If the City were to lose the London arbitration proceedings, it may contest enforcement of any award for damages in Russia. In addition, the loss of the London arbitration proceedings could lead to an acceleration of certain other of the City's debt obligations. The City believes that the current maximum amount potentially payable in such circumstances would be approximately U.S.\$100,000,000. However, in accordance with its proposed repayment schedule, the City anticipates that this amount will reduce to approximately U.S.\$32,000,000 by the expected time of the conclusion of the London arbitration proceedings and the occurrence of any such event of cross-acceleration.

In February 2000 the City held promissory notes with a face value of approximately Rbl 6.2 billion issued by ZAO Media Most, a Russian television and media company ("Media Most"). Media Most is currently in financial difficulties and is engaged in a number of legal proceedings with its creditors and shareholders. Media Most is also currently subject to liquidation pursuant to a court order. The promissory notes were issued by Media Most to the City following the loss by the City of certain deposits held at OAO Most Bank ("Most Bank"), a Russian bank affiliated with Media Most which has lost its banking licence and is subject to insolvency proceedings. Payment under the promissory notes has fallen due and the City has commenced legal proceedings against Media Most for the recovery of the relevant sums. The City believes that it has strong arguments in favour of its claims and in March 2001 received payment of Rbl 218 million in settlement of one claim and has several judgments in its favour from the court of first instance in respect of further claims. However, there can be no assurance that the judgment will not be successfully contested or that the City will succeed in recovering the further sums claimed.

In December 2000 it was alleged by the Federal State Prosecution Service that the Head of the Department of Finance of the City, Mr Korostelyev, had been criminally negligent in connection with the failure of the City to recover funds held at Most Bank. In particular, it was alleged that Mr Korostelyev should have taken further actions to recover the City's funds from Most Bank and that City Budget funds should not have been used to acquire the promissory notes from Media Most and a criminal case was opened. Mr Korostelyev continues to perform his duties.

CITY BUDGET AND FINANCIAL ACCOUNTS

City Budget

Budgetary Relations between the Federation and its Subjects

The Federal Government influences the revenues accruing to the budgets of the Subjects. In particular, Federal legislation provides that revenue from certain Federal taxes collected within the jurisdiction of a Subject are divided between the Federal and Subject budget in a proportion established by the Federal Budget for each 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. The Federal Government also provides general rules on expenditure by Subjects.

In the period from 1997 to 2000, Federal taxes collected under the jurisdiction of the City accounted for between 30 and 35 per cent. of the total tax revenue of the Federation. The City is deemed by the Ministry of Finance of the Russian Federation 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 and 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 accordance with the Federal Budget for 2001 the City is due to receive in 2001 transfers from the Federal budget in the amount of Rbl 2.038 billion for the implementation of Federal Laws in the City and Rbl 4.0 billion for financing construction and reconstruction of roads of Federal importance.

In the past the City received grants from the Federal budget to cover expenditures in connection with its role as the capital of the Russian Federation and provision of City services to administrative bodies of the Federal Government and embassies of foreign countries and other Subjects located in the City. These grants were discontinued after 1999.

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.

Overview of Federal Legislative Process

The source of Federal legislation is the Russian Federation Federal Assembly (the "Federal Assembly") which is divided into an upper house, the Federation Council, a lower house, the State Duma, and the President. The President has the power to issue decrees which are mandatory in the territory of the Russian Federation (provided they do not contradict the Constitution or Federal legislation). The President also has the power to veto legislation enacted by the Federal Assembly (this veto may in turn be overridden by the Federal Assembly) and, under certain circumstances, to dissolve the State Duma. In addition, the President is empowered to arbitrate in disputes between the Federal authorities and the Subjects.

While the Constitution grants the President broad powers, the State Duma, in conjunction with the Federation Council, has considerable power to enact Federal law, including the ability to override the President's veto.

Russia is currently in the process of tax reform which may change a number of taxes, tax rates and the principal of distribution of proceeds between the Federal and Moscow budgets. No assurance can be given that a change in the composition of the Federal Assembly, a new President or both will not result in Federal legislation that has an adverse effect on the City's financial resources.

Introduction to the City Budget

The principal sources of revenue for the City are: (i) taxes and fees (including City taxes and fees and the portion of Federal taxes and fees allocated to the City Budget) and (ii) revenues from the use or sale of municipal property and income from investments in various enterprises.

The City Budget is an itemised summary of expected revenue and expenditure, which in recent years has become increasingly detailed. The revenue base of the City Budget is estimated by taking into account the expected tax, non-tax and other revenues for the current year and forecasts of economic development in the City, such as forecasts of the employment level, the development of the taxable base and wholesale price indices within the City. Expenditure is estimated according to expected revenues and the planned social and economic programmes of the City.

Since 1992 the City has had a unified budget for all levels of its administration. The levels of funding for the City's Administrative Regions and Districts are set by the Budget. At the City level funds are spent on the City's administrative and law enforcement bodies, support for local industry, City-wide expenditure on housing and utilities, transport, capital improvements, maintenance for educational, cultural, health-care and social institutions as well as on social assistance such as child allowances. At the Administrative Regions' level, spending is made on housing and utilities and regional improvement, health-care, culture, education and social activities as well as administration. At this level certain social expenditure is also allocated. In accordance with the new Charter of the City, by the end of 2003 each District should have its own separate budget, with revenues to be established by the City Law. Currently the expenditures of each Administrative Region and each District are financed from the City Budget by allocation of funds to the relevant executive bodies. In addition, City DPFs exist in respect of each Administrative Region and each District. See "Budget of the City of Moscow". Administrative Regions and Districts do not also receive any revenues other than the funding from the City Budget and the City DPFs.

Budget Procedure

The City budgetary process is regulated and implemented according to the Budget Code and on the basis of other relevant statutory acts of the Russian Federation and the City. The Budget Code came into force on 1st January, 2000 and substantially revised the system of budgetary regulation.

The budgetary process commences with the preparation of a draft budget by the City Government which, after review by the Mayor's office, is submitted for the consideration of the City Duma. The draft budget is debated and discussed between the City Government and the City Duma and then may be approved by the City Duma as a basis on which to proceed to a more detailed inquiry of specific line items. Following that initial approval, the draft is further discussed within the appropriate City Duma permanent committees, in particular the Budgetary and Finance Committee, and then is in a position to be granted final approval by the City Duma. Final approval requires a two-thirds majority vote. The draft budget, as approved by the City Duma, is then passed to the Mayor for final review and, subject to the Mayor's veto, acceptance. In the event that the final budget is not fully approved by 31st December of the year prior to the budgeted fiscal year, the City Government is authorised to incur expenditure which may not exceed, on a monthly basis, one-twelfth of that spent in the previous fiscal year until the approval of the budget. The last year in which this occurred was 1999 when the budget for the year 1999 was approved in February 1999.

Any decision of the executive authorities which may lead to a reduction of revenues or an increase in expenditure must be approved by the City Duma, except when the Budget Law permits the City Government to introduce such changes independently.

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 level of municipal bond issues, municipal loans or other borrowing 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 accordingly.

Budget Implementation

Prior to January 2000, the City Budget was implemented in accordance with the City Budget Law and the Federal Budget Procedures Law and budget funds were collected and distributed through the banking system. On 1st January, 2000, the Budget Code came into force. In accordance with the Budget Code, the City is required to implement certain changes to the manner in which the 2000 City Budget and future City Budgets are prepared. The two principal changes are:

- the elimination of all non-budgetary funds of the City, see "—Non-Budgetary Funds/Designated Purpose Funds"; and

- a requirement that the City Budget be implemented through a City treasury system as opposed to through the banking system.

These changes are intended to clarify the City Budget and to improve the management of financial resources and save overhead expenditure.

The City Treasury is a division within the City's Department of Finance. The Department of Finance continues to be responsible for the implementation of the City Budget and management of budgetary funds. Prior to the coming into force of the Budget Code, implementation of the budget occurred through accounts opened by various administrative departments of the City Government with a number of non-governmental banking institutions. The City Treasury budget implementation system involves:

- the consolidation of all City financial resources in the City Treasury's bank accounts;
- separate accounting of tax revenues, non-tax revenues and revenues allocated to the Designated Purpose Funds;
- the establishment of accounts for each administrative body within the City Treasury.

The City Treasury is responsible for monitoring expenditure by each administrative body and also effects payment of obligations of the administrative bodies directly upon receipt of the appropriate documentation from them.

As of 1st July, 2000 the City Treasury system of City Budget execution applied to all tax revenues. This system now also applies to non-tax revenues.

During the transitional period of the implementation of the procedures required by the Budget Code, the opening of City Treasury accounts has also been implemented in stages. From 31st December, 2000, all expenditure accounts for the City Treasury were held with two banks, the Bank of Moscow (in which the City has an interest), and Sberbank (which is majority owned by the Central Bank). Currently City Treasury accounts are held at the Chief Directorate of the Central Bank and the Bank of Moscow. Pursuant to the Central Bank Licence (as defined herein), rouble funds credited to City Treasury accounts held at the Bank of Moscow may, on the instruction of the City, be converted into foreign currency for remittance to the Account for the purposes of repayment of the Loan. See "Description of the Transaction and the Security" and "General Information". The City Audit Chamber has powers to carry out inspections in respect of the City Treasury.

Control over the execution of the Budget

The City Government submits to the City Duma and to the City Audit Chamber a monthly report on the execution of the budget in the form prescribed by the Ministry of Finance of the Russian Federation. Quarterly statements on the execution of the budget are submitted for the consideration of the Government of Moscow.

At the end of the fiscal year, and no later than two weeks after the execution of the budget has been approved by the City Government, the Mayor submits to the City Duma and to the City Audit Chamber a draft Law on the City Budget performance and a statement on the execution of the Budget for the past financial year. The final 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.

The City Audit Chamber monitors Budget performance as well as the use of the Budget and Designated-Purpose Funds. Its function is to monitor the lawfulness, rationale and efficiency in the use of City Budget funds and the timely implementation of revenue and expenditure items in the City Budget. 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 or City property. The City Audit Chamber carries out its activities in accordance with the legislation of the Federation and the City, which provide for its functional and organisational independence. The City Audit Chamber reports to the City Duma. Investigations are initiated and organised by the City Audit Chamber itself. The City Audit Chamber may also prepare reports in response to requests made by the Mayor, the City Government or the City Duma. The City Audit Chamber has extensive powers to require information from bodies which it is investigating and may post its inspectors in the offices of such bodies for a number of

weeks in the course of an audit. In certain instances, the City Audit Chamber has the power to issue binding directives to bodies which have breached relevant legislation. The results of each investigation are recorded in a written memorandum which is presented to the City authority to which the body being investigated reports. Actions of the City Audit Chamber can be appealed in court.

Budget of the City of Moscow

The following table sets out revenues and expenditure of the City Budget and Non-Budgetary Funds, for the years ended 31st December, 1997, 1998 and 1999, the estimated revenues and expenditures of the City Budget for 2000 and budgeted revenues and expenditures for 2001. Figures are in billions of roubles and the 2000 and 2001 figures include Designated Purpose Funds. See “—Non-Budgetary and Designated Purpose Funds”.

