



GazInvest Finance B.V.

(incorporated with limited liability in The Netherlands)

as Issuer

and

Joint-stock Bank of the Gas Industry

Gazprombank

(a closed joint-stock company incorporated in the Russian Federation)

as Guarantor

€300,000,000

Debt Issuance Programme

Under this €300,000,000 Debt Issuance Programme (the "Programme"), GazInvest Finance B.V. (the "Issuer") may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The payment of all amounts owing in respect of Notes issued by the Issuer will be unconditionally and irrevocably guaranteed (the "Guarantee") by Joint-stock Bank of the Gas Industry Gazprombank in its capacity as guarantor (the "Guarantor").

The Notes may be issued in bearer or registered form (respectively "Bearer Notes" and "Registered Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €300,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Information Memorandum to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application will be made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of the Information Memorandum to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a supplementary Information Memorandum, if appropriate, will be made available which will describe the terms and conditions of such Notes.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes. Application may also be made to have certain Series of Notes accepted for trading in the Private Offerings, Resales and Trading through Automated Linkages System ("PORTAL") of the National Association of Securities Dealers, Inc..

An investment in the Notes involves a high degree of risk. See "Certain Risk Factors".

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act) except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S under the Securities Act and, if so specified in the applicable Pricing Supplement, within the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act), in transactions exempt from the registration requirements of the Securities Act. Certain Notes in bearer form are subject to U.S. tax law requirements.

Arranger

Deutsche Bank

Dealers

ABN AMRO

BNP PARIBAS

Deutsche Bank

The date of this Information Memorandum is 14 December 2001.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that this Information Memorandum contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Information Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Information Memorandum are honestly held and that there are no other facts the omission of which would make this Information Memorandum or any of such information or the expression of any such opinions or intentions misleading. The Issuer and the Guarantor accept responsibility accordingly.

This Information Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Information Memorandum shall be read and construed on the basis that such documents are incorporated and form part of this Information Memorandum.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Information Memorandum or any other information provided by the Issuer or the Guarantor in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Information Memorandum or any other information provided by the Issuer or the Guarantor in connection with the Programme.

No person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers.

Neither this Information Memorandum nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor or any of the Dealers that any recipient of this Information Memorandum or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Guarantor and its subsidiaries and associates (the "Group"). Neither this Information Memorandum nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any Notes.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Information Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor and the Dealers do not represent that this Information Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Information Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. In particular, this communication is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Persons into whose possession this Information Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Information Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Information Memorandum and the offer or sale of Notes in the United States, the United Kingdom, Germany, The Russian Federation and The Netherlands, see "Subscription and Sale and Selling and Transfer Restrictions".

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. The Notes described herein have not been approved or disapproved by the United States Securities and Exchange Commission or any state securities commission or other regulatory authority in the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Information Memorandum. Any representation to the contrary is unlawful.

None of the Dealers, the Issuer or the Guarantor makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there may be no obligation on the stabilising manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

U.S. INFORMATION

If so specified in the applicable Pricing Supplement, this Information Memorandum may be submitted on a confidential basis in the United States to QIBs (as defined under "Form of the Notes") for use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

If so specified in the applicable Pricing Supplement, Registered Notes may be offered or sold within the United States to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

Each initial and subsequent purchaser of Notes will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Note, as described in this Information Memorandum and the applicable Pricing Supplement, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See "Form of the Notes" and "Subscription and Sale and Selling and Transfer Restrictions". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "Form of the Notes".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-b OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-b IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer and the Guarantor have undertaken in a deed poll dated 14 December 2001 (the "Deed Poll") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, neither the Issuer nor the Guarantor is a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") or is exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEABILITY OF JUDGMENTS

The Issuer and the Guarantor are corporations organised under the laws of that Issuer's and Guarantor's jurisdiction of incorporation, as set out on the front cover of this Information Memorandum. None of the directors and executive officers of the Issuer or the Guarantor is a resident of the United States or England, and all or a substantial portion of the assets of the Issuer and the Guarantor and such persons are located outside the United States and England. As a result, it may not be possible for investors to effect service of process within the United States or England upon the Issuer or the Guarantor or such persons or to enforce against any of them in the United States or English courts judgments obtained in such courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States. Russian courts will not enforce any judgment obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing for reciprocal recognition and enforcement of court judgments. If there is such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. It is expected that Russian procedural legislation may be changed, *inter alia*, by way of inserting further grounds preventing foreign court judgments from being recognised and enforced in Russia.

FINANCIAL AND OTHER INFORMATION

This Information Memorandum includes audited financial statements of the Guarantor and its consolidated subsidiaries as at and for the years ended 31 December 1998, 1999 and 2000 and for the six months ended 30 June 2001, audited by KPMG Limited, independent accountants.

The Guarantor maintains its records in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAP"), which differ in significant respects from IAS. See "Summary of Relevant Significant Differences between IAS and RAP".

The currency of Russia is the Russian Rouble, however the majority of the assets and liabilities and transactions of the Guarantor are denominated in U.S. Dollars. For this reason, the measurement and presentation currency of the Guarantor is not the Russian Rouble but the U.S. Dollar.

The Issuer maintains its financial books and records and prepares its financial statements in euro in accordance with generally accepted accounting principles in The Netherlands.

All references in this document to "euro" and "€" refer 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 by the treaty on European Union and as amended by the Treaty of Amsterdam. In addition, references to "U.S. Dollars" and "U.S.\$" refer to United States dollars, references to "Roubles", "RUR" and "R" refer to Russian roubles and references to "Sterling" and "£" refer to pounds sterling.

Certain amounts which appear in this Information Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables, may not be an exact arithmetic aggregation of the figures which precede them.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (a) the most recently published audited annual financial statements of the Issuer and the most recently published audited consolidated annual financial statements of the Guarantor and, if published later, the most recently published interim consolidated financial statements (if any) of the Guarantor. See "General Information" for a description of the financial statements currently published by the Issuer and the Guarantor; and
- (b) all supplements or amendments to this Information Memorandum circulated by the Issuer from time to time, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Information Memorandum. In addition, such documents will be available, without charge, from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. (the "Luxembourg Listing Agent") for Notes listed on the Luxembourg Stock Exchange.

The Issuer will, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the Guarantor which is not reflected in this Information Memorandum, prepare a supplement to this Information Memorandum or publish a new Information Memorandum for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Information Memorandum, as so modified or amended, inaccurate or misleading, a new Information Memorandum will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes".

This Information Memorandum and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this Information Memorandum in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €300,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as defined under "Form of the Notes") shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as defined under "Form of the Notes") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as defined under "Form of the Notes") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Information Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuer:	GazInvest Finance B.V.
Guarantor:	Joint-stock Bank of the Gas Industry Gazprombank
Description:	Debt Issuance Programme
Arranger:	Deutsche Bank AG London
Dealers:	ABN AMRO Bank N.V. BNP PARIBAS Deutsche Bank AG London and any other Dealers appointed from time to time in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale and Selling and Transfer Restrictions") including the following restrictions applicable at the date of this Information Memorandum.

Swiss Francs

Issues of Notes denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "Swiss Dealer"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

Notes with a maturity of less than one year

Notes issued on terms that they must be redeemed before their first anniversary will, if the proceeds are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 ("FSMA") unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "Subscription and Sale and Selling and Transfer Restrictions".

Issuing and Principal Paying Agent:	Deutsche Bank AG London Payments on Notes in bearer form will only be made outside the United States and its possessions.
Registrar:	Bankers Trust Company
Programme Size:	Up to €300,000,000 (or its equivalent in other currencies calculated as described under "General Description of the Programme") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par. Special tax rules may apply to Notes which are issued at a discount to par, see "Taxation".
Form of Notes:	The Notes will be issued in bearer or registered form as described in "Form of the Notes". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	<p>Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.</p> <p>Index Linked Notes which are issued as an appel public à l'épargne in France must be issued in compliance with the Principes Généraux from time to time set by the COB and the Conseil des Bourses de Valeurs or any successor body thereto.</p>
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>With respect to any tranche of Notes which must be redeemed before the first anniversary of the date of their issue, the Issuer will issue such Notes only if (a) the redemption value of each such Note is not less than £100,000, or an amount of equivalent value denominated wholly or partly in a currency other than sterling, and (b)</p>

no part of any Note may be transferred unless the redemption value of that part is not less than £100,000, or such an equivalent amount, unless the Notes can be issued and sold without contravention of Section 19 of the FSMA.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body (however called)) or any laws or regulations applicable to the relevant Specified Currency.

With respect to any tranche of Notes which must be redeemed before the first anniversary of the date of their issue, the Issuer will issue such Notes only if (a) the redemption value of each such Note is not less than £100,000, or an amount of equivalent value denominated wholly or partly in a currency other than sterling, and (b) no part of any Note may be transferred unless the redemption value of that part is not less than £100,000, or such an equivalent amount, unless the Notes can be issued and sold without contravention of Section 19 of the FSMA.

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, unless such deduction is required by law as provided in Condition 8. In the event that any such deduction is made, the Issuer or the Guarantor, as the case may be, will, except in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 10.

Status of the Notes:

The Notes will constitute direct, unconditional and subject to the provisions of Condition 4, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, other than obligations, if any, that are mandatorily preferred by statute or by operation of law.

Guarantee:

The Notes will be unconditionally and irrevocably guaranteed by Guarantor. The obligations of the Guarantor under such guarantee will be direct, unconditional and, subject to the provisions of Condition 4, unsecured obligations of the Guarantor and will rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor.

Listing:

Application will be made to list the Notes issued under the Programme on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Governing Law:

The Notes will be governed by, and construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Germany, the Russian Federation and The Netherlands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. In particular, upon the coming into force of the FSMA, this communication is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

See "Subscription and Sale and Selling and Transfer Restrictions".

In connection with the offering and sale of a particular Tranche of Notes, additional restrictions may be imposed which will be set out in the relevant Pricing Supplement.

Each Tranche of Notes will be issued either in compliance with U.S. Treas. Reg. section 1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") or U.S. Treas. Reg. section 1.163-5(c)(2)(i)(C) (the "TEFRA C Rules" and, collectively with the TEFRA D Rules, the "TEFRA Rules") unless the Notes are in registered form and the relevant Pricing Supplement specifies that the TEFRA Rules are not applicable.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons ("Coupons") attached, or registered form, without Coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a "Temporary Bearer Global Note") or a permanent bearer global note (a "Permanent Bearer Global Note") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("CBL"). Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or CBL and Euroclear and/or CBL, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "Exchange Date") which is 40 days after any Temporary Bearer Global Note is issued, beneficial interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership thereof as required by U.S. Treasury Regulations as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused (and such withholding or refusal is continuing at the relevant payment date).

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made outside the United States and its possessions through Euroclear and/or CBL against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or CBL (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and CBL have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or CBL (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes with a maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The provisions referred to in the legend generally provide that any United States person who holds a Bearer Note with a maturity of more than 365 days, with certain exceptions, will not be allowed to deduct any loss sustained on the sale, exchange or other disposition of such Bearer Note, and will be subject to tax at ordinary income rates (as opposed to capital gain rates) on any gain recognised on such sale, exchange or other disposition.

Notes which are represented by a Temporary Bearer Global Note and/or Permanent Bearer Global Note will only be transferable in accordance with the then current rules and procedures of Euroclear or CBL, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form, without Receipts or Coupons, (a "Regulation S Global Note") which will be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and CBL. Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or CBL and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("QIBs"). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form, without Receipts or Coupons, (a "Rule 144A Global Note" and, together with a Regulation S Global Note, the "Registered Global Notes") which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Rule 144A Global Note will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuer, the Guarantor, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default has occurred and is continuing, (ii) DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Notes and no alternative clearing system is available, (iii) DTC has ceased to constitute a clearing agency registered under the Exchange Act or the Issuer has been notified that both Euroclear and CBL have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be required were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or CBL (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and CBL, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "Subscription and Sale and Selling and Transfer Restrictions".**

General

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and,

where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear and/or CBL each person (other than Euroclear or CBL) who is for the time being shown in the records of Euroclear or of CBL as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or CBL as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Guarantor and its/their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note shall be treated by the Issuer, the Guarantor and its/their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or CBL and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated automatically by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then, unless within the period of seven days commencing on the relevant due date payment in full of the amount due in respect of the Global Note is received by the bearer or the registered holder, as the case may be, in accordance with the provisions of the Global Note holders of interests in such Global Note credited to their accounts with Euroclear and/or CBL and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, CBL and DTC on and subject to the terms of a deed of covenant (the "Deed of Covenant") dated 14 December 2001 and executed by the Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

Applicable Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

GAZINVEST FINANCE B.V.

Issue of

[Aggregate Nominal Amount of Tranche]

[Title of Notes]

Guaranteed by the

Joint-stock Bank of the Gas Industry Gazprombank

(a closed joint-stock company)

issued under the

€300,000,000 Debt Issuance Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Information Memorandum dated 14 December 2001. This Pricing Supplement is supplemental to and must be read in conjunction with such Information Memorandum.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs.]

[If the Notes must be redeemed before the first anniversary of their date of issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

- | | | |
|-----|---|---|
| 1. | (i) Issuer: | GazInvest Finance B.V. |
| | (ii) Guarantor: | Joint-stock Bank of the Gas Industry Gazprombank |
| 2. | (i) Series Number: | [●] |
| | (ii) Tranche Number: | [●] |
| 3. | Specified Currency or Currencies: | [●] |
| 4. | Aggregate Nominal Amount: | |
| | – Tranche: | [●] |
| | – Series: | [●] |
| 5. | (i) Issue Price: | [●]% of the Aggregate Nominal Amount
[plus accrued interest from [insert date]
(in the case of fungible issues only, if applicable)] |
| | (ii) Net Proceeds: | [●] (Required only for listed issues) |
| 6. | Specified Denominations:
<i>(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)</i> | [●]
[●] |
| 7. | (i)] Issue Date [and Interest Commencement Date]: | [●] |
| | (ii) Interest Commencement Date (if different from the Issue Date): | [●] |
| 8. | Maturity Date: | <i>[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month]]</i> |
| 9. | Interest Basis: | [[●]% Fixed Rate]
[[LIBOR/EURIBOR] +/- []%
Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
<i>[specify other]</i>
(further particulars specified below) |
| 10. | Redemption/Payment Basis: | [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
<i>[specify other]</i> |
| 11. | Change of Interest Basis or Redemption/Payment Basis: | <i>[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]</i> |
| 12. | Put/Call Options: | [Investor Put]
[Issuer Call]
[(further particulars specified below)] |
| 13. | Listing: | [Luxembourg/specify other/None] |
| 14. | Method of distribution: | [Syndicated/Non-syndicated] |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | | |
|-----|--------------------------------|--|
| 15. | Fixed Rate Note Provisions | [Applicable/Not Applicable]
<i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| | (i) Rate(s) of Interest: | [●]% per annum [payable
[annually/semi-annually/quarterly] in arrear]
<i>(If payable other than annually, consider amending Condition 5)</i> |
| | (ii) Interest Payment Date(s): | [●] in each year up to and including the Maturity Date/ <i>specify other</i>] (NB: this will need to be amended in the case of long or short coupons) |

(iii)	Fixed Coupon Amount(s):	<input type="checkbox"/> per <input type="checkbox"/> in nominal amount
(iv)	Broken Amount(s):	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]</i>
(v)	Day Count Fraction:	<i>[30/360 or Actual/Actual (ISMA) or specify other]</i>
(vi)	Determination Date(s):	<input type="checkbox"/> in each year <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <i>(NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration)</i> <i>(NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA))</i>
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	<i>[None/Give details]</i>
16.	Floating Rate Note Provisions	<i>[Applicable/Not Applicable]</i> <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Specified Period(s)/Specified Interest Payment Dates:	<input type="checkbox"/>
(ii)	Business Day Convention:	<i>[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day convention/ specify other]</i>
(iii)	Additional Business Centre(s):	<input type="checkbox"/>
(iv)	Manner in which the rate of Interest and Interest Amount is to be determined:	<i>[Screen Rate Determination/ISDA Determination/ specify other]</i>
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	<input type="checkbox"/>
(vi)	Screen Rate Determination:	
	– Reference Rate:	<input type="checkbox"/> <i>(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)</i>
	– Interest Determination Date(s):	<input type="checkbox"/> <i>(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)</i>
	– Relevant Screen Page:	<input type="checkbox"/> <i>(In the case of Euribor, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately).</i>
(vii)	ISDA Determination:	
	– Floating Rate Option:	<input type="checkbox"/>
	– Designated Maturity:	<input type="checkbox"/>
	– Reset Date:	<input type="checkbox"/>
(viii)	Margin(s):	<i>[+/-]<input type="checkbox"/>% per annum</i>
(ix)	Minimum Rate of Interest:	<input type="checkbox"/> % per annum
(x)	Maximum Rate of Interest:	<input type="checkbox"/> % per annum

	(xi) Day Count Fraction:	[Actual/365 or Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other] (See Condition 5 for alternatives)
	(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.	Zero Coupon Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Accrual Yield:	[●]% per annum
	(ii) Reference Price:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●] (Consider applicable day count fraction if euro denominated)
	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 7(e)(iii) and 7(j) apply/specify other]
18.	Index Linked Interest Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Index/Formula:	[give or annex details]
	(ii) Calculation Agent responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
	(vi) Additional Business Centre(s):	[●]% per annum
	(vii) Minimum Rate of Interest:	[●]% per annum
	(viii) Maximum Rate of Interest:	[●]
	(ix) Day Count Fraction:	
19.	Dual Currency Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[give details]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

- 20.** Issuer Call
- (i) Optional Redemption Date(s): [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●]
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●]
 - (b) Higher Redemption Amount: [●]
 - (iv) Notice period (if other than as set out in the Conditions): [●]
- 21.** Investor Put [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●]
 - (iii) Notice period (if other than as set out in the Conditions): [●]
- 22.** Final Redemption Amount: [Nominal Amount/specify other/see Appendix]
- 23.** Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [●]
- 24.** Early Termination Amount [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25.** Form of Notes: [Bearer Notes:
Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].

[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date.]

[Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Registered Notes:
Regulation S Global Note (U.S.\$[●] nominal amount)/Rule 144A Global Note (U.S.\$[●] nominal amount)]
- 26.** Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]

(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)
- 27.** Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- 28.** Details relating to Partly Paid Notes: [Not Applicable/give details. NB: new forms of Global Notes may be required for Partly Paid issues.]
amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:

29. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable (if Redenomination is applicable, specify the terms of Redenomination in an Annex to the Pricing Supplement)
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not applicable/give names]
- (ii) Stabilising Manager (if any): [Not applicable/give names]
33. If non-syndicated, name of relevant Dealer: [●]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and CBL and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any): [●]

ISIN: [●]

Common Code: [●]

(insert here any other relevant codes such as CUSIP and CINS codes)

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the €300,000,000 Debt Issuance Programme of GazInvest Finance B.V. as Issuer and Joint-stock Bank of the Gas Industry Gazprombank as Guarantor.]

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By
Duly authorised

By
Duly authorised

By
Duly authorised (the chief accountant)

CERTAIN RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should consider, in particular, the following risk factors before making a decision to invest in the Notes. The risks set forth below, as well as those identified elsewhere in the Information Memorandum, could have a material adverse effect on the Guarantor and holders of the Notes.

Risks Relating to Russia

Political and Social Risk

In recent years, Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-oriented democracy. There can be no assurance that the political and economic reforms necessary to complete such transformation will continue. In its current stage of relative infancy, the Russian political system is vulnerable to the population's dissatisfaction with reform, social and ethnic unrest and changes in government policies, any of which could have a material adverse effect on the Guarantor and its ability to meet its obligations to investors under the Guarantee of the Notes.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions in the short time they have been in effect and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Guarantor's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on the Guarantor.

The Russian Government has experienced four changes in prime minister since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. The various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders who formulate and implement them, are subject to rapid and potentially violent change. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian Government may have a material adverse effect on the Guarantor.

Russia is constituted as a federation of republics, territories, regions, districts, cities of federal importance, and autonomous areas, which together comprise the Federation Subjects. The delineation of authority among the Federation Subjects and the federal government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the federal government often results in the enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus may have negative economic effects on the Guarantor, which could be material to its ability to meet its financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions, and in certain cases, to military conflict. Russian military and paramilitary forces have been engaged in Chechnya in the past and continue to maintain their presence there. The spread of violence, or its intensification, could have significant political consequences. These include the imposition of a state of emergency in some or all of the Russian Federation. These events could materially adversely affect the investment environment in Russia.

While the Guarantor has paid full salaries on a regular and timely basis the failure of many Russian companies to do so on a regular basis, and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Potential labour and social unrest caused by these discrepancies may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism with restrictions on foreign involvement in the economy of Russia and increased violence, any of which could have a material adverse effect on the Guarantor.

The privatisation of the oil and gas industry in Russia, which is a vital sector of the national economy, continues to be a source of political controversy. There can be no assurance that current government policies liberalising control over the oil and gas industry will endure. Furthermore, control over natural resources such as oil and gas and their exploitation remains an issue between the federal authorities and the regions. The Open Joint-Stock Company Gazprom ("Gazprom") and certain subsidiaries and affiliates of Gazprom (together with Gazprom, the "Gazprom Group") operations and financial position could be materially affected by the increased political independence of the regions in which it conducts its operations or through which its oil and gas products are transported. This, in turn, could have a material adverse effect on the financial position of the Guarantor since the Guarantor is economically dependent on the Gazprom Group.

Economic Risks

Simultaneously with the enactment of political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies and privatising state-owned enterprises, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities and foreign trade and investment.

Despite the reform policies, until 17 August 1998, the Russian economy remained characterised by declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system, widespread tax evasion and progressive impoverishment of a large portion of the Russian population.

Additionally, in the months following the events of 17 August 1998, Russia experienced acute financial and economic distress. The Russian Government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the Central Bank of the Russian Federation (formerly the State Bank of the USSR)'s (the "CBR") abandonment of the Rouble corridor and the temporary moratorium on certain hard-currency payments 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 on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds in the international capital markets.

Since 1998 the Russian economy has improved in a number of areas. However, it is not possible to estimate how long the impact of the August 1998 events will be felt or to quantify the impact they may have on the Guarantor.