The City does not adjust its financial accounts for the effect of inflation. Revenues are recognised in the period in which they are collected by the City and expenditures are accounted for when paid by the City without adjustment for the effects of inflation during the relevant period. Revenue and expenditure items in the 2001 City Budget are based on an assumed average annual rate of producer price inflation of 15 per cent. See “Presentation of Financial and Other Information—Inflation”.

	1997	1998	1999	2000	2001
Revenue					
Budget revenue, including:					
Tax revenues	49,065	45,692	79,324	132,295	153,599
Non-tax revenues	3,592	3,877	8,366	26,967 ⁽³⁾	27,590 ⁽⁴⁾
Grants	2,497	0,665	—	(20,209) ⁽³⁾	(17,834) ⁽⁵⁾
DPFs' revenues	—	—	19,899 ⁽¹⁾	56,798	49,197
Total Budget revenue	55,154	50,234	107,589	195,851	212,552
NBFs' revenues	20,351	21,141	20,393	—	—
Total revenue	75,505	71,375	127,982	195,851	212,552
Expenditure					
Budget expenditures	53,251	50,124	87,289	116,666	163,355
DPFs' expenditures	—	—	19,866 ⁽²⁾	56,551	49,197
Total budget expenditures	53,251	50,124	107,155	173,217	212,552
NBFs' expenditures	18,743	20,447	20,223	—	—
Total expenditures	71,994	70,571	127,378	173,217	212,552
Surplus (Deficit)					
Budget surplus (deficit)	1,903	0,110	0,434	22,634	—
NBFs' surplus (deficit)	1,608	0,694	0,170	—	—
Total surplus (deficit)	3,511	0,804	0,604	22,634	—

Source: Department of Finance of the City of Moscow.

Notes

- (1) Revenues of the Road DPF.
- (2) Expenditure of the Road DPF.
- (3) Includes DPFs' revenues of Rbl 20.209 billion. This amount is also reflected in DPFs' revenues and to avoid double counting is subtracted from Grants.
- (4) Includes DPFs' revenues of Rbl 19.672 billion.
- (5) Includes DPFs' revenues and funds from Federal sources. DPFs' revenues are subtracted from grants to avoid double counting.

Non-Budgetary and Designated Purpose Funds

With the exception of the Road NBF/DPF (as defined herein) which was changed from a NBF to a DPF included in the City Budget in 1999, prior to 1st 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.

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 Budget, and similarly the Budget deficit (if it arose) could not be compensated by the revenues of NBFs. The City allocated some tax, non-tax and other revenues to its NBFs from its gross revenues and, therefore, such funds 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 the annual review and approval by the City Duma. Prior to their abolition, the City Audit Chamber had the right to audit City NBFs. 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 expenditures 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").

Revenues and expenditures of the main City NBFs, for the years ended 31st December, 1997, 1998 and 1999. Figures are in billions of roubles.

Name of NBF	1997		1998		1999	
	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures
Investment NBF	5,179	5,179	4,504	4,504	12,525	12,525
Administrative Regions NBF	2,283	2,283	2,724	2,724	3,749	3,749
Hard Currency NBF	3,504	1,986	2,794	2,264	3,460	3,400
Road NBF	8,965	8,965	10,476	10,476	—	—
Other NBFs	0,420	0,330	0,643	0,479	0,659	0,549
Total	20,351	18,743	21,141	20,447	20,393	20,223

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

Revenues and expenditures of the Federal NBFs collected and spent in the City and not included in the City Budget, for the years ended 31st December, 1997, 1998, 1999 and 2000. Figures are in billion of roubles.

	1997	1998	1999	2000
Revenues	15,953	19,271	25,053	35,772
Expenditures	15,953	19,271	25,053	35,772
Including:				
Health Care	2,463	2,934	4,955	7,011
Social Policy	13,490	16,337	20,098	28,761

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

In January 2000, the Budget Code was enacted by the Federal Government. The Budget Code, among other things, prohibits Subjects from maintaining non-budgetary funds. Consequently, the City NBFs were terminated with effect from 31st December, 1999 (except for the Road NBF which had already been terminated) and the necessary amendments to the revenue and expenditure articles of the Budget were made. The City has established, however, specified accounts within the 2000 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. The managers (set out in the table below) of the DPFs continue to develop and fund designated projects and programmes and otherwise manage the revenues and expenditures of the DPFs in the same manner as the City NBFs. Depending on the particular DPF, the managers of DPFs are appointed and removed by the City Government, the Mayor or as provided for in the relevant City Budget Law. Typically, managers are bodies which form part of the City executive and which report to the City Government and, on an annual basis, to the City Duma. Because DPFs are within the City Budget, DPF revenues and expenditures flow through the City Treasury. See "—Budget Implementation".

The City has formed the following DPFs within the City Budget with the following estimated revenue and expenditure for the year ending 31st December, 2000 and 2001. The figures are in billions of roubles:

Name of DPF	Authorised Manager of the Fund	2000 (preliminary)		2001 (estimate)	
		Revenue, Rbl, billion	Expenditure Rbl, billion	Revenue Rbl, billion	Expenditure Rbl, billion
Administrative Regions Funds	Prefecture of the Administrative Region	4.21	3.70	5.36	5.36
District Funds	Administration of the District				
Investment Fund	Department of Construction Investment Programmes of the City of Moscow	15.17	16.86	13.25	13.25
Road Fund	Department of Economic Policy and Development of the City of Moscow	35.85	35.15	29.32	29.32
Ecology Fund	State Committee on Environmental Protection of the City of Moscow	0.73	0.36	0.45	0.45
Anti-Crime Fund	Department of Finance of the City of Moscow	0.19	0.04	0.17	0.17
Traffic Safety Fund	Department of Finance of the City of Moscow	0.24	0.17	0.30	0.30
Fire Protection Fund	Department of Finance of the City of Moscow	0.06	0.04	0.05	0.05
Advertising and Information Fund	Directorate of advertising, information and design of the City of Moscow	0.30	0.23	0.28	0.28

Road NBF/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. See “—Expenditure—Housing and Utilities Expenditure”.

Pursuant to the Law on Road Funds in the Russian Federation No. 1759-I dated 18th October 1991 (as amended on 24th March, 2001) (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. Revenues and expenditures of the Road NBF increased from Rbl 854 million in 1995 to Rbl 4.8 billion in 1996 due to the allocation of a portion of applicable Federal tax revenues in the latter part of that year. Revenues and expenditures increased still further to almost Rbl 9 billion in 1997 reflecting a full year’s receipt of its share of Federal taxes. The Road NBF revenues and expenditures again increased to Rbl 10.5 billion in 1998. Revenues increased still further to Rbl 19.9 billion in 1999. Preliminary results for 2000 indicate revenues of Rbl 35.8 billion for the Road DPF. In 2001 the budgeted revenues of the Road DPF are Rbl 29.3 billion.

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 City’s Road NBF. Principal projects of the Road NBF include the reconstruction of the Sadovoye and Moscow ring roads and the construction of a third, 36 kilometre ring road within the Moscow and Sadovoye ring roads.

The Road NBF was terminated in the 1999 City Budget and a designated purpose fund, the Road DPF, was established as a separate account within the 1999 City Budget. The Road DPF receives the same tax revenues previously allocated to the Road NBF.

As the result of the reduction of the Road Users Tax to 1 per cent. and the abolition of Tax on acquisition of motor vehicles the City lost an estimated revenue of approximately Rbl 14 billion in 2001.

Investment NBF/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 had revenues and expenditures of Rbl 4.5 billion in 1998 and Rbl 12.5 billion in 1999. The Investment NBF was replaced by the Investment DPF on 31st December, 1999. The estimated revenues and expenditures of the Investment DPF for 2000 were Rbl 15.2 billion and Rbl 16.9 billion respectively. The planned revenues and expenditures for 2001 are Rbl 13.3 billion.

See “—Revenue—Non-Tax Revenues” and “—Expenditure—Housing and Utilities Expenditure”.

Administrative Regions and Districts NBFs/Administrative Regions and Districts DPFs

Until 31st December, 1999, there were ten Administrative Regions NBFs for each of the City's Administrative Regions. In aggregate the Administrative Regions and Districts NBFs had revenues and expenditures of Rbl 2.724 billion for the year ended at 31st December, 1998. As at 31st December, 1999, the Administrative Regions and Districts NBFs had aggregate revenues and expenditures of approximately Rbl 3.749 billion. Each Administrative Region NBF was funded primarily from a percentage share of City revenues collected within the Administrative Region. See “—Revenue—Tax Revenues—Payments for the use of natural resources” and “—Revenue—Non-Tax Revenues”.

From 31st December, 1999 the Administrative Regions NBFs were transformed into ten Administrative Regions DPFs which continue to serve the City's ten Administrative Regions. In 2000 the estimated revenue and expenditure of the Administrative Regions and District's DPFs was Rbl 4.2 billion and Rbl 3.7 billion respectively. In 2001 the planned aggregate revenues of the Administrative Regions and Districts amount to Rbl 5.4 billion.

Hard Currency NBF

The Hard Currency NBF, which was accounted for in U.S. dollars, had revenues and expenditures of 2.794 billion and Rbl 2.264 billion respectively for the year ended 31st December, 1998 and revenues and expenditures of approximately Rbl 3.460 billion and Rbl 3.400 billion respectively during 1999. The Hard Currency NBF was used by the City Government through the Foreign Relations Department to finance foreign trade transactions involving the City of Moscow and entities and organisations within the City including primarily the acquisition of foreign-manufactured equipment. Such expenditure was primarily allocated to construction or utilities projects. The Hard Currency NBF was funded from tax payments in foreign currency received from both foreign and Russian taxpayers, and other joint venture companies in which the City had an interest, such cash amounts typically arose from dividends paid to the City by such enterprises.

As all taxes are now paid in roubles and deposited directly into the City Budget, there is no successor DPF to replace the Hard Currency NBF.

Other NBFs

In addition to the NBFs listed above, there were a number of dedicated NBFs used for the development of social and infrastructure programmes in the City, funded by direct charges on enterprises and organisations registered in the City. The amount of charges which were allocated to each of these NBFs and their proposed expenditures were approved annually by the City Duma along with the City Budget. In 2000 these NBFs were consolidated into the City Budget through the creation of specific Designated Purpose Funds. The revenues and expenditures of these budgetary funds are approved by the City Duma as part of the budgetary approval process.

Budget Revenues

The City categorises its Budget revenue into three main groups: (i) tax revenues; (ii) non-tax revenues; (iii) grants and subsidies; and (iv) revenues of the Designated Purpose Funds. Revenues of DPFs mainly include non-tax revenues, but may also be formed from tax revenues. Prior to 2000 certain revenues of the City were accumulated in the City's NBFs, which were later transformed into Designated Purpose Funds. Revenues received by and expenditures of NBFs generally did not pass through the City Budget.