The prospect exists of widespread bankruptcy, mass unemployment and the collapse of certain sectors of the Russian economy. Moreover, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia will remain receptive to foreign trade and investment or that the economy in Russia will improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of the Guarantor.

Funding from International Organisations; Access to the International Capital Markets

Russia has in the past received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurance can be given that any such financing will be further provided to Russia. If such financial assistance is withdrawn, economic development in Russia would be adversely affected.

Moreover, due to defaults on hard currency obligations by the Russian Government and certain other factors, the Russian Government is currently unable to raise funds in the international capital markets, which may lead to direct or indirect monetary financing of the budget deficit, putting further pressure on inflation and the value of the Rouble.

Russia's considerable external debt, as well as the failure to obtain funding from foreign governments and international organisations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget deficit in the absence of access to the international capital markets, could materially adversely affect the country's ability to face economic downturns.

Lack of Liquidity

Russian businesses have a limited operating history in free market conditions and have had limited experience compared with Western companies with entering into and performing contractual obligations. Russian businesses, when compared to Western businesses, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Russia has limited infrastructure to support a market system. Communications and banks and other financial systems are less well developed and less well regulated when compared to their Western counterparts.

Russia has a limited supply of domestic savings and there are few foreign sources of funds. Businesses therefore may experience difficulty in obtaining working capital facilities. These problems were aggravated by the 1995 Russian banking crisis and by the near collapse of the Russian banking system after the events of 17 August 1998. Although the situation in the Russian banking sector has generally improved since 17 August 1998, the Russian banking system may in future encounter a liquidity crisis as well as other problems arising from businesses' undercapitalisation of the banking sector as a whole.

Legal Risks

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 and among laws, Presidential decrees and Government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting the applicable rules; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and national rules and regulations; (vi) the relative inexperience of judges and courts in interpreting new legal norms; and (vii) the unpredictability of enforcement of foreign court judgments and foreign arbitral awards.

The laws in Russia regulating ownership, control and corporate governance of Russian companies are relatively new and, by and large, have not been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available and anti-fraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, several important Russian laws have only recently come into force and several fundamental Russian laws, including those relating to the tax regime and corporations, have recently been amended. Some of these amendments will become effective in 2002. The nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. Therefore, no assurance can be given that the development or implementation of Russian legislation (including Government resolutions, Presidential decrees and acts of the CBR) will not have a material adverse effect on the Guarantor and on foreign investors or private investors generally.

The existing business culture in Russia continues to be influenced by attitudes formed in the period of the Soviet planned economy, when survival often depended on finding ways to avoid laws and their arbitrary application. As a result, the commitment of business people, Government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements is still uncertain. In addition, the uncertainty of the compliance by Russian companies (including banks) with legal and regulatory procedures, such as those required in connection with charter amendments or transfers of securities, may in some cases call into question the validity of actions.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and usually are not updated or catalogued. As a result, applicable law is often difficult to ascertain and apply, even after reasonable effort. Russia does not have a judicial system based on precedents. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and Government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violation committed.

Exchange Rates, Exchange Controls and Repatriation Restrictions

In recent years, the Rouble has experienced a significant depreciation relative to the US Dollar and there has been significant instability in the Rouble exchange rate, although this instability has recently lessened. In several days following the financial and economic distress of 17 August 1998, the value of the Rouble against the US Dollar fell by more than 300% before temporarily rebounding by a greater amount. Prior to August 1998, the CBR tried to support the Rouble within a certain band. However, after the significant August 1998 devaluation of the Rouble, the band was abolished. The Russian Government's and the CBR's ability to reduce the volatility of the Rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency. Furthermore, uncertainties exist with respect to the continuation of the CBR's current policy.

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 the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. Currently, 75% of foreign currency earnings from export sales must be converted into Roubles. The recent relative stability of the exchange rate of the Rouble has mitigated risks associated with forced conversion, but no assurance can be given that such stability will continue. Moreover, the banking system in Russia is not yet as developed as its Western counterparts and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. While the current policy of the Government is to allow the repatriation by foreign investors of profits earned in Russia there are restrictions on such repatriation.

Lack of Official Data Reliability

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

Judicial Considerations

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. Judges and courts are generally inexperienced in business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The Guarantor may be subject to such claims and may not be able to receive a fair hearing. Additionally, court decisions are not always

enforced or followed by law enforcement agencies. There can be no guarantee that the proposed judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system.

Foreign Judgments and Arbitral Awards

The Russian Federation is not a party to any multilateral or bilateral treaties for the mutual enforcement of court judgments with the majority of western jurisdictions. Consequently, should a judgment be obtained from a court in any such jurisdiction it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Accordingly, a foreign arbitral award obtained in a state which is party to that Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). It is expected that Russian procedural legislation may be changed, *inter alia*, by way of inserting further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or any foreign arbitral award in the Russian Federation.

Corporate Governance, Disclosure and Accounting Standards

The corporate affairs of the Guarantor are governed by its Charter and by the laws governing companies incorporated in Russia. The rights of shareholders and the responsibilities of members of the Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom, Russia and other countries is to promote full and fair disclosure of all material corporate information to the public. The Guarantor is subject to Russian law requirements which require, in particular, the Guarantor to publish annual financial statements, together with an independent auditor's report. However, there is less publicly available or other information about the Guarantor than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other countries.

Risks relating to the Guarantor

Relationship with the Gazprom Group

Although the Guarantor has an independent Management Board, the Guarantor is almost wholly owned by Gazprom which has significant representation on the Board of Directors. The Guarantor and the Group have been and continue to be economically dependent on the Gazprom Group. For the six month period ended 30 June 2001, transactions of the Guarantor with members of the Gazprom Group accounted for around US\$2,308,871 thousand (55%) of the Guarantor's total gross exposures and around US\$1,323,995 thousand (54%) of its total liabilities.

At present, the production and transport of natural gas in Russia is largely controlled by the Gazprom Group. However, there have been calls (including from the Russian Federation) for the Gazprom Group to be divided into a number of companies, for particular functions to be spun off to other entities and for other gas producers to be given access to Gazprom's distribution network. In addition, there has been recent speculation that Gazprom may dispose of another of its banking subsidiaries, the National Reserve Bank.

Given the potential for the Gazprom Group to be restructured, there can be no certainty that the Guarantor will continue to be controlled by the Gazprom Group. If it were spun off or if the Gazprom Group was broken up and ceased to be a vertically integrated gas production and transportation business, there could be no assurance that the Guarantor would continue to be the main bank to the Russian gas industry. In any such circumstances there is a significant risk that the Guarantor would cease to have the funding necessary to support its asset portfolio and/or could lose a substantial part of its asset portfolio and that its financial position would be materially adversely affected.

A large proportion of the Guarantor's long-term lending funds Gazprom's international projects. In most cases such project loans are provided to the Gazprom Group at below market costs of funding and, generally, the Guarantor's exposure on such projects is at least partially matched by Gazprom Group companies providing deposits or other funding at lower rates of interest than the Guarantor would otherwise be able to obtain in the market. While this helps to ensure the Guarantor's liquidity and helps retain its margins, the projects are not fully funded, the project loan repayment dates are rarely matched by the maturity dates for deposits or other funding and there can be no certainty that, if Gazprom sought to withdraw or increase the cost of its funds, alternative funding would be available either at comparable funding costs or at all. The Guarantor's financial condition would be materially adversely affected in such circumstances.

Yamal-Europe Project; Loan Concentration Risk and Breach of CBR Mandatory Economic Ratio

The Guarantor's loan portfolio is heavily concentrated on borrowers in the gas industry. Under one particular gas industry loan to finance the Yamal-Europe Project (the "Loan") the Guarantor has outstanding advances (including capitalised interest) of US\$871,266 thousand, 56% of the Guarantor's gross loans as at 30 June 2001. The Loan was advanced to Europogaz, a joint venture company owned principally by the Gazprom Group and PGNiG (the Polish national oil company) to construct two parallel gas pipelines and five compressor stations comprising the Polish section of a gas pipeline project supplying gas from the northern part of the Tyumen region of Russia to Germany. The first pipeline was completed at the end of 1999, allowing gas deliveries to commence in Poland. Constructing the remaining pipeline is scheduled to be completed in 2008, although construction has yet to begin. Gazprom and PGNiG are believed to be discussing the provision of further finance to boost the capacity of the existing pipeline. Only 65% of the Guarantor's maximum exposure under the Loan was matched by funding from Gazprom, although \$420,000 thousand of the total funding of US\$650,000 thousand was provided in the form of a contribution to capital. The balance was provided in the form of a deposit maturing in 2008. The Loan is due to be repaid in monthly instalments commencing in February 2002 and the Loan matures in 2018. No assurance can be given that Europogaz will be able to meet its payments under the Loan. Moreover, if Gazprom sought to withdraw its funding for the Loan or increase the cost of such funding, there could be no certainty that alternative funding would be available at comparable funding costs or at all. The Guarantor's financial condition would be materially adversely affected in such circumstances.

The Loan exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers exposure by 6 times. Although the CBR is not entitled under Russian legislation to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, it was consulted in connection with the Loan and conducted its own investigation of the exposure. No assurance can be given, however, that the CBR will not take any steps to enforce compliance with the above mentioned ratio, to impose sanctions on the Guarantor for non compliance (which could include a fine) or to initiate a temporary administration of the Guarantor by the CBR.

Competition

Although the Guarantor has begun successfully to diversify its customer base, its business continues to be heavily concentrated on the Gazprom Group. As a consequence, any bank which could provide the Gazprom Group with similar financial services is a potential threat to the Guarantor. There are several state owned banks which either separately or together could provide the product and regional coverage necessary to compete for the position as the Gazprom Group's preferred bank. Management does not believe this possibility to be a significant threat to the business. However, no assurance can be given that one or a number of Russian or international banks could not become the Gazprom Group's preferred bank or begin to provide the Gazprom Group with levels of service which would impact the Group's financial condition.

Unsettled NDFs

Before the 1998 crisis, high volumes of GKO issuance drove an active forward foreign exchange market, particularly for non-deliverable forward foreign exchange transactions ("NDFs"). The announcement of Russia's intention to defer payment on GKOs and the abandonment of the Rouble corridor led to the rapid and significant devaluation of the Rouble which caused severe market disruption in late 1998. As a consequence, many counterparties were unable, or failed, to settle their forward foreign exchange positions. Attempts to seek a market solution by involving the CBR were not successful and the Guarantor sought bilateral solutions with its counterparties.

Although the Guarantor successfully closed out certain foreign exchange positions, it continued to hold significant open positions in NDFs. In some cases the counterparty was in financial difficulty and, in others there is uncertainty as to the validity and/or enforceability of the NDF. A number of counterparties have taken proceedings against the Guarantor in respect of unsettled NDF transactions. In all cases, the Guarantor has received judgment in its favour. In July 2001 the Guarantor resolved to write off all of the liabilities and claims arising out of its unsettled NDFs. Management has been advised that it is unlikely that any claimant would succeed in enforcing any claim in respect of such NDFs in a Russian court. However, were any such claim to be enforced against assets of the Guarantor in Russia or abroad, it could have a material adverse effect on the Guarantor's financial condition. See "The Guarantor – Legal Proceedings and Contingent Liabilities" and note 22 of the notes to the Guarantor's consolidated audited interim financial statements for the six months ended 30 June 2001.

Gazprom Share Depositary Services

In response to pressure from the MSE and market participants, the Guarantor plans to decrease its depositary charges in connection with Gazprom shares. With effect from the beginning of August 2001, a standard charge had been levied based on the share price and the changes in the number of shares credited to a client's depo account, regardless of the type of transactions conducted, thereby reducing depositary charges by an average of around 45%. While the Guarantor will continue to be the main depositary and trader in respect of Gazprom shares, the new standard charge will substantially reduce its revenues from these activities.

Taxation

Taxes payable by Russian companies are substantial and include value-added taxes, excise taxes, production taxes, profits and income taxes, payroll-related taxes and property taxes. Further, the taxation system in Russia is currently in transition and is subject to varying interpretations, frequent changes and inconsistent enforcement at federal, regional and local levels. In certain instances, new taxes have been given retroactive effect or have been interpreted retroactively to the detriment of taxpayers. The heavy burden of taxation, and the instability of the tax regime, provide a particularly difficult environment within which the Guarantor has to operate.

With the assistance of international tax experts, new tax legislation has been drafted which is designed both to ease the tax burden and to unify the currently disparate tax regime. While the legislation proposes a reduction in corporation tax from 35% to 24%, varying interpretations, frequent changes, conflicts between the federal legislation and by-laws are expected to continue to create uncertainty and result in inconsistent enforcement.

Dependence on Key Management

The Guarantor is dependent on its senior management for the implementation of its strategy and operation of its day to day activities. In addition, the personal connections and relationships of members of senior management are important to the conduct of its business. No assurance can be given that management will continue to make their services available to the Guarantor.

Liability for the Obligations of Subsidiaries

The Civil Code and the Federal Law on Joint-Stock Companies generally provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company bears joint and several liability for transactions concluded by the subsidiary in carrying out these decisions if (i) this decision-making capability arises from prevailing participation in the charter capital of the subsidiary or it is provided in a contract between the companies or arises due to certain other reasons, and (ii) the parent company gives obligatory directions to the subsidiary by virtue of provisions in the subsidiary's charter or an agreement between the parent company and the subsidiary.

In addition, the parent company is secondarily liable for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt resulting from the action or inaction of the parent company. This is the case when the parent company's capability to determine decision of the subsidiary arises from its right to give obligatory directions described above. In these instances, other shareholders of the subsidiary may claim compensation for the subsidiary's losses from the parent company which caused the subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses.

Corporate Securities Market Risks

Due, among other reasons, to the limited liquidity of the Russian corporate securities market and the relative lack of effective regulation, the prices of Russian corporate securities may be significantly affected by a relatively small amount of buying or selling activity of favourable or unfavourable press commentaries. Since regulation of insider trading and market making is not fully developed, the prices of Russian corporate securities may be affected by practices that are not permitted in other markets. This may affect the Guarantor's investments in this market.

Risks relating to the Notes

Taxation

In general, interest or other income payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 15% (15% or 20% from 1 January 2002), unless they are reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, the Guarantor believes that interest payments on the Intra-Group Funding made to the Issuer will not be subject to withholding under the terms of the double tax treaty between the Russian Federation and The Netherlands. To obtain treaty relief a foreign legal entity is currently required to obtain official certification from its home jurisdiction (The Netherlands) confirming his residence in this country for the purpose of the treaty (The Netherlands) and to file it with the Russian tax authorities. With the introduction of the new chapter of the Tax Code on profits tax, obtaining the official certification from Russian tax authorities is no longer expected to be required. If payments under the Intra-Group Funding or under the Guarantee are subject to any withholding, the Guarantor intends to increase the amounts payable as may be necessary to ensure that the Issuer (or, as the case may be (and subject as provided in the Notes) the Noteholders) receives a net amount that will not be less than the amount it would have received in the absence of such withholding. In addition, payments by the Issuer in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of The Netherlands taxes except as required by law. If payments under the Notes are subject to any withholding (subject as provided in the Notes), the Guarantor intends to increase the amounts payable under the Intra-Group Funding so as to enable the Issuer to make payments under the Notes in a net amount not less than the gross amount that would have been payable in the absence of that withholding.

Under the Russian Tax Code each person must pay taxes established by law individually, whereas grossing-up provisions (whether in relation to Russian taxes which may be required to be withheld by the Guarantor or The Netherlands taxes which may be required to be withheld by the Issuer) can be interpreted as requiring the Guarantor to pay the tax liabilities of the Issuer and the Noteholders. Accordingly, there is some doubt as to whether the gross-up arrangements the Guarantor intends to enter into under the Intra-Group Funding or the Guarantee are enforceable under Russian law.

As indicated above, it is currently unclear whether the provisions obliging the Guarantor to gross-up payments under the Guarantee will be enforceable in Russia. If a Russian court does not rule in favour of the Noteholders, there is a risk that gross-up for withholding tax will not take place and that payment made by the Guarantor under the Guarantee will be reduced by Russian income tax withheld at a rate of 20%.

See also “Terms and Conditions of the Notes – Taxation”.

No Existing Market/Market Volatility

Application has been made to list the Notes on the Luxembourg Stock Exchange. However, 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 by Russian issuers is influenced by economic and market conditions in other Eastern European countries and other emerging markets. Although international markets have stabilised since the Asian crisis in 1997 and the devaluation of the Russian Rouble in August 1998, there can be no assurance that events will not cause a recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes.

Credit Rating

Outstanding Russian Eurobonds are rated “B2” (outlook positive) by Moody’s Investors’ Service; “B” (outlook positive) by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc.; and “B+” (outlook stable) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

The Guarantor has received a long-term debt rating of B3 from Moody’s Investors’ Service Limited.

Any change in the credit rating of either the Guarantor or Russia could adversely affect the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by GazInvest Finance B.V. which is specified as the "Issuer" in the applicable Pricing Supplement (as defined below) and references to the "Issuer" shall be construed accordingly. This Note is issued pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form ("Bearer Notes") issued in exchange for a Global Note in bearer form; and
- (iv) any definitive Notes in registered form ("Registered Notes") (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 14 December 2001 and made between GazInvest Finance B.V. as Issuer, Joint-stock Bank of the Gas Industry Gazprombank as Guarantor (as defined below) of Notes issued by the Issuer, Deutsche Bank AG London as issuing and principal paying agent and agent bank (the "Principal Paying Agent", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents), Bankers Trust Company as exchange agent (the "Exchange Agent" which expression shall include any successor exchange agent) and as registrar (the "Registrar", which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (together with the Registrar, the "Transfer Agents", which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "applicable Pricing Supplement" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Notes will be unconditionally and irrevocably guaranteed by Joint-stock Bank of the Gas Industry Gazprombank (in such capacity, the "Guarantor") pursuant to a deed of guarantee (the "Deed of Guarantee") dated 14 December 2001. Under the Deed of Guarantee the Guarantor has guaranteed the due and punctual payment of all amounts due under such Notes and the Deed of Covenant (as defined below) executed by the Guarantor as and when the same shall become due and payable.

The original of the Deed of Guarantee is held by the Principal Paying Agent on behalf of the Noteholders, the Receiptholders and the Couponholders at its specified office.

Any reference to "Noteholders" or "holders" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to "Receiptholders" shall mean the holders of the Receipts and any reference herein to "Couponholders" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “Deed of Covenant”) dated 14 December 2001 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for DTC, Euroclear and CBL (each as defined below).

Copies of the Agency Agreement, a deed poll (the “Deed Poll”) dated 14 December 2001 and made by the Issuer and the Guarantor and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the “Agents”). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form, Denomination and Title

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme (“CBL”), each person (other than Euroclear or CBL) who is for the time being shown in the records of Euroclear or of CBL as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or CBL as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note shall be treated by the Issuer, the Guarantor and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and CBL, as the case may be. References to DTC, Euroclear and/or CBL shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

2. Transfers of Registered Notes

(a) *Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or CBL, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or CBL, as the case may be and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note shall be limited to transfers of such Registered Global Note, in whole but not in part, to a nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Notes in Definitive Form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address of the transferor.

(c) *Registration of Transfer Upon Partial Redemption*

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) *Costs of Registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) *Transfers of Interests in Regulation S Global Notes*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "Transfer Certificate"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form. After expiry of the applicable Distribution Compliance Period (ii) beneficial interests in Regulation S Global Notes may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (iii) such certification requirements will no longer apply to such transfers.

(f) *Transfers of Interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or CBL; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) *Exchanges and Transfers of Registered Notes Generally*

Holders of Registered Notes in definitive form may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) *Definitions*

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Legended Note” means Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

“QIB” means a “qualified institutional buyer” within the meaning of Rule 144A;

“Regulation S” means Regulation S under the Securities Act;

“Regulations S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act; and

“Securities Act” means the United States Securities Act of 1933, as amended.

3. Status of the Notes and the Guarantee

(a) *Status of the Notes*

The Notes and any relative Receipts and Coupons are direct, unconditional and (subject to the provisions of Condition 4) unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, other than obligations, if any, that are mandatorily preferred by statute or by operation of law.

(b) *Status of the Guarantee*

The obligations of the Guarantor under the Deed of Guarantee are direct, unconditional and (subject to the provisions of Condition 4) unsecured and unsubordinated obligations of the Guarantor and rank at least equally with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, other than obligations, if any, that are mandatorily preferred by statute or by operation of law.

4. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall, and the Guarantor shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes, the Receipts and the Coupons equally and rateably therewith or (b) providing such other security for the Notes, the Receipts and the Coupons as may be approved by an Extraordinary Resolution of the Noteholders.