Revenues of the Budget, for the years ended 31st December, 1998 and 1999, revenues of Moscow DPFs, as at 31st December, 1999, estimated revenues for 2000 and budgeted revenues for 2001.

Revenue	1998		1999		2000		2001	
	Rbl, billions	per cent.	Rbl, billions	per cent.	Rbl, billions	per cent.	Rbl, billions	per cent.
Tax Revenues:	45,692	90.96	79,324	73.73	132,295	67.55	153,599	72.26
Profit Tax	12,888	25.66	22,794	21.19	42,791	21.85	77,024	36.24
Personal Income Tax	12,821	25.52	22,379	20.80	30,888	15.78	37,037	17.42
VAT and Excises	7,948	15.82	12,158	11.30	18,659	9.53	4,760 ⁽⁶⁾	2.24
Sales Tax	—	—	2,317	2.15	10,701	5.46	16,620	7.82
Property Taxes	4,609	9.18	6,658	6.19	10,760	5.49	13,452	6.33
Land Payments	0,178	0.35	0,232	0.22	0,300	0.15	0,480	0.22
Other Taxes ⁽¹⁾	7,248	14.43	12,786	11.88	18,196	9.29	4,226	1.99
including housing maintenance tax	5,677	11.30	10,932	10.16	16,564	8.46	—	—
Non-tax Revenues:	3,877	7.72	8,366	7.78	26,967⁽⁴⁾	13.77	27,590⁽⁷⁾	12.98
Revenues from use of municipal property	2,033	4.05	2,922	2.72	5,993	3.06	8,324	3.92
Revenues from the sale of municipal property	0,518	1.03	0,138	0.13	0,025	0.01	—	—
Other ⁽²⁾	1,326	2.64	5,306	4.93	20,949	10.70	19,266	9.06
including Investment NBF/DPF revenue	—	—	2,000	1.86	15,172	7.75	13,252	6.23
Grants/Subsidies	0,665	1.32	—	—	(20,209)⁽⁵⁾	(10.32)	(17,834)	(8.39)
DPF Revenues	—	—	19,899⁽³⁾	18.50	56,798	29.00	49,197	23.15
Total Revenues	50,234	100.0	107,589	100.0	195,851	100.0	212,552	100.0

Source: Department of Finance of the City of Moscow.

Notes:

- (1) Including housing maintenance tax, tax on gambling, licence fees, total revenue tax and other taxes.
- (2) Including Investment NBF/DPF revenues, administrative payments, fees and fines.
- (3) Revenues of the Road DPF.
- (4) Including revenues of the DPFs of Rbl 20,209 billion.
- (5) Revenues of the DPFs.
- (6) Excise only because from 1st January, 2001 all VAT collected was transferred to the Federal Budget.
- (7) Including revenues of the DPFs of Rbl 19,672 billion.

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 current Federal tax system taxes and duties are collected at three levels: (i) Federal, including corporate profit tax, value added tax, personal income tax and excises on certain goods and services; (ii) regional, including corporate property tax, sales tax, road tax, tax on gambling business and regional licence fees; and (iii) local, including personal property tax, land tax, advertisement tax and local licence fees.

The rates of all Federal and regional taxes are defined in accordance with the Federal legislation. Federal law determines which local taxes may be collected and the maximum rates which can be imposed for such taxes. A specified percentage of revenues from certain Federal taxes collected in the jurisdiction of a Subject are transferred to the budget of the Russian Federation and the rest are transferred to the budgets of the relevant Subject. Revenues from regional taxes are transferred in full to the budget of the relevant Subject.

Allocation between the Federal Budget and the City Budget of various taxes and excises levied on Moscow taxpayers in 1999, 2000 and 2001, expressed as percentages.

Tax revenues	1999		2000		2001	
	Moscow	Russia	Moscow	Russia	Moscow	Russia
Profits tax						
For companies	Before 01.04.99 22%	Before 01.04.99 13%				
	After 01.04.99 19%	After 01.04.99 11%	63%	37%	69%	31%
For banks, etc.	Before 01.04.99 30%	Before 01.04.99 13%				
	After 01.04.99 27%	After 01.04.99 11%	71%	29%	74%	26%
VAT	Before 01.04.99 25%	Before 01.04.99 75%				
	After 01.04.99 15%	After 01.04.99 85%	15%	85%	0	100%
Excises on oil, gas, cars, ethyl alcohol	0	100%	0	100%	0	100%
Excises on alcohol, vodka and liquors	50%	50%	50%	50%	50%	50%
Excises on jewellery, furs, beer and tobacco	100%	0	100%	0	100%	0
Personal income tax	84%	16%	Before 01.04.99 84%	Before 01.04.99 16%		
			After 01.04.99 99%	After 01.04.99 1%	99%	1%
Water tax	60%	40%	60%	40%	60%	40%
Land tax and fees for land lease .	70%	30%	30%	70%	70%	30%

Source: Department of Finance of the City of Moscow.

The Federal Government is in the process of reforming the tax system of the Federation. Part I of a new Tax Code (the "Tax Code") came into force on 1st January, 1999 and the VAT, social tax, excise and personal income tax chapters of Part II of the Tax Code came into force on 1st January, 2001. Further chapters of Part II of the Tax Code come into force on 1st January, 2002, including provisions relating to corporate profit tax and payments for use of natural resources. In relation to personal income tax, Part II of the Tax Code abolished progressive rates between 12 and 35 per cent. and replaced them with a flat rate of 13 per cent. In accordance with the new profit tax chapter of Part II of the Tax Code, from 1st January, 2002 the rate of profit tax will be reduced from 35 per cent. to 24 per cent., of which 16.5 per cent. will be allocated to the City Budget and 7.5 per cent. to the Federal budget. The new tax profit tax chapter widens the scope and extent to which business expenses may be deducted from revenues in calculating the taxpayer's liability to profit tax. It also limits the ability of a Subject to grant relief from profit tax. It is intended that lower rates of tax will lead to a greater readiness on the part of taxpayers to declare income resulting in a higher level of collection and an overall increase in tax revenue. However, there can be no assurance that lower rates of tax will not result in lower tax revenues being collected by the City.

The City is both a Subject of the Federation and City of Federal significance and levies both regional taxes and local taxes. Taxes are paid in roubles. The City grants tax rebates to certain taxpayers meeting requirements specified by the City legislation. However, the City has reduced the number of tax rebates granted and revised the criteria for qualification for tax rebates. The 2001 City Budget sets a maximum level of rebate in respect of profit tax of Rbl 11 billion, to be applied to certain City programmes. By comparison, according to preliminary data in 2000 the City permitted over Rbl 30 billion in tax rebates to

be used in respect of specified investment projects. The profits tax chapter of the Tax Code further restricts the ability of Subjects to grant profit tax rebates.

In 1999 the structure of the Budget of Moscow changed due to the inclusion into the Budget of the Road NBF. Tax revenues in 1999 formed 74 per cent. of overall revenue. The main sources of tax revenues for the City Budget were profit tax and personal income tax which represented more than 50 per cent. of taxes collected in 1997-99.

Revenues decreased in 1998 primarily as a result of the financial crisis in Russia that led to a shortfall in revenue, principally in profit tax receipts. Tax revenues in 1999 increased by Rbl 33.6 billion or by 74 per cent. as compared to the previous year. The significant growth in tax revenues resulted from distinct financial improvements in the main sectors of the economy as well as inflation, which was higher than forecast.

Profit tax

Federal profit tax is levied on legal entities active within the Federation. The standard, composite rate of profit tax on companies is 35 per cent., of which 11 per cent. is paid to the Federal Budget and 24 per cent. to the City Budget. The profit tax rate for insurance companies, brokers, stock exchanges, banks and credit institutions is 43 per cent., of which 32 per cent. is paid to the City Budget. The City introduced major changes to the system of tax rebates which it had previously granted in respect of its share of profits tax revenue. These changes, which include cancelling a range of rebates and capping the overall annual cost of such rebates to the City Budget, came into effect on 1st January, 2001 and it is intended that they result in an increase in the City's profit tax revenues.

Revenues from profit tax are the largest single source of City tax revenues. Profits tax receipts were Rbl 14.0 billion in 1995, Rbl 13.5 billion in 1996, Rbl 16.7 bln. in 1997 and Rbl 12.9 billion in 1998. In 1999 profits tax receipts amounted to Rbl 22.8 billion which surpassed the 1997 level by Rbl 6.1 billion and the 1998 level by Rbl 9.9 billion or by 76 per cent. In 2000 the profit tax revenues are estimated at Rbl 42.8 billion. Profits tax receipts are estimated in the 2001 City Budget at Rbl 77.0 billion.

Personal income tax

Prior to 1st January, 2001 the Federal tax on individual income was levied at progressive rates of between 12 and 35 per cent. depending on income and there were a series of tax reliefs and exemptions which applied to different categories of citizens of the Russian Federation as well as to non-residents.

The major change introduced by the Part II of the Tax Code of the Russian Federation is that personal income tax will be paid by all categories of individuals at a fixed rate of 13 per cent.

Certain unearned income is taxed at higher rates. Withholding taxes on income received by non-residents of the Federation is taxed at a rate of 30 per cent.

In 2001 the City is permitted to retain 99 per cent. of the collected income tax while 1 per cent. is allocated to the Federal budget. Over the past 5 years net revenues from income tax have been increasing steadily and in 1999 reached Rbl 22.4 billion as compared with Rbl 4.4 billion in 1995. The increase in net personal income tax revenues is primarily due to increases in nominal income as a result of inflation. In 2000 provisional personal income tax revenues amounted to Rbl 30.9 billion. According to the 2001 City Budget the City should collect Rbl 37.0 billion in personal income tax.

Value-added tax ("VAT") and excise

The basic VAT rate established by Federal law is 20 per cent. of the cost of goods and services, but on a number of goods it is reduced to 10 per cent. Certain goods and services are exempt from VAT altogether. Excise is levied on a number of goods such as oil, alcoholic beverages and tobacco at various rates.

Prior to 2001 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, while in the current year all VAT proceeds are transferred to the Federal budget. The City's share of revenues from VAT and other taxes on goods and services rose from Rbl 8 billion in 1997 to Rbl 12 billion in 1999, notwithstanding the decrease in the share of VAT permitted to be retained by the Subjects of the Federation from 25 per cent. to 15 per cent. in 1999. This rise was largely due to the effects of inflation. VAT and excise revenues in 2000 are estimated

at Rbl 18.7 billion. According to the 2001 City Budget the City should collect Rbl 4.76 billion in excise but all VAT receipts are transferred to the Federal Budget.

Property taxes

The principal component of revenue from this group of taxes is the corporate property tax. The rate is established by Federal law and is currently 2 per cent. of the full balance sheet value (cost of acquisition less depreciation) of the property of enterprises. In addition, property tax includes taxes on the property of individuals and inherited or donated property.