In these Terms and Conditions:

“Bilateral Contract” means any Currency Protection Agreement or Interest Rate Protection Agreement;

“Currency Protection Agreement” means any foreign exchange contract, currency swap agreement, currency option or similar agreement or arrangement designed to protect against fluctuations in currency exchange rates, whether or not arising in the ordinary course of business or in connection with any Indebtedness;

“Early Termination Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Guarantee” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

“Indebtedness” means any indebtedness of any Person for or in respect of:

- (i) moneys borrowed or raised;
- (ii) amounts raised by acceptance under any acceptance credit facility;
- (iii) amounts raised under any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments;
- (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; or
- (vi) amounts raised under any other transaction (including, without limitation, under any Repurchase Agreement, any forward sale and any purchase agreement) having the commercial effect of a borrowing,

but, for the avoidance of doubt, does not include any Bilateral Contract;

“Interest Rate Protection Agreement” means any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement or other similar agreement or arrangement designed to protect against fluctuations in interest rates, whether or not arising in the ordinary course of business or in connection with any Indebtedness;

“Issue Date” has the meaning given in the relevant Pricing Supplement;

“Material Subsidiary” at any time shall mean a Subsidiary of the Guarantor:

- (i) where the Guarantor’s and its other Subsidiaries’ investments in and advances to such Subsidiary exceed 10% of the consolidated total assets of the Guarantor all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor; or

- (ii) whose gross income attributable to the Guarantor (consolidated in the case of a Subsidiary which itself has Subsidiaries) represents not less than 10% of the consolidated gross income of the Guarantor, as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor; or
- (iii) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10% of the consolidated total assets of the Guarantor, as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor; or
- (iv) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately before the transfer is a Material Subsidiary,

provided that for the purposes of the exceptions set out in Conditions 10(f)(iv) and 10(g), Material Subsidiary shall not include the Issuer;

“Permitted Security Interest” means:

- (i) in relation to the Issuer, any Security Interest arising by operation of law;
- (ii) in relation to the Guarantor or any of its other Subsidiaries;
 - (a) any Security Interest in existence on the Issue Date;
 - (b) any Security Interest arising by operation of law;
 - (c) any Security Interest existing on any property, income or assets prior to the acquisition thereof by the Guarantor or such Subsidiary and not created in contemplation of such acquisition, provided that the terms of such Security Interest provide that such Security Interest shall not extend to any other property, income or assets and further provided that the principal, capital or nominal amount secured by any such Security Interest and outstanding at the time of acquisition may not increase except in accordance with its original terms;
 - (d) any Security Interest existing on any property, income or assets of any corporation at the time such corporation is merged or consolidated with or into the Guarantor or such Subsidiary and not created in contemplation of such event, provided that the terms of such Security Interest provide that such Security Interest shall not extend to any other property, income or assets and further provided that the principal, capital or nominal amount secured by any such Security Interest and outstanding at the time of merger or consolidation may not increase except in accordance with its original terms;
 - (e) any Security Interest created on any property or assets acquired by the Guarantor or the Subsidiary (otherwise than from each other) securing Indebtedness of the Guarantor or the Subsidiaries incurred or assumed for the purpose of financing all or part of the cost of acquiring such property or assets, provided that the terms of such Security Interest provide that no such Security Interest shall extend to any other property or assets and such Security Interest attaches to such property or assets concurrently with or within 90 days after the acquisition thereof and further provided that the principal, capital or nominal amount secured by such Security Interest and outstanding at the time of acquisition may not increase except in accordance with its original terms; and
 - (f) any Security Interest securing Indebtedness incurred in connection with a Project Financing if the Security Interest is created by the Guarantor or such Subsidiary solely on the property, income, assets or revenues of the project for which the financing was incurred, provided that the principal amount secured by such Security Interest and outstanding at the time the financing was incurred may not increase except in accordance with its original terms;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project if the person or persons providing such financing (i) expressly agree to limit their recourse to the project financed and the revenues derived from such as the principal source of repayment for the moneys advanced and (ii) have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service substantially all Indebtedness incurred in connection with such project;

“Relevant Indebtedness” means any Indebtedness which (a) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is intended by the Issuer to be, or is (subsequent to its creation) listed, quoted or traded on any stock exchange or traded in any securities market (including, without limitation, any over-the-counter market); (b) is denominated, payable or optionally payable in a currency other than Roubles; and (c) was initially offered and distributed primarily

outside the Russian Federation, but for the avoidance of doubt does not include any Indebtedness in the form of a loan, loan note, transferable loan certificate or other loan instrument unless it is, or is intended by the Issuer to be, or is (subsequent to its issue), listed or quoted on any stock exchange;

“Repurchase Agreement” means any repurchase agreement, buy/sell back agreement, reverse repurchase agreement or stock loan with respect to any securities, whether or not arising in the ordinary course of business;

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

“Subsidiary” means, in relation to any Person (the “first Person”) at any particular time, any other Person (the “second Person”):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and international accounting standards, consolidated with those of the first Person.

5. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any other Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

In these Terms and Conditions:

“Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“Sub-unit” means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period, specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

(iii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes. (the "ISDA Definitions") and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be given in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. Payments

(a) *Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) *Presentation of Definitive Bearer Notes, Receipts and Coupons*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Fixed Interest Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in Respect of Bearer Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

(d) *Payments in Respect of Registered Notes*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the "Record Date"). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions for expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Global Note in registered form in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Guarantor and the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) *General Provisions Applicable to Payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, CBL or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, CBL or DTC, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(f) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) any Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. Redemption and Purchase

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required (x) in the case of the Issuer to pay additional amounts or (y) in the case of the Guarantor additional amounts in excess of amounts which would have been required had a payment been required to be made on the Issue Date, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) (including a judgment by a court of competent jurisdiction) or any change in the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Directors of the Issuer or, as the case may be, the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing in the appropriate Tax Jurisdiction (as defined in Condition 8) to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged, as aforesaid, to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 with a copy to the Guarantor; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or CBL and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the ("Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 (with a copy to the Guarantor) not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not, in the case of a Bearer Note in definitive form, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "Put Notice") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b).

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the "Amortised Face Amount") calculated in accordance with the following formula:

$$\text{Amortised Face Amount} = \text{RP} \times (1 + \text{AY})^Y$$

where:

"RP" means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) *Purchases*

The Issuer, the Guarantor or any Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are attached or surrendered therewith) in the open market or by tender or by private agreement at any price. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts, Talons and Coupons by the Issuer or, as the case may be, the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will procure or pay the increase of the relevant amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts, Talons or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts, Talons or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such amounts shall be payable with respect to any Note, Receipt, Talon or Coupon presented for payment:

- (i) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt, Talon or Coupon by reason of his having (or having had) some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (ii) by, or on behalf of, a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt, Talon or Coupon to another Paying Agent in the European Union but fails to do so; or
- (iii) more than 30 days after the Relevant Date (as defined below) except to the extent that such payment would have been subject to such withholding or deduction and the holder thereof would have been entitled to an additional amount with respect to such withholding or deductions on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(f)); or

- (iv) 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 income (currently proposed as COM (2001) 400) or any law implementing or complying with, or introduced in order to conform to, such directive.

As used herein:

- (i) "Tax Jurisdiction" means (i) The Netherlands or any political subdivision or any authority having power to tax therein; and (ii) the Russian Federation or any political subdivision or any authority having power to tax therein; and
- (ii) the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

If any of the following events occurs and is continuing:

- (a) the Issuer fails to pay any amount of principal in respect of the Notes by no later than the seventh day after the due date for payment thereof or fails to pay any amount of interest in respect of the Notes by no later than the fifteenth day after the due date for payment thereof; or
- (b) the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Guarantee and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Principal Paying Agent; or
- (c)
 - (i) any Indebtedness of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is not paid when due or payable (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) at the option of a Subsidiary of the Guarantor or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
 - (iii) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.\$15,000,000 (or its equivalent in any other currency or currencies); and further provided that in determining the amount of any Indebtedness for this purpose, Indebtedness arising under a Repurchase Agreement shall be deemed to be the net amount (if any) payable to a third party pursuant to such agreement to discharge all obligations thereunder; or

- (d) a judgment or order or arbitration award for the payment of an aggregate amount in excess of U.S.\$15,000,000 (or its equivalent in any other currency or currencies) is rendered or granted against the Issuer, the Guarantor or any of the Guarantor's Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or
- (e) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries having a fair market value in excess of US\$15,000,000 (or its equivalent in any other currency or currencies); or
- (f)
 - (i) the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) one or more administrator(s) or a liquidator of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries is appointed (other than by the CBR) over the whole or substantially the whole or any material part of the undertaking, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries, (iii) the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries makes a general assignment to, or a general arrangement or general composition with or for the benefit of, all or substantially all of its creditors or declares a moratorium in respect of all or substantially all of its Indebtedness and Guarantees, (iv) the Issuer, the Guarantor or any of the Guarantor's Material

Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent), (v) the CBR initiates reorganisation or appoints a temporary administration of the Guarantor, but only, in the latter case, if the CBR does so on account of failure of the Guarantor to pay its debts as they fall due or to comply with any applicable mandatory economic ratio prescribed by Russian legislation, or (vi) the banking licence of the Guarantor is revoked; or

- (g) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (h) any event occurs which under the laws of The Netherlands or the Russian Federation has an analogous effect to any of the events referred to in Condition 10(d) to Condition 10(g) (inclusive); or
- (i) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into and perform and comply with their respective obligations under and in respect of the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Receipts, the Coupons and the Deed of Guarantee admissible in evidence in the courts of The Netherlands and the Russian Federation is not taken, fulfilled or done; or
- (j) the Deed of Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (k) (A) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (B) the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or
- (l) the Issuer ceases to be a Subsidiary of the Guarantor;

then any Note may, by written notice addressed by the holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Principal Paying Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (d) if any withholding or deduction is required to be made in any EU member state pursuant to any European Union directive on the taxation of savings income (currently proposed as COM (2001) 400)), there will at all times be a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to that directive, if such a member state exists.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in (i) a leading English language daily newspaper of general circulation in London and (ii) if and for so long as the Bearer Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. The Issuer (failing which the Guarantor) shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or CBL and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or CBL and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on the fourth day after the day on which the said notice was given to Euroclear and/or CBL and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or CBL and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or CBL and/or DTC, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than one-tenth in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than one-half in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes, the Receipts or the Coupons or changing the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The expression “Extraordinary Resolution” when used in these Conditions means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with these provisions by a majority consisting of not less than three-quarters of the persons voting on the resolution upon a show of hands or if a poll was duly demanded then a majority consisting of not less than three-quarters of the votes given on the poll.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Contracts (rights of third parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Governing Law, Arbitration and Jurisdiction

(a) Governing law

The Notes, the Receipts, the Coupons, the Deed of Covenant, the Deed Poll, the Agency Agreement and the Deed of Guarantee are governed by, and shall be construed in accordance with, English law.

(b) Arbitration

Subject to Condition 18(c), any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a claim, dispute or difference regarding the existence, termination or validity of the Notes) (a “Dispute”) between the Issuer and/or, as the case may be, the Guarantor and any Noteholder(s) shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “Rules”) as at present in force and as modified by this Condition, which Rules shall be deemed incorporated in this Condition. For the purposes of any arbitral proceedings commenced pursuant to this Condition:

- (i) the number of arbitrators shall be three;
- (ii) the seat of arbitration shall be London, England;
- (iii) the language of arbitration shall be English;
- (iv) the appointing authority shall be the London Court of International Arbitration (the “LCIA”);
- (v) where the parties to the dispute number more than two and such parties have not agreed in writing that the disputant parties can be divided into “claimant” and “respondent” sides for the purposes of the formation of the arbitral tribunal and are unable to agree any other method for the constitution of the arbitral tribunal, the LCIA shall appoint the arbitral tribunal without regard to any party’s nomination;
- (vi) without prejudice to Condition 18(c), the arbitral tribunal under appropriate circumstances shall have the power to order, upon the application of any of the Issuer, the Guarantor or any Noteholder(s) (whether or not such applicant is an existing party to the arbitral proceedings), the joinder of any of the Issuer, the Guarantor or any Noteholder(s) to the arbitral proceedings; and
- (vii) Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) Litigation Election

Notwithstanding Condition 18(b), each of the Issuer and the Guarantor have agreed in the Agency Agreement, the Deed Poll, the Deed of Covenant (in the Deed of Covenant in the case of the Issuer only) and the Deed of Guarantee (in the Deed of Guarantee in the case of the Guarantor only) that a Noteholder may elect, by written notice in accordance with Condition 14 to the Issuer and/or the Guarantor, as the case may be, that, with respect to such Noteholder, a Dispute shall be resolved by litigation and not by arbitration (a “Litigation Election”), provided that a Litigation Election may not be made by a Noteholder who has (i) given or received notice of arbitration pursuant to the Rules with respect to such Dispute and (ii) appointed an arbitrator under the Rules or failed to do so within the time prescribed by the Rules.

(d) *Jurisdiction of English courts*

The Issuer and the Guarantor have agreed in the Agency Agreement, the Deed Poll, the Deed of Covenant (in the Deed of Covenant in the case of the Issuer only) and the Deed of Guarantee (in the Deed of Guarantee in the case of the Guarantor only), for the benefit of any Noteholder that makes a Litigation Election in accordance with Condition 18(c) with respect to a Dispute, that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings ("Proceedings") with respect to such Dispute and, for such purposes, have irrevocably submitted to the jurisdiction of such courts.

(e) *Jurisdiction of New York courts*

In addition to Condition 18(d), the Issuer and the Guarantor have agreed in the Agency Agreement, the Deed Poll, the Deed of Covenant (in the Deed of Covenant in the case of the Issuer only) and the Deed of Guarantee (in the Deed of Guarantee in the case of the Guarantor only), for the benefit of any holder of a Legended Note that makes a Litigation Election in accordance with Condition 18(c) with respect to a Dispute, that the courts of the United States in the State of New York, in each case sitting in the County of New York, shall have jurisdiction to hear and determine any Proceedings with respect to such Dispute and, for such purposes, have irrevocably submitted to the jurisdiction of such courts.

(f) *Non-exclusivity*

The submissions to the jurisdiction of the courts referred to in Conditions 18(d) and (e) shall not (and shall not be construed so as to) limit the right of any Noteholder which makes a Litigation Election in accordance with Condition 18(c) to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(g) *Appropriate forum*

For the purposes of Conditions 18(d) and (e), each of the Issuer and the Guarantor has irrevocably waived any objection which it might now or hereafter have to any of the specified courts being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(h) *Process agents*

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings are begun may be served on it by being delivered (a) in connection with any Proceedings in England, to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office in England for the time being and (b) in connection with any Proceedings in the County of New York, to CT Corporation System at 111 Eighth Avenue, New York, NY 10011 or, if different, its principal place of business in the County of New York for the time being. If either such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer and the Guarantor, the Issuer and the Guarantor (acting together) shall, on the written demand of any Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, appoint a further person in England or (as the case may be) the County of New York to accept service of process on their behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice in accordance with Condition 14 addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(i) *Consent to enforcement etc.*

Each of the Issuer and the Guarantor has irrevocably consented to the giving of any relief or the issue of any process in connection with any Proceedings, or arbitral proceedings pursuant to Condition 18(b), including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment or award which may be made or given in such Proceedings or arbitral proceedings.

(j) *Waiver of immunity*

To the extent that the Issuer or, as the case may be, the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process including in relation to the enforcement of arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or its assets or revenues, the Issuer and the Guarantor have agreed not to claim and have irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction and, in particular, to the intent that in any proceedings taken in the County of New York the foregoing waiver of immunity shall have effect under and be construed in accordance with the United States Foreign Sovereign Immunities Act of 1976.

USE OF PROCEEDS

Substantially all of the net proceeds of any Notes issued under the Programme will be applied in purchasing one or more promissory notes issued by the Guarantor (or in funding such other intra-group funding arrangement ("Intra-Group Funding") as is described in the applicable Pricing Supplement). See "Description of the Issuer – Intra-Group Funding".

The proceeds received by the Guarantor pursuant to the Intra-Group Funding will be applied by the Guarantor for its general corporate purposes (or otherwise as described in the applicable Pricing Supplement).

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets forth the audited consolidated capitalisation and indebtedness of the Guarantor as at 30 June 2001. There has been no material change in the capitalisation or indebtedness of the Guarantor since 30 June 2001.

	As at 30 June
	(US\$ '000)
Short-term liabilities (up to 1 year)	
Deposits and balances from banks and other financial institutions	366,281
Current accounts and deposits from customers	1,046,910
Certificates of deposit and promissory notes	312,384
Other liabilities	45,421
Total	1,770,996
Long-term liabilities (over 1 year)	
Deposits and balances from banks and other financial institutions	25,530
Current accounts and deposits from customers	442,971
Certificates of deposit and promissory notes	80,220
Total	548,721
Deferred tax liability	136,729
Partners' funds	
Charter capital.	863,806
Foreign currency translation reserve	(9,249)
Accumulated losses	(158,956)
Total	695,601
Total capitalisation and indebtedness	3,152,047

THE ISSUER

General

The Issuer, a wholly owned subsidiary of the Guarantor, was incorporated under Dutch law on 22 November 2001, as a close company for an unlimited period of time and with limited liability ("*besloten vennootschap met beperkte aansprakelijkheid*"), by notarial deed executed before H J Portengen, civil law notary, officiating in Rotterdam. The Ministerial Statement of No Objections on the draft of the deed of incorporation was granted on 8 November 2001, under Decree number B.V. 1169967.

The Issuer has its corporate seat in Amsterdam, The Netherlands, with its principal offices at Herengracht 450, 1017 CA Amsterdam, The Netherlands and is registered in the Amsterdam Commercial Register with number 34158517.

Corporate Purpose

The Issuer was established for the purpose of, among other things, raising funds for the Guarantor, as set forth in Article 3 of its Articles of Association.

Share Capital

Pursuant to Article 4 of the Issuer's Articles of Association the authorised share capital of the Issuer amounts to EUR10,000,000 divided into 10,000 ordinary shares with a par value of EUR1,000 each (the "Shares" and each a "Share"); as of the date hereof 2,000 Shares are issued and outstanding and are fully paid up and held by the Guarantor. All Shares are registered shares; the Issuer may not issue share certificates.

Other Securities

As of the date hereof, no convertible debt securities, exchangeable debt securities, debt securities with warrants attached or any other securities, apart from the Shares, have been issued by the Issuer.

Intra-Group Funding

Substantially all of the net proceeds of any Notes issued under the Programme will be applied in purchasing one or more promissory notes issued by the Guarantor ("Promissory Notes") (or in funding such other Intra-Group Funding arrangement as is described in the applicable Pricing Supplement). The Promissory Notes will be either interest bearing or issued at a discount to their face value. The Promissory Notes will mature, or be required by the Guarantor to be redeemed, on such dates as will enable the Issuer to meet its payment obligations in respect of the Notes as they become due.

Based on professional advice it has received, the Guarantor believes that under the double tax treaty between The Netherlands and the Russian Federation, payments of interest on the Promissory Notes (or accreted value in the case of discounted Promissory Notes) can be made without withholding. In respect of each issue of Notes, the Guarantor and the Issuer intend to apply for an exemption from Russian Federation withholding tax prior to any payment of interest or other debt income under the related Intra-Group Funding. In the event that the Guarantor is obliged to withhold, the Guarantor intends to increase the relevant amounts payable or to pay additional amounts to ensure that the Issuer receives a net amount that will be not less than the amount it would have received in the absence of such withholding.

Management

The management of the Issuer is entrusted to its Managing Board.

The general authority to represent the Issuer is vested in the Managing Board. In addition, two members of the Managing Board acting jointly are authorised to represent the Issuer.

Members of the Managing Board may be suspended or dismissed by a general meeting of shareholders at any time.

As of the date hereof, the Managing Board is constituted by:

- (i) Maarten Roderick Henricus Bernardus Hoogeweegen, residing at Vrijburgstraat 22, 2275 BZ Voorburg, The Netherlands, born in Rotterdam, The Netherlands on 18 December 1953;
- (ii) Jan-Baptist Maria Rouppe van der Voort, residing at Cayennehof 12, 2215 BH Voorhout, The Netherlands, born in Gravenhage, The Netherlands on 29 November 1954;
- (iii) Igor Roussanov, residing at Flat 10, 14 Starokachalovskaya Ul., Moscow 121628, Russian Federation, born in Nakhodka, Primorsky Regions, the USSR on 11 April 1970; and
- (iv) Evgeny Goloulin, residing at Flat 220, 5 Building 3 Teply Stan Ul., Moscow 117465, Russian Federation, born in Moscow, the USSR on 15 August 1959.

Employees

As of the date hereof, there are no persons employed by the Issuer.

THE GUARANTOR

History and Overview

The Guarantor was founded in 1990 and became a limited liability company by resolution of its stakeholders in 1996. On 13 November 2001 the Guarantor was re-registered by the CBR as a closed joint-stock company and is in the process of finalising the allotment of newly issued shares and completing other relevant formalities. See "The Guarantor – Re-registration". The primary goal in establishing the Guarantor was to improve the quality and effectiveness of financial services to the Gazprom Group and the Russian gas industry. According to the Russian information agencies Interfax and Mobile, as at 1 November 2001 the Guarantor was the third largest Russian bank in terms of net asset value.

The Guarantor's principal activities comprise lending, deposit taking, securities and foreign exchange trading and trade finance. The Guarantor also generates income from providing settlement services for interregional payments for gas supplies, plastic card operations, depositary and custodian services and servicing financings for Gazprom Group companies.

Since its foundation the Guarantor has developed a network of 28 branch offices and 80 regional representative offices located throughout the Russian Federation. Its network extends to the principal regions where gas is extracted, produced and transported and to many of the largest financial and industrial centres in the Russian Federation.

The Guarantor was registered with the CBR on 31 July 1990. In 1996 the Guarantor was granted a general banking licence by the CBR and in 1998 it became the Gazprom Group's preferred bank for servicing the gas industry. In 1999 the Interregional Banking Group for the Gas Industry was established, comprising the Guarantor and nine regional banks in whose authorised capital the Guarantor holds various stakes. The Guarantor's centralised service for effecting payment within the gas industry has been adopted as the Banking Group's settlement system. In 2000 the Guarantor launched a program to develop banking operations in the precious metals and precious stones markets. The Guarantor is rated 'B3' by Moody's. The Guarantor's registered office is located at 16 Block 1, Nametkina St., Moscow 117420, Russia, and its head office is located at 63, Novocheremushkinskaya St., Moscow 117418, Russia.