The City's net revenues from property tax increased from Rbl 1.2 billion in 1995 to Rbl 6.7 billion in 1999. The increased net revenue from property tax was primarily the result of inflation as well as the rapid increase in the value of enterprises' property between 1995 and 1997. In 2000 the revenue from property tax is estimated at Rbl 10.8 billion and the budgeted revenue for 2001 is Rbl 13.5 billion.

Single Social Tax

From 1st January, 2001 the system of payroll taxes and contributions has been simplified. In accordance with Part II of the Tax Code of the Russian Federation, payments to the Federal Pension Fund, the Federal Social Protection Fund and the Federal Obligatory Medical Insurance Funds have been replaced by the Single Social Tax, while the Federal Employment Fund has been abolished.

The Social Tax which had been levied at the single rate of 39.5 per cent. (employers were charged 38.5 per cent. while employees paid 1 per cent.) has been reduced to 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 Rbl 100,000 per annum. If the employee's income is higher than Rbl 100,000 but less than Rbl 300,000 per annum the tax rate is reduced to 20 per cent. and if the employee's income exceeds Rbl 600,000 per annum the rate of tax is 5 per cent. (2 per cent. from 1st January, 2002).

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, payments for water supplies to industrial enterprises and fees for the right to lease non-agricultural land. Net revenues from these payments amounted to Rbl 266 million in 1995. Up to the end of 1997 revenues continued to grow primarily as a result of the effect of inflation and subsequent increase in fees charged, but decreased in 1998 as a result of land lease revenues being treated as non-tax revenue. In 1998 and 1999 net revenues from payments for use of natural resources were Rbl 178 million and Rbl 232 million respectively. The estimated revenue in 2000 amounted to Rbl 300 million and the budgeted revenue for 2001 is Rbl 480 million.

Sales Tax

The sales tax is a regional tax and was introduced in Moscow on 1st July, 1999 and is levied on the cash retail and wholesale price of goods and services. Since 1st January, 2001 the rate of sales tax has been 5 per cent., although the City exempts certain goods and services from this tax. All sales tax revenues are transferred to the City Budget and are used for financing the needs of citizens with low income. With the introduction of the sales tax, certain payments for educational institutions and the tax on resale of motor vehicles were abolished.

In 1999, sales tax revenues were Rbl 2.3 billion. In 2000, estimated revenues were Rbl 10.7 billion while in 2001 the City Budget has budgeted receipts of Rbl 16.6 billion.

Other taxes

Revenues from other taxes, duties and fees amounted to Rbl 12.8 billion in 1999. Of these, Rbl 10.9 billion was received as receipts from the tax on maintenance of housing and social assets, which exceeded the 1998 level by Rbl 5.3 billion. In 2000 the estimated revenue from other taxes was Rbl 18.2 billion, including maintenance of housing and social sphere objects tax of Rbl 16.6 billion and the 2001 City Budget provides Rbl 4.2 billion of revenue from other taxes.

In accordance with the Part II of the Tax Code the taxes on the acquisition of motor vehicles and on the maintenance of housing and social assets were abolished with effect from 1st January, 2001. The tax on the maintenance of housing and social assets amounted to Rbl 16.6 billion and represented 8.5 per cent. of

the City's tax revenue in 2000. The rate of the road tax paid to the City's Road DPF was reduced from 2.5 per cent. to 1 per cent.

Non-Tax Revenues

Between 1997 and 1999, non-tax revenues accounted for approximately 6.5-7.8 per cent. of the total net revenue of the City. As a result of the increased allocation of tax revenue to the Federal budget, non-tax revenues have increased as a proportion of the City Budget and amounted to 13.8 per cent. of total City Budget revenue in 2000. Non-tax revenues are primarily comprised of payments for the use of City property, income from the sale of City property, commercial activity of the City's administration, administrative charges and fines.

Total net non-tax revenues of the City increased from Rbl 3.6 billion in 1997 to Rbl 8.4 billion in 1999. The increase in total net non-tax revenues in 1999 primarily reflected the consolidation of Rbl 2.0 billion of funds from the Investment NBF as part of the financing of the municipal housing construction programme, as well as an increase in revenues from the use of City property. In 2000 non-tax revenues are estimated at Rbl 26.9 billion. The sharp rise in non-tax revenues reflects the inclusion of revenues of the Designated Purpose Funds in the amount of Rbl 20.2 billion. According to the 2001 City Budget the City should receive Rbl 27.6 billion in non-tax revenues, including revenues of the Designated Purpose Funds of Rbl 19.7 billion.

Revenues from City property or activities include income from the lease of City property, dividends and other returns from participation in the charter capital of enterprises and rental income. Revenues in this category increased from Rbl 984 million in 1997 to Rbl 2.9 billion in 1999 which was primarily due to the effects of inflation as well as to a substantial increase in rent charged by the City. In 2000 the revenues from City property are estimated at Rbl 6.0 billion, including Designated-Purpose Funds revenues. The main share of these revenues is comprised of payments received from the rent of non-resident housing and land leases. Budgeted revenues in 2001 equal Rbl 8.3 billion, including revenues of the Designated Purpose Funds of Rbl 3.8 billion.

Income from sales of City property decreased from Rbl 924 million in 1997 to Rbl 138 million in 1999. This decrease was primarily the result of lower volumes of sales as a result of the substantial completion of the City's privatisation programme including the fact that the City had completed the sale of the majority of uncompleted construction sites within Moscow. In 2000 income from sales of City property was Rbl 25 million. The Budget for 2001 assumes no income from sales of City property.

Grants

Pursuant to the Federal Capital Law, up to 1999 the City received grants from the Federal Government to meet a portion of the costs associated with its role as the capital of the Russian Federation. The City believes that the amount of grants from the Federation was less than the costs associated with its role as the capital. Consequently, in the past, the City has allocated funds received from Federal grants to its general capital investment programmes and has met the costs associated with its role as the capital of the Federation from its tax and non-tax revenues. Revenues from this category were Rbl 2.3 billion in 1995 and subsequently increased to Rbl 2.7 billion in 1996 before declining to Rbl 2.5 billion in 1997. The above mentioned increase in grants did not compensate for the effects of inflation in 1996 and in real terms the value of the grants showed a continuing decline in the period from 1995 to 1997.

In 1998 the City received Rbl 665 million of grants or about 60 per cent. of the planned figure out of which Rbl 423.45 million came as a transfer of Federally owned shares in joint stock companies located in the City. There were no analogous grants for the City in the Federal Budget for 1999. However, pursuant to the 1999 Federal Budget Law No 36-FL the Federal Government was obliged to transfer for no payment Federally owned shares in joint stock companies in the amount of Rbl 3.0 billion as partial compensation for the costs associated with its role as the capital. No grants were received in 2000.

In 2001 the Federal Government has made available to the City Rbl 2.038 billion in respect of the implementation of Federal laws in the City and Rbl 4 billion in respect of the construction and maintenance of roads of Federal significance.

Extra Budget revenues

As a result of political, economic and administrative measures taken by the City Government in the aftermath of the economic crisis of 1998, actual revenues exceeded budgeted revenue in the amount of Rbl 35 billion in 1999 and, provisionally, Rbl 57 billion in 2000.

Tax Collection

The Moscow branch of the Russian Ministry of Taxes and Excises (MMTE), which is in charge of the full and timely collection of taxes for the City Budget, includes 36 district tax inspectorates as well as 6 inter-district tax inspectorates dealing with major taxpayers, enterprises that produce alcohol i.e. beverages and tobacco or which are engaged in gambling, financial, insurance and construction activity as well as 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 fines and penalties. Where a legal entity disputes the level of unpaid tax or a fine, such amounts 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 obligations to the budget over a lengthy period as a result of lack of funds, debts may be restructured on the basis that the taxpayer commits to meeting its current obligations or the tax inspectorate may initiate bankruptcy proceedings.

Efforts have been made to address practices which have undermined tax collection in the past, such as reducing tax exemptions, strengthening tax administration and creating special tax payment schemes. Tax offsets, for example, were used extensively during 1996 and are largely responsible for low cash tax revenues over the course of that year. In addition, the City introduced measures in 1996 to allow enterprises with outstanding tax obligations to “net” those obligations against amounts owed to them by the City for services rendered. As at 1st January, 2001, the City had an aggregate of Rbl 21.9 billion of tax revenues outstanding as compared with Rbl 15.2 billion at 1st January, 2000. A significant proportion of these amounts are owed to the City by large conglomerates, including OAO “Tokobank” which is in liquidation, RAO UES, OAO “Aeroflot” and “RosEnergoAtom”.

Expenditure

Introduction

The following table sets out the expenditure of the City out of the City Budget (excluding expenditure of NBFs but including, for applicable years, expenditure of DPFs) for the years ended 31st December, 1998 and 1999, the estimated expenditure of the consolidated City Budget for the year ended 31st December, 2000 and budgeted expenditure for the year ending 31st December, 2001.

Expenditure of the City Budget, for the years ended 31st December, 1998 and 1999, estimated budget expenditure for the year ended 31st December, 2000 and budgeted expenditure for the year ended 31st December, 2001. Figures are in billions of roubles.

Expenditures	1998	1999	2000	2001
Housing and Utilities	16,177	19,790	36,139	48,552
State Debt Service	2,284	17,305	8,406	10,017
Healthcare	7,814	10,900	14,858	19,208
Education	6,984	9,481	14,192	19,737
Social Services	4,374	6,525	10,267	16,766
Transport, road network, communications and information .	3,744	4,977	9,264	11,203
Culture and Arts	0,989	1,393	2,880	4,075
Law enforcement and emergency services	1,305	1,637	1,844	2,729
State administration and local self-government	1,327	1,730	2,779	4,308
Environmental protection	0,427	1,008	2,142	3,750
Agriculture and fishing	0,242	2,166	1,594	2,623
Industry, energy and construction	1,296	2,998	3,133	6,829
Scientific research	0,268	0,319	0,346	0,475
Market infrastructure development	0,166	0,240	0,606	0,619
Mass media	0,467	0,939	1,902	1,810
Other expenditure	2,260	5,881	6,314	10,654
Expenditure of DPFs in 1999 and 2000	—	19,866 ⁽¹⁾	56,551	49,197
Total expenditures	50,124	107,155	173,217	212,552

Source: Department of Finance of the City of Moscow.

Note:

⁽¹⁾ Expenditure of the Road Fund.

Debt Service

Total expenditure from the City Budget has increased steadily from Rbl 33.4 billion in 1995 to Rbl 173.2 billion in 2000. According to the City Budget for 2001 the budget expenditure in the current year should reach Rbl 212.6 billion. Debt Service for short-term debt obligations (i.e. with a maturity of up to one year) incurred by the City departments and committees are included in the Debt Service expenditure item and includes the cost of servicing both external and internal debt of the City.