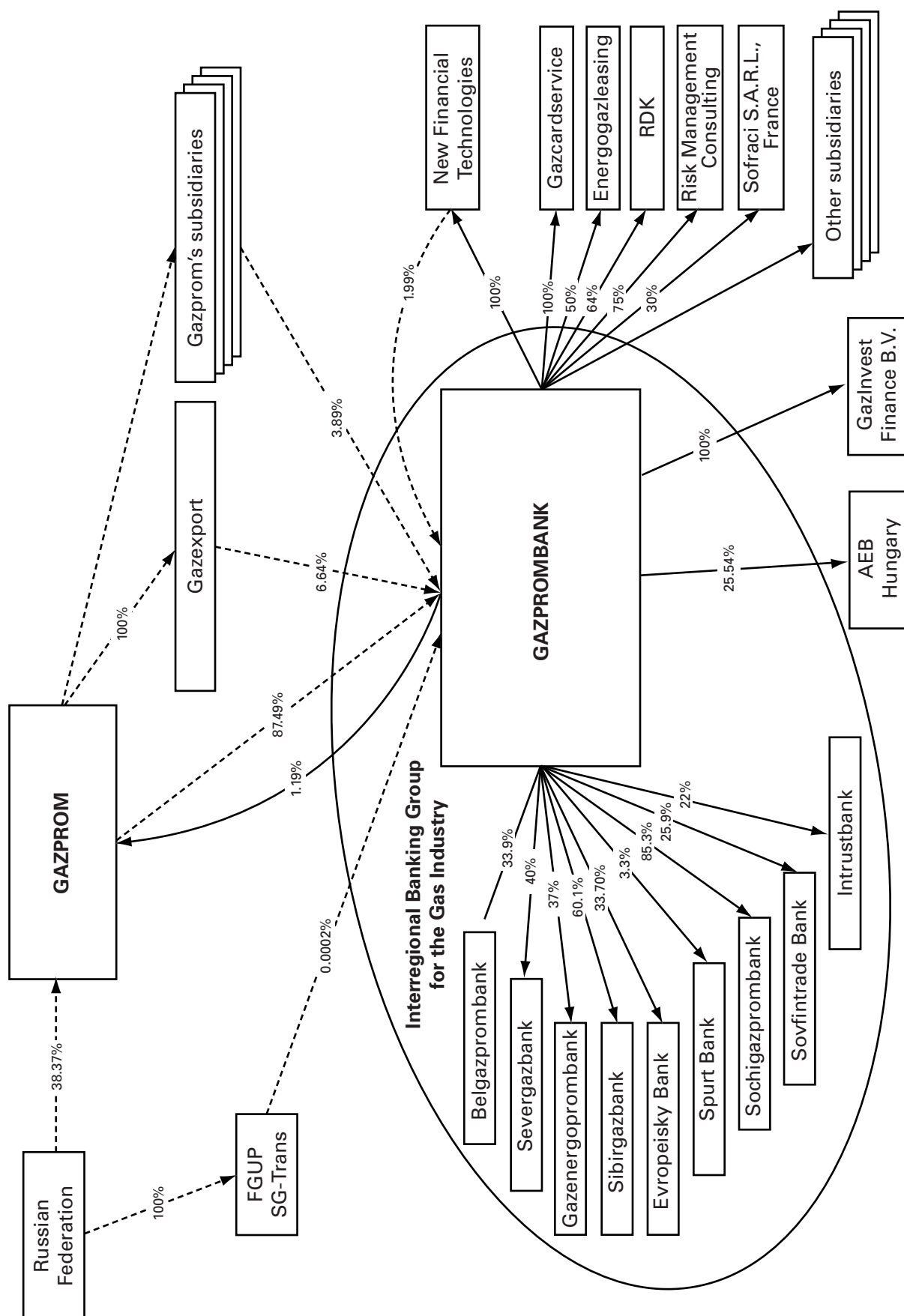
Relationship with the Gazprom Group

Gazprom holds 87.49% of the Guarantor's charter capital. Two other Gazprom Group companies, OOO Gazexport ("Gazexport") and OOO New Financial Technologies, a subsidiary of the Guarantor, together hold a further 8.63% of the Guarantor's charter capital.

The Group and the Guarantor have been and continue to be economically dependent on the Gazprom Group. The majority of the Guarantor's funding is from, and the majority of its credit exposures are to, the Gazprom Group. The Guarantor's activities are closely linked to the requirements of the Gazprom Group and pricing is determined accordingly. For the six month period ended 30 June 2001, transactions of the Guarantor with members of the Gazprom Group accounted for around US\$2,308,871 thousand (55%) of the Guarantor's total gross exposures (including assets and off-balance sheet commitments) and around US\$1,323,995 thousand (54%) of its total liabilities.

Gazprom is one of the world's leading integrated natural gas companies and the world's largest producer of natural gas. According to Gazprom's own estimates, Gazprom currently accounts for more than 20% of the world's natural gas production, around 90% of Russia's natural gas production, around 8% of the Russian Federation's GDP and around 25% of the country's tax revenues. The Russian Federation holds 38.37% of the shares of Gazprom as federal property and takes an active role in its management. Gazprom reported (under IAS) total assets as at 31 December 2000 of RUR1,880,098 million and retained (net) profit for the year of RUR48,540 million. Gazprom's shares are listed on a number of exchanges including the Moscow Stock Exchange and the St. Petersburg Stock Exchange.

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Strategy

Management has approved a medium-term strategy for 2001 to 2003 which sets out key objectives to ensure the development of the Guarantor's activities. Its main aims are to continue to offer the best possible services to the Gazprom Group and to strengthen the Guarantor's competitive position within the Russian banking sector. The key objectives include:

- increasing operational efficiency and transparency by improving management and corporate governance and implementing integrated financial risk management;
- broadening the earnings base and further diversifying the customer base, services and products. This should assist in counterbalancing both seasonal trends in the gas industry and uncertainties in the domestic economy;
- expanding the geographical spread of Group's branch network and activities towards East Siberia, to Novosibirsk and beyond, and also to China and India; and
- strengthening its position in the international banking and capital markets, leading to the improvement of services for the Gazprom Group and other large corporates.

Without detracting from its core focus as the Gazprom Group's preferred bank for servicing the gas industry, the Guarantor wishes to continue to diversify its business, both extending its activities to other sectors of the economy and attracting a wider range of deposit clients.

Selected Consolidated Financial Information

The following table sets out selected audited financial information of the Guarantor and its consolidated subsidiaries for the periods indicated. The information should be read in conjunction with the Guarantor's audited consolidated financial statements (and related notes) contained elsewhere in this Information Memorandum. The Guarantor's audited consolidated financial statements for 1998 and 1999 and (subject as set out below) 2000 consolidate the financial statements of Altalanos Ertekforgali Bank RT ("AEB"). In April 2000, the Guarantor sold a portion of its shareholding in AEB, thereby reducing its interest in that company from 42% to 25.5%. The Guarantor realised a net loss of US\$12,453 thousand on this sale which was fully reflected in the consolidated profit and loss statement for the year ended 31 December 2000.

	As at 31 December			As at 30 June
	1998	1999	2000	2001
	(US\$ '000)			
Loans to customers ⁽¹⁾	1,001,577	1,425,253	1,324,973	1,500,274
Placements with banks and other financial institutions ⁽¹⁾	775,554	457,084	835,881	911,187
Total assets	2,248,487	2,401,234	2,937,463	3,152,047
of which related party transactions ⁽²⁾	948,269	1,433,233	1,595,469	1,696,802
Current accounts and deposits from customers	1,394,608	1,418,339	1,286,429	1,489,881
Deposits and balances from banks and other financial institutions	400,203	230,619	430,304	391,811
Total liabilities	1,916,484	2,005,370	2,290,154	2,456,446
of which related party transactions	838,632	1,187,889	1,262,726	1,323,995
Guarantees and letters of credit ⁽¹⁾	193,802	290,335	383,402	353,018
Undrawn loan commitments	357,735	426,319	227,996	711,238
Total guarantees, letters of credit and undrawn loan commitments	542,257	716,654	611,398	1,064,256
of which related party transactions	477,145	628,296	510,407	612,069

	For the year ended 31 December			For the period ended 30 June
	1998	1999	2000	2001
	(US\$ '000)			
Net interest income (before provisions)	75,088	57,524	61,571	37,458
Net fee and commission income	30,034	29,985	21,117	11,948
Net income (expense) from foreign exchange	(168,653)	8,113	48,642	39,826
Net income from securities (debt and equity).	(69,764)	(73,169)	51,350	106,643
Movement in provisions.	(35,146)	(1,019)	(1,524)	(18,092)
Profit (loss) before taxes	(264,202)	82,596	91,108	132,613
Profit (loss) after taxes and minority interest	(288,560)	25,443	25,028	61,176
Net interest income to average total assets ⁽³⁾	3.4%	2.5%	2.3%	2.5%
Equity to total assets	12.8%	13.7%	22.0%	22.1%
Net loans ⁽⁴⁾ to customers' total assets	44.5%	59.4%	45.1%	47.6%
Return on average assets	(12.9)%	1.1%	0.9%	4.0%
Return on average equity ⁽³⁾	(96.9)%	8.2%	5.1%	18.2%
Capital adequacy ratio ⁽⁵⁾	18.9%	16.3%	28.0%	29.7%

Notes:

- (1) Loans to customers, guarantees and letters of credit and placements with banks and other financial institutions are shown net of provisions. Provisions for loans to customers were US\$51,742 thousand, US\$61,068 thousand, US\$48,487 thousand and US\$65,635 thousand as at 31 December 1998, 1999 and 2000 and 30 June 2001, respectively. Provisions for off balance sheet exposure were US\$9,280 thousand US\$4,550 thousand, US\$7,927 thousand and US\$7,123 thousand as at 31 December 1998, 1999 and 2000 and 30 June 2001, respectively. Provisions for placements with banks and other financial institutions were US\$5,645 thousand, US\$1,201 thousand, US\$4,679 thousand, US\$6,159 thousand as at 31 December 1998, 1999 and 2000 and as at 30 June 2001, respectively.
- (2) Related parties comprise all members of the Gazprom Group (including the Guarantor) and controlled and associated companies and managers and directors of any such company. The figures include transactions with unrelated parties which are guaranteed by a member of the Gazprom Group.
- (3) Average total assets and average equity is the arithmetic mean between two year end balances or for the period ended 30 June 2001 the 31 December 2000 and the 30 June balances.
- (4) Includes loans to customers less specific provisions and general credit risk provisions.
- (5) Calculated according to BIS regulations.

Principal Activities

Overview

The Guarantor's principal activities comprise (a) commercial lending, (b) deposit taking, (c) foreign exchange and securities trading and (d) trade finance. The Guarantor also generates income from providing money transfer and clearing facilities, credit, debit and charge card services, principally to the gas industry, depositary and custodian services and from servicing financings for Gazprom Group companies.

Lending

The Guarantor undertakes lending in foreign currency and Roubles. As at 30 June 2001, the Guarantor had a total of US\$1,565,909 thousand in loans outstanding, 79% of which were denominated in foreign currency. The Guarantor's principal lending activities comprise lending to Gazprom Group companies, lending to other gas industry participants, providing for the development and upgrading of production facilities in the gas industry and lending to other sectors of the Russian economy, in particular construction, high-tech machinery and export trade organisations. Retail lending represents a small part of the portfolio and accounted for less than 1% of total loans as at 30 June 2001. A significant proportion of the Guarantor's lending activities comprise project financing for the benefit of the Gazprom Group. Approximately 76% of total loans to customers outstanding as at 30 June 2001 were either directly to, or guaranteed by, the Gazprom Group. A loan to Europol Gaz SA ("Europol") to finance the Yamal-Europe gas pipe line project (the "Yamal-Europe Project") accounted for 56% of total loans. See "The Guarantor – Lending".

Deposit Taking

The Guarantor's major sources of funds are current accounts and deposits from corporate and retail customers and banks. As at 30 June 2001, the Guarantor had a total of US\$1,489,881 thousand in current accounts and deposits from customers, 70% of which were due to Gazprom Group companies and US\$391,811 thousand in deposits and balances from banks and other financial institutions, 22% and 7% of which were due to its associated company, AEB and to Vnesheconombank, respectively.