Housing and Utilities Expenditure

In accordance with the Budgetary classification of the Russian Federation and the City Budget Law, the line item for housing and utilities expenditures includes the costs of capital and current overhaul and repair of housing stock and subsidies for utility charges as well as the City's expenditure on maintaining and renovating minor roads. Without taking the effects of inflation into consideration the expenditure on housing and utilities in the City Budget increased from Rbl 15.7 billion in 1995, to Rbl 19.9 billion in 1997 which constituted approximately 37.3 per cent. (excluding NBFs) of budgetary expenditures. Expenditure in 1998 was Rbl 16.2 billion, and in 1999 Rbl 19.8 billion. In 2000 the estimated expenditure of the Budget was Rbl 36.1 billion, while in 2001 the Budget allocates Rbl 48.5 billion for housing and utilities needs.

Capital expenditure amounted to Rbl 7.3 billion in 1997, Rbl 2.7 billion in 1998, Rbl 5.4 billion in 1999 and is estimated at Rbl 11.8 billion for 2000. The budgeted figure for 2001 is Rbl 16.0 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 and protection programme with a view to guaranteeing a certain level of free medical service and 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.

Expenditure allocated from the City Budget for healthcare, physical culture and sport without accounting for inflation was Rbl 8.2 billion in 1997, Rbl 7.8 billion in 1998 and Rbl 10.9 billion in 1999. The estimated budget expenditure on healthcare, physical culture and sport in 2000 was Rbl 14.8 billion and the

budgeted expenditure for 2001 is Rbl 19.2 billion. Revenues raised from paid services are entirely spent to cover the costs of provision of such services, thus do not have a major impact.

Capital expenditure amounted to Rbl 756 million in 1997, Rbl 361 million in 1998, Rbl 463 million in 1999 and is estimated at Rbl 2.2 billion in 2000. The budgeted figure for 2001 is Rbl 2.9 billion.

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.

Expenditure on education was Rbl 7.4 billion in 1997, Rbl 7.0 billion in 1998 and Rbl 9.5 billion in 1999, which surpassed the 1998 level by Rbl 2.5 billion or by 36 per cent. In 2000 the estimated expenditure was Rbl 14.2 billion. According to the 2001 City Budget will spend Rbl 19.7 billion on educational needs.

A considerable portion of the expenditure is allocated to the overhaul, maintenance and reconstruction of educational institutions in the City and the creation of appropriate studying conditions. Capital expenditures of the Budget for maintenance of education institutions and their equipment with necessary facilities reached Rbl 431 million in 1997, Rbl 460 million in 1998, Rbl 649 million in 1999 and is estimated at Rbl 2.0 billion in 2000. The budgeted expenditure in 2001 is Rbl 2.7 billion.

Social Services Expenditure

Expenditure on social services in the City Budget grew from Rbl 3.8 billion in 1997 to Rbl 4.4 billion in 1998 and in 1999 rose by a further 47 per cent. up to Rbl 6.5 billion. The estimated budget expenditure in 2000 on social services amounted to Rbl 10.3 billion, while the budget for 2001 is Rbl 16.7 billion. 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 113 social security centres in the City. In 1999 approximately 510,000 people received social benefits, including 120,000 people needing permanent care at home and 54,000 visitors to social centres.

Under the Social Protection Programme measures have been taken to improve and to maintain the living standards of pensioners, invalids, single mothers, low income families, students and others. The 2001 Budget allocates Rbl 11.7 billion to the Social Protection Programme, including Rbl 1.4 billion to finance meals for schoolchildren and Rbl 0.9 billion to finance children recreational activities.

Transport, Roads and Communications Expenditure

Budget expenditure on transport, roads and communications was Rbl 3.8 billion (Rbl 12.8 billion, including the expenditure of the Non-Budgetary Funds) in 1997 and Rbl 3.7 billion (Rbl 14.2 billion) in 1998. In 1999 the expenditure of the City Budget was Rbl 5.0 billion (Rbl 24.9 billion including the expenditure of the Road DPF). In 2000 the estimated expenditure of the budget was Rbl 9.3 billion, which exceeded the level of 1999 by 86 per cent. (Rbl 45.5 billion including the expenditure of the Road DPF). In the current year, according to the 2001 City Budget, the City will spend Rbl 11.2 billion (Rbl 40.5 billion including the expenditure of the Road DPF).

One of the main components of the expenditure is subsidies paid to the various enterprises which operate the Metro and ground transport system. In 1998 the Metro started to use a magnetic ticket and smart-card entry system and the result was a considerable increase in fees collected. Installation of an automatic fare payment system for ground public transport is planned for 2002. Subject to financing, this system is intended to be fully operational by 2005. As a result of these changes it is projected that the City Budget will save more than Rbl 4 billion per annum.

Law Enforcement and Emergency Services Expenditure

The City's share of expenditure on law enforcement, including expenditure on the Chief Directorate of Internal Affairs as well as air, water and railway transport police departments amounted to Rbl 1.4 billion in 1997 and Rbl 1.3 billion in 1998. It increased to Rbl 1.6 billion in 1999 and the estimated expenditure for 2000 was Rbl 1.9 billion in 2000. The budget for 2001 is Rbl 2.7 billion.

Agriculture and Fishing

This category of expenditure primarily relates to payments to the 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 (initially bread and grain) 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, and by decisions of the Competitive Financial Commission of the City Government.

The inventory of the Fund is build up annually in accordance with the Budget Law of the City of Moscow and is based on certain requirements and available funds. The expenditure in this category for 1999 constituted Rbl 2.0 billion. The estimated expenditure for 2000 was Rbl 1.3 billion, in 2001 the Budget allocates Rbl 2.3 billion to the Fund.

Indebtedness of the City of Moscow

The Ministry of Finance of the Russian Federation ("Ministry of Finance") is the Federal body supervising the borrowing activities of the Subjects. 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 domestic and external debt and funds spent on debt service and debt repayment. Decisions as to borrowings are within the jurisdiction of the legislative bodies of the respective Subjects. While the majority of such debt financing is raised through the Municipal Debt Committee ("MDC Debt"), the City also raises financing through some of its other Departments. The total debt of the City in 1997 amounted to Rbl 8.2 billion, including Rbl 5.7 billion serviced through the Municipal Debt Committee, in 1998 the City's total debt equalled Rbl 46.4 billion, including Rbl 36.6 billion serviced through the MDC, in 1999 Rbl 69.1 billion and Rbl 41.4 billion and in 2000 Rbl 58.6 billion and Rbl 32.6 billion respectively.

The accounting of and control over debt obligations of the City of Moscow as well as control over prompt and complete service and repayment of debt obligations assumed by the City's borrowers and the use of funds borrowed for designated purpose is exercised by the Department of Finance of the City of Moscow. The Department of Finance also administers the Unified Registry of Debt Obligations, comprising the State Debt Book of the City of Moscow.

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 level of municipal bond issues, municipal loans or other borrowing 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 accordingly. The procedure for authorising the refinancing of debt contained in the City Borrowing Programme is largely the same as the process for authorising new debt and will require a decision of the City Government and inclusion of the new debt in the City Borrowing Programme. Any amendment to the City Borrowing Programme requires City Duma approval.

State Debt

The State Debt of the City of Moscow includes direct obligations of the City, such as loans and bonds and indirect obligations such as guarantees granted by the City in relation to loans given by Russian and international lenders to City bodies and other persons.

Historically, the City assumed direct debt principally to finance capital investments, although the Budget Code now permits the City to borrow, within certain limits, for the purpose of financing any budget deficit or to cover other budget expenses. Domestic debt is denominated in roubles, while external debt obligations may be denominated in a variety of foreign currencies.

The City Government has guaranteed loans from Russian and foreign banks and other obligations of various City contractors to finance expenditures 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 contractor fails to perform its obligations. The City has also provided hard currency guarantees, whereby the City has guaranteed payment of obligations denominated in various foreign currencies.

Pursuant to Resolution of the City Government of 27th March, 2001 N-298-PP, the City Government will not issue guarantees in relation to third party obligations in 2001. Although the City does not currently give such guarantees, there can be no assurance that it will not do so in future.

In September 1996 the Moscow Committee for Municipal Housing issued Rbl. 9.9 million of municipal housing bonds. These bonds are zero-coupon securities with a 10-year maturity and may be redeemed either for cash or municipal housing. The par value of the municipal housing bonds is determined with reference to the market value of 0.1 square metres of floorspace. The municipal housing bonds was only sold to private individuals.

If the City experiences revenue shortfalls, some projects which the City had expected to be able to finance out of budgeted revenue may be financed through the accumulation of trade liabilities. Typically, accumulation of such liabilities will not necessitate the assumption of further borrowing, although in the event that a department needs to finance such liabilities it will require approval from the City Government. Such borrowings are short-term in nature typically of up to one year.

Domestic debt of the City of Moscow, as at 1st July, 2001

<u>Liability</u>	<u>Amount, Rbl, millions</u>
Municipal bonds	4,740.36
Loans	11,004.91
Total	15,745.27
Guarantees	1,546.48
Total	17,291.75

Source: Department of Finance of the City of Moscow.

External debt of the City of Moscow, as at 1st July, 2001

<u>Liability</u>	<u>Currency</u>	<u>Amount, millions</u>	<u>Equivalent in U.S. dollars, millions</u>
Loans	USD	280.51	280.51
	DM	199.37	86.14
	CHF	0.00	0.00
	FRF	531.26	68.46
Total			435.11
Loans from the Federation	USD	109.84	109.84
Total loans			544.95
Guarantees	USD	116.82	116.82
	DM	3.57	1.54
	FFR	185.07	23.85
Total guarantees			142.21
Total			687.16

Source: Department of Finance of the City of Moscow.

Maturity of debt of the City of Moscow, as at 1st July, 2001

	Currency	Amount	Repayment	
		01.07.2001	2001-2002	after 2002
<i>Domestic debt of the City of Moscow</i>				
Municipal bonds	Rbl	4,740,360	0	4,740,360
Loans	Rbl	11,004,910	11,004,910	0
Total loans	Rbl	15,745,270	11,004,910	4,740,360
Guarantees	Rbl	1,546,480	0	1,546,480
Total domestic debt	Rbl	17,291,750	11,004,910	6,286,840
<i>External debt of the City of Moscow</i>				
		Amount, thousands		
Loans	USD	280,510	208,830	71,680
	DEM	199,370	0	199,370
	CHF	0	0	0
	FRF	531,260	0	531,260
Sub Total	USD	435,120	208,830	232,648
Loans from the Federation	USD	109,840	109,840	0
Total Loans	USD	544,960	318,670	232,648
Guarantees	USD	116,820	0	116,820
	DEM	3,570	0	3,570
	CHF		0	0,000
	FRF	185,070	0	185,070
Total guarantees	USD	142,209	0	143,253
Total external debt	USD	687,169	318,670	375,901

In accordance with Federal law all Subjects issuing debt securities to international investors must have at least two ratings from leading ratings agencies.

City Debt Management

The Committee of Municipal Debt, Securities and Capital Market Development of the Government of Moscow (the "Municipal Debt Committee") was established in July 1996 to arrange and execute borrowings on behalf of the City and since March 1999 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, both denominated in roubles and in foreign currency. Currently the Municipal Debt Committee's staff numbers 22. The Chairman of the Municipal Debt Committee and his deputies are appointed by the Mayor. The Municipal Debt Committee is a budgetary organisation and therefore funded directly from the City Budget.

The Financial Agency of the City of Moscow ("MosFinAgency") was established in March 1999 and is accountable to the Municipal Debt Committee and manages the City of Moscow's debt obligations. MosFinAgency is responsible for making interest payments on existing debt, making debt repayments and advising the Municipal Debt Committee on options regarding debt refinancing. However, recommendations of MosFinAgency must be approved by the Supervisory Board chaired by the Chairman of the Municipal Debt Committee.

The main functions of MosFinAgency are as follows:

- Raising of funds for the City's borrowing needs;
- Optimisation of the management of the City's debt obligations;
- Ensuring the functioning of the City's borrowing system.

In practice the Committee of Municipal Debt and MosFinAgency work closely together and the division of functions between them is of a largely formal nature.

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, accrued viable and commercial returns and which were of benefit to the City. Since 1999, the Municipal Debt Committee has allocated its funds directly to the City Budget and no longer invests in commercial projects.

Debt obligations of the City of Moscow managed by the Committee of Municipal Debt and Capital Market Development denominated in roubles, as at 1st July, 2001 using an exchange rate of U.S.\$1.00 to Rbl 29.07.

	Total Debt	Principal	Interest
Total issued bonds	Rbl 4,799,728,646.04	Rbl 4,763,028,000.00	Rbl 36,700,646.04
Including			
Domestic bonds	Rbl 4,799,728,646.04	Rbl 4,763,028,000.00	Rbl 36,700,646.04
Total loans	Rbl 13,074,928,509.87	Rbl 12,810,017,343.65	Rbl 264,911,166.22
Including			
Domestic currency loans	Rbl 7,646,385,616.47	Rbl 7,593,000,000.00	Rbl 53,385,616.47
Loans in USD (cross-rate)	Rbl 5,428,542,893.40	Rbl 5,217,017,343.65	Rbl 211,525,549.75
	USD 186,740,381.61	USD 179,463,960.91	USD 7,276,420.70
Total debt	Rbl 17,874,657,155.91	Rbl 17,573,045,343.65	Rbl 301,611,812.26
Including			
Domestic currency debt	Rbl 12,446,114,262.51	Rbl 12,356,028,000.00	Rbl 90,086,262.51
Foreign currency debt at			
cross-rates in USD	Rbl 5,428,542,893.40	Rbl 5,217,017,343.65	Rbl 211,525,549.75
	USD 186,740,381.61	USD 179,463,960.91	USD 7,276,420.70

Source: Committee of Municipal Debt.

According to the 2001 City Budget in the current year the City is authorised to borrow in foreign currency up to some U.S.\$735,000,000 or equivalent in other foreign currencies. City Government Resolution No. 743-PF dated 14th August, 2001 and the Directive of the Mayor of the City of Moscow No. 836-RM dated 17th August, 2001 authorised the City to assume up to €300,000,000 of this amount through international borrowings. In addition, the City has authorised the issue of Rbl 8 billion domestic bonds in 2001. The domestic bonds have a maturity of between approximately one and three years. In accordance with the Budget Code, Subjects having existing external debt can attract external borrowings in the relevant financial year within the limits of the principal amount of their existing external debt due for repayment in such financial year. In accordance with the Programme of the Borrowings of the City of Moscow, approved by the 2001 City Budget, the City is to repay U.S.\$812,988,000 of debt in 2001. Therefore as a general matter the City has the right to borrow externally in 2001 subject to the above limit and subject also to certain other budgetary limits established by City Moscow and Federal legislation.

External Debt Payment Record

The City has honoured in full all the external debt it has contracted or guaranteed since 1997 and which it recognises as its obligations (See “Investment Considerations—Litigation”).

In the second half of 1997 and the first half of 1998, as a result of the Asian currency and financial crisis and sharp falls in world prices for oil and other commodities, the Federal Government’s ability to continue to finance its budget deficits and to maintain the value of the rouble against the U.S. dollar was adversely affected. On 17th August, 1998, the Federal Government and the Central Bank announced various measures to address these pressures. The rouble/U.S. dollar trading corridor was abandoned; various domestic bond issues were restructured; and, for 90 days, Russian private sector residents were restricted from conducting certain foreign exchange operations. These measures 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 borrowers on their hard currency obligations, dramatic declines in the prices of Russian debt and equity securities and an inability of Russian borrowers to raise funds internationally.

In June 1997, the City of Moscow issued U.S.\$ 500 million Eurobonds due 31st May, 2000 (the “Year 2000 Eurobonds”). At the time of the crisis, the City decided to take measures so as not to disrupt debt service and payment of the Year 2000 Eurobonds. These measures included the introduction of an Emergency Budget for the fourth quarter of 1998 and the partial restructuring of existing rouble debt. The City also recognised that it would be advantageous to pay portions of the Year 2000 Eurobonds early at lower interest rates. In December 1999 the Mayor of Moscow announced the first of several repurchases of the Year 2000 Eurobonds. On 31st May, 2000, the remainder of the Year 2000 Eurobonds were paid at maturity. These repayments were made in cash mainly from a reserve fund which was set up for these purposes. A small amount of repayment was effected through debt swaps. While sometimes difficult, these

measures ensured the repayment of the Year 2000 Eurobonds at costs much lower than those which would have been associated with full payment of principal and interest at maturity.

A similar practice of cash repurchases was applied to the DM 500 million Eurobonds due 9th April, 2001 and to the ITL 400 billion Eurobonds due 18th May, 2001 whereby the principal amount outstanding was substantially reduced through a series of repurchases made prior to maturity at prices at or below nominal value. The amounts outstanding in respect of these Eurobonds were repaid in full on their maturity.

Assets of the City

The City's assets principally comprise: (i) property holdings, (ii) shares in newly established joint ventures and (iii) shares in privatised companies. These assets are held for and on behalf of the City by the Moscow State Property Committee, the Property Fund and the Land Committee. In 2000, the City's assets generated estimated revenues of Rbl 10.5 billion for the City, compared with Rbl 8.2 billion in 1999. The City expects that revenues from lease payments will decline as a result of the continued sale of real estate.

Property Holdings

The legal basis of the City's ownership of real property is established by the Constitution and the City Charter. Property in the City is owned by the Federation, by the City or by private entities. Federal law established the State Property Management Committee and the City has its own City Property Management Committee which is at the same time a subdivision of the State Property Management Committee and part of the City executive. The City Property Management Committee is a holder and landlord of the property holdings on behalf of the City.

As at 1st July, 2001 Moscow had approximately 106.7 million square metres of non-residential real estate plus an additional 15.7 million square metres of non-residential space in residential blocks. Of that total 47.6 per cent. (58.3 million square metres) is owned by the Federation, 38.2 per cent. (46.7 million square metres) is owned by the City and 14.2 per cent. (17.4 million square metres) is owned by private entities and joint ventures.

The Moscow State Property Committee acts as the owner and landlord of City property and the Property Fund acts as the seller thereof. Notwithstanding a programme of sales of non-residential real estate to private owners and developers, the City's holdings of non-residential real estate continue to increase as a result of the City's own construction programme.

Shares in newly established joint ventures and in privatised companies

The City received estimated dividends of Rbl 233 million in 2000 from 544 joint ventures and privatised companies as compared with Rbl 103 million in 1999. The City initiated a policy of becoming a more active shareholder and, following the improvement in the performance of the City economy since the 1998 financial crisis, has since 2000 followed a policy of voting in favour of the declaration of dividends at General Meetings and pressing for their timely payment.

The City participates in a number of joint ventures with private sector parties. The City generally contributes the site of the joint venture project as its equity contribution and does not provide financing for the joint venture. The City participates in the management of these joint ventures. The City has initiated a policy of increasing small holdings of shares where this is financially desirable or, where not, of disposing of such holdings.

Of the 544 joint ventures and privatised companies in which the City participated, the City currently holds shares in some 108 joint-stock companies whose shares are traded on Russian stock exchanges or trading systems. Only a proportion of these shares trade with any liquidity however. The City participates in the management of these companies. The City may provide financial support to private companies but does not give any financial guarantees to creditors of these companies.

The City's interests in privatised and commercial enterprises include its ownership interests of 100 per cent. in Mostelekom, 99.99 per cent. in OAO Usadba Centre, 51 per cent. in OAO Moscow Tyre Plant, 95.48 per cent. in OAO Moscow Committee for Science & Technology, 99.8 per cent. of TV6, a Moscow television station, 53 per cent. of ZIL, 49 per cent. of Luzhniki, the sports stadium and complex and 69 per cent. of the Hotel Baltshug.

THE RUSSIAN FEDERATION

The following information has been extracted from publicly available sources.

General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units (the “Federation Subjects”), and is constituted as a federation of republics, territories, regions, cities of federal importance and autonomous regions. It 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 the population of approximately 145 million, approximately 82 per cent. is ethnic Russian and a high percentage (approximately 73 per cent.) live in cities and towns. The two largest cities are Moscow, with approximately 8.55 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” to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and in June 1993 made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia’s admission to the World Trade Organisation were held between 1995 and 1998 and the next round of negotiations is scheduled for later this year. Russia has also 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). Russia, Belarusia 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 9 former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31st March, 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their territories, and the Constitution of the Russian Federation (the “Constitution”) and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its subjects.

In general, disputes between the Federal authorities and Federation Subjects have been resolved peacefully through a political process. The military confrontation in the Chechen Republic has been the exception. There has been military confrontation in the Chechen Republic between December 1994 and August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. In January 2001, President Putin announced plans for a significant reduction in troop numbers and an eventual end to anti-terrorist operations. A local police force is being formed to gradually take over the maintenance of order from the Russian military, and almost Rbl 15 billion (over U.S.\$500 million) has been promised in aid for reconstruction of the Chechen Republic. However, the situation is not stable and there have been no official talks between the federal authorities and rebel leaders. It is expected that the future of the Chechen Republic will only be decided after the completion of operations by the Russian interior and military troops.

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 the Russian Federation.

The President of the Russian Federation 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 Federation Council and 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 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 Governor of the Central Bank (for appointment by the Duma) and the Prosecutor General (for appointment by the Federation Council) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Federation Council).

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 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 the Russian Federation 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 Federation Council.

The State Duma consists of 450 deputies, elected by a mixed system of majority vote and proportional representation. Half of the deputies 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" deputies 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 deputy and hold a position in the Government.

The Federation Council represents Russia's 89 Federation Subjects. Each Federation Subject has two representatives on the Federation Council, 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 Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

Presidential elections were most recently held on 26th March, 2000. The elections were scheduled to take place in the summer of 2000 but the premature resignation of President Yeltsin on 31st December,

1999 brought these elections forward to March. At the time of Yeltsin's resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections 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 candidate Gennady Zyuganov, who received almost 30 per cent. of votes.

The Government was appointed between May and July 2000. It has 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 Federation Subjects.

In May 2000, President Putin reformed the structure of Presidential representatives in the regions. The Federation 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 Federation 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 Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The Duma elections were held on 19th December, 1999 with the following results:—the Communist party led by Gennady Zyuganov won 24.3 per cent. of the votes cast; the Unity party led by Sergei Shoigou, the Minister of Emergency Situations 23.2 per cent.; the Fatherland-All Russia party led by former prime minister Yevgeny Primakov, Moscow Mayor Yuri Luzhkov and St Petersburg Mayor Vladimir Yakovlev 13.1 per cent.; the Union of Right Forces led by former prime minister Sergei Kiriyenko 8.6 per cent.; the Yabloko party led by Grigory Yavlinsky 5.9 per cent. and the "Zhirinovskiy bloc" led by Vladimir Zhirinovskiy 6.4 per cent. Other parties received the remaining 18.5 per cent.

As a result of the distribution of seats among political parties and winners in majority vote constituencies, the communists and their allies lost control over the Duma, which now has a broadly pro-Presidential majority.

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 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 17th August, 1998, the Government and the Central Bank announced a three-part programme intended to address these pressures. First, the rouble trading corridor was revised from Rbl 5.25-7.15 roubles for U.S.\$1 to Rbl 6.00-9.5 for U.S.\$1. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17th August, 1998 and maturing before 31st 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 exchange 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 17th August, 1998 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 Federation eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999 and 2000 witnessed several positive developments.

These included:

- a slow-down in the decline, 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 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 the tax reform, the pension reform, the 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 31st December, 2000, there were more than 900 joint stock companies which were 25 to 50 per cent. state owned and 371 joint stock companies which were more than 50 per cent. state owned.

In July 1997, a new privatisation law came into effect. The new law provides for several methods to privatise state-owned enterprises including cash auctions, commercial tenders, sales of shares to enterprise employees, buy-outs of state property under lease, contributions of state-owned assets to the charter capital of other business entities, the transformation of State and municipal entities into open joint stock companies and the issuance of state debt securities convertible into the equity of joint stock companies with subsequent sales of these equity securities to the holders of State debt.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders. The Government has announced its intent to return to some of its privatisation plans, with the sale of its interest in oil companies Rosneft, Lukoil and Slavneft tentatively scheduled for the year 2001.

Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1996 to 2000:

	1996	1997	1998	1999	2000
Nominal GDP (Rbl billions)	2,145.7	2,478.6	2,696.4	4,545.5	7,063.4
Nominal GDP per capita (Rbl)	14,523.2	16,826.4	18,355.0	31,068.0	48,780.4
Consumer Price Index ⁽¹⁾ (%)	147.8	114.7	127.8	185.7	120.8
Total population, millions (end of period)	147.1	146.7	146.3	145.6	144.8

Note:

⁽¹⁾ Average on the annual basis (Source: Central Bank website, 8th August, 2001).

Source: Goskomstat's Russian Annual Statistics (2000 Edition), Goskomstat's website, 8th August, 2001.

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 Central Bank of Russia figures (based on the methodology of the International Labour Organisation), the total number of unemployed at the end of 2000 was 7.0 million (9.6 per cent. of the labour force), compared to 8.9 million (12.2 per cent. of the labour force) at the end of 1999 and 7.3 million (10 per cent. of the labour force) at the end of 1996.

Source: Central Bank website, 8th August, 2001.

Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1996 to 2000:

	Consolidated Balance of Payments				
	1996	1997	1998	1999	2000
	(U.S.\$ millions)				
Current account	11,753	2,060	687	24,647	46,342
Goods and non-factor services	17,115	11,107	12,813	31,761	52,904
Trade balance	22,471	17,025	16,869	36,129	60,703
Non-factor services	(5,356)	(5,918)	(4,056)	(4,368)	(7,800)
Income	(5,434)	(8,692)	(11,790)	(7,716)	(6,651)
Current transfers	72	(356)	(337)	601	90
Capital and financial account	(6,860)	2,791	8,397	(17,730)	(37,000)
Capital account	(463)	(797)	(382)	(328)	10,955
Financial account	(6,397)	3,588	8,779	(17,403)	(47,955)
Direct investments	1,656	1,681	1,492	1,346	(346)
Portfolio investments, net	4,410	45,775	8,618	(946)	(10,528)
Other investments	(13,821)	(41,912)	(6,585)	(15,849)	(21,087)
Reserve assets	2,841	(1,936)	5,305	(1,778)	(16,010)
Adjustments of reserve assets ⁽¹⁾	(1,484)	(20)	(50)	(176)	17
Errors and omissions, net	(4,892)	(4,851)	(9,084)	(6,916)	(9,342)

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.

Certain data presented in this table differs from the previously published data due to revisions made by the Central Bank of Russia.

Source: Herald of the Bank of Russia, Issue. 33-34 (533-534), 29th May, 2001.

Official International Reserves

The following table sets forth information with respect to official international reserves as at 31st December for the years 1996 to 2000:

	Official international reserves				
	1st January, 1997	1st January, 1998 ⁽¹⁾	1st January, 1999 ⁽²⁾	1st January, 2000	1st January, 2001
	(U.S.\$ millions)				
Gold and currency reserves	15,324	17,784	12,223	12,456	27,972
Currency reserves	11,276	12,895	7,801	8,457	24,264
Foreign currency	11,271	12,771	7,800	8,455	24,263
SDRs	5	122	0	1	1
Reserve position on IMF	1	1	1	1	1
Gold ⁽³⁾	4,047	4,889	4,422	3,998	3,708

Notes:

- (1) From 1st August, 1998 deposited gold is included in the international reserves figures.
- (2) From 1st September, 1999 the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the Central Bank of Russia, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.
- (3) Valuing gold at U.S.\$300 per fine troy ounce.

Source: Central Bank's website (8th August, 2001). The figures for 1st January, 2001 are from the Banking Statistics Herald of the Central Bank No. 3(94), 2001.

Monetary policy

The decrease of the budget deficit between 1992 and 1997 with its expected elimination in 2001, and the increased access of the Government to financing from sources other than the Central Bank, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability have helped the Central Bank 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 20.2 per cent. as at the end of 2000, from a level of 36.5 per cent. for the year 1999.

The Central Bank 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 Central Bank 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 supposed 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 Rbl 25 to U.S.\$1. Since then, the Central Bank 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 keep the rouble under control.

The rouble was redenominated, 1,000-fold, effective as of 1st January, 1998. The old bills were in circulation until 1999 and will continue to be accepted by the Central Bank until 2002.

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 1st January, 2001, the state external debt of the Russian Federation amounted to U.S.\$144.5 billion (including indebtedness of the former USSR accepted by the Russian Federation). A significant proportion of that debt (U.S.\$48.6 billion) is owed to the Paris Club of sovereign creditors. The Government has been making efforts to restructure this Paris Club debt and reschedule payments.

However, these efforts have not so far been successful. If the Paris Club debt is not restructured, Russia will face substantial foreign debt payments in 2003.

Source of figures: Ministry of Finance website, 8th August, 2001.

Social Conditions

The Russian standard of living declined with the beginning of economic reform 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 and second parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law 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 is 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

Russian currency exchange legislation limits the exchangeability of roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for roubles in Russia, but the exchange of roubles for foreign currency in Russia is restricted and roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into roubles, but may only do so through rouble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and rouble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital".

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency, including the purchase and sale of securities and real estate transactions, generally require a licence from the Central

Bank. The prevailing view is that the licence is only required for Russian residents involved in such “movement of capital” transactions. Cash transactions in foreign currency are generally prohibited within Russia. However, certain obligations may be paid in foreign currency by means of credit cards or wire transfers.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75 per cent. of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the Central Bank in increasing its foreign currency reserves. The mandatory exchange requirement has been recently reduced to 50 per cent. of export revenues. For Russian importers, a mandatory deposit of 100 per cent. of the value of foreign currency being purchased is now required to be made with an authorised Russian bank. The deposit is refundable on presentation of a notarised customs receipt for the imported goods. This regulation was introduced to prevent capital flight through “fake” import contracts.

Taxation and Duties

The current Russian system of taxation has been characterised by rapid and unpredictable changes. The Government has an acute need for revenues because of the large deficit in public finance at all levels. Thus, the nature and amount of taxes applicable to a business’ activities could ultimately turn out to be different from what is expected. Widespread non-compliance with tax laws and inconsistent enforcement by tax inspectorates contribute to the system’s shortcomings. While taxation of non-income operations has been significantly reduced, businesses are still required to pay significant taxes even if they realise no profits.

The first part and certain chapters of the second part of the new Tax Code became effective in 1999 and 2001 respectively. The main objectives of the Tax Code are to reduce the total number of taxes (from about 200 existing in 1999), improve the stability, transparency and fairness of the system by eliminating many tax exemptions, and to reduce the overall tax burden on the Russian economy. The Ministry of Finance and the Tax Ministry continue to work on the tax system by radically reducing the number of laws and harmonising Russian legislation with that of developed countries. See “City Budget and Financial Accounts—City Budget—Tax Revenues”.

TAXATION

The following is a general description of certain tax considerations relating to the Notes based on advice received. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes, of a purchase of Notes, including but not limited to the consequences of receipt of interest and of sale or redemption of the Notes. This summary is based upon the law in effect on the date of this document and is subject to any change in law that may take effect after such date.

Russian

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as concerning taxation of payments of interest on the Loan. The summary is based on the laws of Russia in effect on the date of this document. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal legal authorities of Russia, nor does it 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.

Many aspects of Russian tax law are subject to significant uncertainty. Further, 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. In particular, (i) the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and (ii) such provisions and their interpretation are subject to change when the new corporate profit tax chapter (Chapter 25) of the Tax Code comes into force on 1st January, 2002. (See “New Profit Tax Rules”.)

For the purposes of this summary, a “non-resident holder” means a physical person resident in Russia for a period of less than 183 days in a given calendar year or a legal person or organisation, in each case not organised under Russian law, which holds and disposes of Notes otherwise than through a permanent establishment in Russia.

Non-resident Holders

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

A non-resident holder of a Note generally will not be subject to any Russian taxes in respect of gains or other income realised on the sale or other disposal of the Notes, provided that there is no income from a source within Russia.

A non-resident holder which is a legal person or organisation will, however, be subject to withholding tax at the rate of 20 per cent. on any gain (or the gross amount of the proceeds if the gain cannot be quantified) on the disposal of Notes where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. The gain on any disposal of the Notes is calculated as the difference between the disposal price and the acquisition cost of the relevant Notes. Accrued interest may be distinguished from the total gain and taxed at a lower applicable rate of 15 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even where there is a capital loss on the disposal of the Notes. Furthermore, any gain realised on a sale or other disposal of the Notes, if calculated in roubles to fulfil Russian statutory requirements, may be caused or affected by changes in the exchange rates between the currency of acquisition, the currency of sale and roubles.

A non-resident holder which is a physical person will generally be subject to withholding tax at the rate of 30 per cent. on the gross proceeds from a disposal of the Notes less any available cost deduction where 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 of in the Russian Federation the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal proceeds are payable by a Russian organisation, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required

to withhold this tax. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and roubles.

Resident Holders

A holder of a Note who is a physical or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident person are subject to Russian withholding tax at the rate of 15 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 Bank believes that payments of interest on the Loan will not be subject to withholding under the terms of the double taxation treaty between Russia and Germany. However, there can be no assurance that such relief will be obtained. In addition if, as a result of the enforcement by the Trustee of the security granted to it by the Bank in respect of the Credit Facility Agreement, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and Germany may cease and payments of interest may be subject to Russian withholding tax.

If the payments under the Credit Facility Agreement are subject to any withholding (as a result of which the Bank would reduce payments under the Notes in the amount of such withholding), then, subject to certain exceptions relating to maintenance by the Bank of its status as a qualifying bank, the City would be obliged to pay such additional amounts 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. In such circumstances the City would also have the right to pre-pay the Loan as more fully set out in the Credit Facility Agreement. It should be noted however that gross-up provisions in contracts may not be enforceable under Russian law. In the event that the City fails to pay such additional amounts where obliged to do so, such failure would constitute an Event of Default under the Credit Facility Agreement.

New Profit Tax Rules

From 1st January, 2002, a non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the disposal of the Notes even if payment is received from 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).

From 1st January, 2002, the rate of withholding tax generally applicable to payments of interest on borrowed funds will increase to 20 per cent. However, taxation of interest on the Loan will continue to be subject to the terms of the double taxation treaty between the Russian Federation and the Federal Republic of Germany (as described above in “Taxation of Interest on the Loan”).

Germany

General

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of Notes to original purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this document, which are subject to change, possibly with retroactive effect.

The information provided below does not purport to be a complete, exhaustive or final summary of the tax law and practice currently applicable in the Federal Republic of Germany. Investors or other interested parties are required to obtain individual tax advice in connection with the acquisition and holding, as well as the sale or repayment, of Notes.

Resident Holders

Under German law, as currently in effect, payments of interest on the Notes to persons who are residents of Germany (that is, persons whose residence, customary place of abode, seat or place of management is in Germany) are subject to German personal income tax or corporate income taxes (corporation profit tax and trade income tax). If the Notes are held in safekeeping by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign

branch of a German financial institution, interest payments in respect of such Notes will be subject to a 30 per cent. advanced 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. The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayment against the German personal tax or corporation profit tax and the respective solidarity surcharge of the recipient.

If a holder sells a Note during a current interest period, the accrued interest received in connection therewith (*Stückzinsen*) will also be subject to personal tax or corporate income taxes and the *Zinsabschlagsteuer* and solidarity surcharge. *Stückzinsen* paid by a holder upon the purchase of a Note reduces the personal tax or corporate income taxes base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge of the holder.

For corporate tax payers and in cases where the Notes are, for example, part of German trade or the business of an individual or a partnership any capital gains realised are subject to all applicable German taxes. The gain on any disposal of the Notes is in general calculated as the difference between the disposal price of the relevant Note and the acquisition cost. If the Notes are held as private assets, capital gains are not taxed if the holding period exceeds one year. However, there are complex tax provisions applying to speculative capital gains or, for example to specific features such as market discounts.

Non Resident Holders

Payments of interest to persons who are not tax residents of Germany are in general exempt from the German withholding tax and solidarity surcharge.

If the interest from a Note held in safekeeping by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, is received by persons who are not residents of Germany and who are taxable in Germany only with respect to certain German source income, and if, according to German tax law, such interest falls into a category of taxable income from German sources (for example, income effectively connected with German trade or business) which is subject to a limited income tax liability on a special basis, the *Zinsabschlagsteuer* and solidarity surcharge are applicable but can be set off against the German personal tax or corporation profit tax liability of the non-resident from such defined German source income.

Other tax aspects

Gains realised by persons who are not tax residents of Germany from the sale or other disposition of Notes that are not held as part of a permanent establishment or fixed base in Germany will not be subject to tax in Germany. 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.

On 18th July, 2001 the European Union published a proposal for a new 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 to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

SUBSCRIPTION AND SALE

ING Bank N.V., London Branch, UBS AG, acting through its business group UBS Warburg, BNP Paribas, Chase Manhattan International Limited, Commerzbank Aktiengesellschaft, Dresdner Bank AG London Branch, Bayerische Hypo- und Vereinsbank AG, Merrill Lynch International, Caboto Holding SIM S.P.A., UniCredit Banca Mobiliare S.p.A. and Westdeutsche Landesbank Girozentrale, London (the “Managers”) have, pursuant to a Subscription Agreement (the “Subscription Agreement”) 23rd dated October, 2001, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes, less a combined management, underwriting and selling commission of 0.6 per cent. of the principal amount of the Notes. Each of the Borrower and the Issuer has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes 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.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing 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 any 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (i) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, 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 businesses 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 (as amended);
- (ii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
- (iii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Russian Federation

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter 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 unless to the extent otherwise permitted by Russian law or regulations.

The 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 13th December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Borrower or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken to the Issuer and the Borrower that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

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 013764026. The International Securities Identification Number is XS0137640263.
- 2.1 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 will be deposited prior to listing with the *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where it 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 in English of the 2000 Budget of the City, the preliminary report on the implementation of the 2000 Budget of the City and the 2001 Budget, together with any further amendments thereto and the latest annual Budget, of the City;
 - (d) copies (with an English translation) of the authorisations listed below; and
 - (e) the Credit Facility Agreement.
- 2.2 The Loan and the City Agreements have been approved and authorised by the Law of the City of Moscow No. 41 dated 27th December, 2000 "On the Budget of the City of Moscow for the Year 2001" (as amended), the Resolution of the Government of the City of Moscow No. 743-PP dated 14th August, 2001 "On Borrowing", the Directive of the Mayor of the City of Moscow No. 836-RM dated 17th August, 2001 "On Borrowing" and a power of attorney granted by the Mayor dated 19th September, 2001. In addition, on 18th October, 2001 the interest rate of 10.25 per cent. under the Loan was approved by the Mayor of the City by his initialling of the letter of the Chairman of the Committee, dated 18th October, 2001.
- 2.3 The Board of Management (Vorstand) of the Issuer has authorised the issue of the Notes on 1st October, 2001.
- 2.4 Save as disclosed in this Document, since 31st December, 2000 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 2001 City Budget consists of revenues and expenditures planned for 2001 as reflected in the 2001 City Budget Law. The 2001 City Budget Law was enacted prior to the commencement of the 2001 budget year. See "Presentation of Financial and Other Information". The results of implementation of the 2001 City Budget will be approved by the City following the 2001 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 2001 City Budget Law will not differ materially from the information relating to the 2001 City Budget Law contained herein.
- 2.5 Save as disclosed in this document, the City has obtained all necessary consents, approvals and authorisations in Russia in connection with the Loan.
- 2.6 No consents, approvals, authorisations or orders of any regulatory authorities are required by the Bank under the laws of the Federal Republic of Germany for the maintaining of the Loan or for the issue and performance of the Notes.
- 2.7 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.

- 2.8 On 11th September, 2001 the Central Bank of the Russian Federation (the “CBR”) issued Licence No. 12-41-0433/01 which came into effect that day (the “Central Bank Licence”) and which, *inter alia*, authorises the City among other things, to borrow and repay in euro in accordance with the provisions of the Credit Facility Agreement. The Central Bank Licence, which was amended on 27th September, 2001 and will expire on 31st December, 2004, sets out certain special terms and conditions.

Changes to the Central Bank Licence or *inter alia* the provisions of the Credit Facility Agreement require the consent of the CBR by way of a new or a supplemental licence.

Under its terms the Central Bank Licence may be revoked at any time by the CBR, with written notification to the City, if terms and conditions of the Central Bank Licence are violated by the City or if there are breaches of the Russian Federation’s currency control laws or other acts or orders of the CBR.

Pursuant to the Central Bank Directive No. 1030-U dated 10th September, 2001 a licence of the Central Bank is no longer required for a Russian entity or a sub-sovereign (such as the City) to receive and repay loans denominated in foreign currency. This reform has modified the practice under which a Russian borrower was entitled to make only those payments which were specified in a relevant Central Bank Licence. As a result of the Directive No. 1030-U the effect of the Central Bank Licence received by the City remains unclear. Therefore, the City intends to rely upon the Central Bank Licence and to comply with the terms thereof in relation to payments which are not directly authorised by the Directive No. 1030-U unless and to the extent otherwise clarified by the Central Bank further to or in connection with the Directive No. 1030-U.

- 2.9 The Ministry of Finance of the Russian Federation on 9th August, 2001 confirmed by Letter No. 05-01-04/07.3 that the City may attract external borrowings in the year 2001 consistent with the terms of the Credit Facility Agreement.

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.

- 2.10 The Notes have been rated B by Standard & Poor’s Rating Services, B2 by Moody’s Investors Service, Inc. and B by Fitch Ratings Ltd.

- 2.11 The Notes will be listed in the official list of the Luxembourg Stock Exchange under the name Moscow.

THE BORROWER

The City of Moscow
acting through the
Committee of Municipal Debt, Securities
and Capital Market Development
of the Government of the City of Moscow
2 Yakimanskaya Naberezhnaya
“Golutvinsky Dvor” Office Centre, 4th Floor
109180 Moscow
Russia

THE ISSUER

BHF-BANK Aktiengesellschaft
Bockenheimer Landstraße 10
60302 Frankfurt am Main
Germany

TRUSTEE

The Chase Manhattan Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT
England

PRINCIPAL PAYING AGENT

The Chase Manhattan Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT
England

REGISTRAR, TRANSFER AGENT AND PAYING AGENT

Chase Manhattan Bank Luxembourg, S.A.
5 rue Plaetis
L-2338
Luxembourg

LEGAL ADVISERS

To the Borrower as to Russian and English law

Linklaters & Alliance
Tsvetnoy Boulevard 25/3
103051 Moscow
Russia

*To the Managers and the Trustee
as to English law*

Allen & Overy
One New Change
London EC4M 9QQ
England

*To the Managers and the Trustee
as to Russian law*

Allen & Overy
Dmitrovsky pereulok 9
103031 Moscow
Russia

To the Managers as to German law

Allen & Overy
Taunustor 2
60311 Frankfurt am Main
Germany

FINANCIAL ADVISERS

To the Borrower

MosFinAgency
2 Yakimanskaya Naberezhnaya
“Golutvinsky Dvor” Office Centre, 4th Floor
109180 Moscow
Russia

TAX ADVISERS

To the Issuer as to Russian tax

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, bld. 5
Moscow 113054
Russia

To the Issuer as to German tax

**PricewaterhouseCoopers GmbH
Wirtschaftsprüfungs gesellschaft**
Marie Curie Strasse 24-28
60439 Frankfurt am Main
Germany

LISTING AGENT

Chase Manhattan Bank Luxembourg, S.A.
5 rue Plaetis
L-2338
Luxembourg