Securities and Foreign Exchange Trading

The Guarantor trades all types of state, municipal and corporate securities using client and own funds, and is one of the major traders of Russian Federation Foreign Currency Bonds (OGVZ) and Russian Federation Eurobonds. In 2000 the Guarantor conducted the largest turnover of share trading by volume on the Moscow Stock Exchange. In the corporate securities sector, the Guarantor's principal trading activities are in respect of Gazprom shares.

Services offered to customers also include the provision of consulting and information services on trading activities and trustee management of client securities portfolios. As at 30 June 2001, the Guarantor had US\$343 million in securities held for trading. The Guarantor has also been active in the foreign exchange market. As at 30 June 2001, nominal amounts in respect of unmatured forward foreign exchange, securities and metal contracts totalled US\$246,129 thousand. In addition, as at 30 June 2001 the Guarantor had US\$774,397 thousand (nominal amount) of unsettled non-deliverable forward trades. See "The Guarantor – Legal Proceedings and Contingent Liabilities", "Certain Risk Factors – Risks Relating to the Guarantor – Unsettled NDFs" and note 22 of the notes to the Guarantor's consolidated financial statements.

Trade Finance

The Guarantor supports its customers' trade finance activities through the issue of guarantees and letters of credit. The Guarantor has recently expanded its trade finance services to include export pre-financing, import financing, factoring and forfeiting. As at 30 June 2001, the Guarantor had a total of US\$353,018 thousand in outstanding guarantees and letters of credit, 93% of which related to Gazprom Group activities and 78% of which were letters of credit issued for the purchase of computer systems, satellite communication equipment and gas distribution equipment for the Yamal-Europe Project. These exposures are guaranteed by members of the Gazprom Group. Although revenues generated from trade finance activities to date have represented a relatively small proportion of total revenues, US\$770 thousand for the six months ended 2001, management expects trade finance to be a growth area, particularly in connection with financing activities of the Gazprom Group.

Other Activities

The Guarantor offers a wide range of financial services relating to the opening and management of Rouble and foreign currency accounts and settlements. In 1999, the Guarantor's centralised service for effecting payment within the gas industry was adopted by the Interregional Banking Group for the Gas Industry, a group comprising the Guarantor and nine regional banks in whose capital the Guarantor has varying stakes. The Guarantor, together with its regional offices and subsidiary banks collectively settle approximately three quarters of all gas payments to the Gazprom Group.

The Guarantor has the largest depositary network in Russia, extending to over 60 provinces throughout the Russian Federation. The Guarantor's depositary service provides a comprehensive service to Gazprom's shareholders and holds securities issued by over 110 issuers in the Russian Federation.

Since 1997, the Guarantor has been a principal member of the international payment systems VISA International and Europay International and it also distributes American Express cards, allowing it to offer plastic card services of international and domestic payment systems in all of the Guarantor's branches and subsidiaries. Approximately 300,000 employees in over 100 gas industry enterprises [and other customers] utilise plastic card services offered by the Guarantor.

In its capacity as agent for Gazprom, the Guarantor actively participates in international credit lending programmes. Since 1997, the Guarantor has been involved in servicing large syndicated loans provided to the Gazprom Group by a number of foreign banks and financial institutions.

The following table shows the contribution of significant revenue generating and trading activities to the Guarantor's revenues for the periods indicated.

	Year Ended 31 December						Period ended 30 June	
	1998	%	1999	%	2000	%	2001	%
	(US\$ '000)							
Commercial and retail lending	195,174	436	142,658	48	167,030	51	79,656	31
Securities market transactions ⁽¹⁾	(69,764)	(155)	73,169	24	51,350	16	106,643	41
Foreign exchange transactions ⁽¹⁾	(168,653)	(377)	8,113	3	48,642	15	39,826	15
Interbank lending	54,793	122	44,254	15	38,425	12	18,797	8
Fee based services ⁽²⁾	33,235	74	31,719	10	23,133	6	13,610	5
Total	<u>44,785</u>	<u>100</u>	<u>299,913</u>	<u>100</u>	<u>328,580</u>	<u>100</u>	<u>258,532</u>	<u>100</u>

Notes:

(1) Gains shown net of losses.

(2) Includes trade finance.

Lending

The Guarantor's loan portfolio comprises predominantly foreign currency loans – including US Dollar and Euro denominated loans, to commercial customers.

The following table shows the Guarantor's loan portfolio by currency and maturity as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	As at 31 December						As at 30 June	
	1998	%	1999	%	2000	%	2001	%
(US\$ '000)								
Gross due from customers by currency:								
RUR	78,738	7.5	83,653	5.6	178,437	13.0	334,656	21.4
Foreign currencies	974,581	92.5	1,402,668	94.4	1,195,023	87.0	1,231,253	78.6
Total gross due	1,053,319	100	1,486,321	100	1,373,460	100	1,565,909	100
Accrued interest due	30,261		15,807		10,520		6,592	
Total gross due with interest	1,083,580		1,502,128		1,383,980		1,572,501	
Provisions	(51,742)		(61,068)		(48,487)		(65,635)	
Total net due with accrued interest	1,031,838		1,441,060		1,335,493		1,506,866	
Net due from customers by maturity:								
Up to 1 year	395,304	39.5	309,109	21.7	288,595	21.8	202,750	13.5
1 to 5 years	154,199	15.4	374,229	26.3	213,192	16.1	97,239	6.5
Over 5 years	452,074	45.1	741,915	52.0	823,186	62.1	1,200,285	80.0
Total net due	1,001,577	100	1,425,253	100	1,324,973	100	1,500,274	100
Accrued interest due	30,261		15,807		10,520		6,592	
Total net due with accrued interest	1,031,838		1,441,060		1,335,493		1,506,866	

The Guarantor has loan concentrations in certain sectors of the economy, in particular the gas industry, construction and more recently, high-tech machinery. In addition, loans to finance Gazprom Group activities comprise a significant proportion of the loan portfolio. As at 30 June 2001, approximately 76% of the Guarantor's gross loans to customers were either directly to, or guaranteed by, Gazprom or other entities in the Gazprom Group. More than half of such gross loans (56% as at 30 June 2001) relates to project financing in respect of the Yamal-Europe Project, a project to construct gas pipelines from the northern part of the Tyumen region of Russia to Germany.

Where lending to finance certain Gazprom Group projects, such as the Yamal-Europe Project, the Guarantor often provides direct or indirect funding at below market rates through low interest rate deposits or accounts of the borrower or another Gazprom Group company. See "Certain Risk Factors – Risks Relating to the Guarantor – Relationship with the Gazprom Group".

Under the Yamal-Europe Project, Europol, a joint venture company owned principally by the Gazprom Group and PGNiG, the Polish national oil company, was established to construct two parallel gas pipelines and five compressor stations comprising the Polish section of the project. Construction began in 1997 and the first pipeline was completed at the end of 1999, allowing small gas deliveries to commence in Poland. Construction of the remaining pipeline is scheduled to be completed in 2008, although construction has yet to begin. The maximum available credit line under the loan is US\$1,002,779 thousand, of which US\$871,266 thousand (including capitalised interest) was outstanding as at 30 June 2001. The loan is repayable in monthly instalments, the final instalment falling due in 2018. The loan is denominated and repayable in US dollars and interest payments on the loan are calculated by reference to LIBOR. Europol will repay the loan from transit fees charged for gas shipments made via the pipelines. The transit fees for gas supplied through the pipelines are payable in US dollars at fixed rates. The Guarantor has no recourse to any assets other than the transit fees which are paid by Gazexport (a subsidiary of Gazprom). The transit fees are held in a Europol escrow account and secured for the benefit of the Guarantor. Although it has no recourse to Gazprom in relation to the loan, in consideration of the financing Gazprom provided a term deposit and a subordinated deposit of a total of around US\$230,000 thousand to the Guarantor as well as making a capital

contribution of around US\$420,000 thousand. The first instalment of principal (and capitalised interest) of US\$238,000 thousand falls due in February 2002. See "Certain Risk Factors – Risks Relating to the Guarantor – Yamal-Europe Project; Loan Concentration Risk and Breach of CBR Mandatory Economic Ratio".

Loan Classification and Provisions

Loans are classified, in accordance with the International Bank for Reconstruction and Development (the "World Bank") requirements, as good, special mention, substandard, doubtful or bad. The following table sets out the World Bank's loan classifications and provisions.

	Classification	Description	Reserve
A	Good	Credits which do not present an above-average risk and whose repayment is not in doubt.	2%
B	Special mention	Credits not classified as doubtful, dangerous or bad, but which are not typical pursuant to the Guarantor's credit policy or are of an unusual character, bear an above-average risk, and require attention from management.	5%
C	Substandard	The entire amount of credit or part thereof is not classified as "Doubtful" or "Bad", but bears above-average risk due to financial standing and unfavourable conditions of borrower activity, insufficient backing or other causes.	20%
D	Doubtful	The entire amount of credit or part thereof may not be repaid and will represent a loss, but the amount of loss has not yet been determined.	50%
E	Bad	The entire amount of credit or part thereof is deemed unrecoverable.	100%

A provision for loan impairment is established to cover losses judged to be present in the credit portfolio as of the balance sheet date.

Exposures are only written off upon a court approving the write off on the basis that recovery of the loan is impossible.

The following table provides a breakdown of the Guarantor's outstanding gross loans in accordance with World Bank classifications and of the provisions made in respect of them as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	% of total loans	Gross loans (US\$'000)	Provisions (US\$'000)	Gross loans less provisions (US\$'000)	% of provisions to Gross Loans
31 December 1998					
Good	85.3	898,839	15,938	882,901	1.8
Special mention	9.5	100,286	5,014	95,272	5
Substandard	1.5	15,661	3,132	12,529	20
Doubtful	2.1	21,750	10,875	10,875	50
Bad	1.6	16,783	16,783	—	100
Total	100.0	1,053,319	51,742	1,001,577	
31 December 1999					
Good	91.9	1,365,368	18,734	1,346,634	1.4
Special mention	4.8	71,492	3,575	67,917	5
Substandard	0.9	13,377	2,675	10,702	20
Doubtful	—	—	—	—	—
Bad	2.4	36,084	36,084	—	100
Total	100.0	1,486,321	61,068	1,425,253	
31 December 2000					
Good	97.0	1,332,651	26,280	1,306,371	2
Special mention	—	—	—	—	—
Substandard	1.7	23,253	4,651	18,602	20
Doubtful	—	—	—	—	—
Bad	1.3	17,556	17,556	—	100
Total	100.0	1,373,460	48,487	1,324,973	
30 June 2001					
Good	91.0	1,429,731	26,795	1,402,936	1.9
Special mention	1.0	14,406	720	13,686	5
Substandard	5.4	81,680	8,168	73,512	10
Doubtful	1.3	20,279	10,139	10,140	50
Bad	1.3	19,813	19,813	—	100
Total	100.0	1,565,909	65,635	1,500,274	

Off-Balance Sheet Exposure Classification and Provisions

Off-balance sheet exposure is subject to similar provisioning requirements as loan exposure. The following table provides a breakdown of the Guarantor's off-balance sheet exposure (excluding undrawn loan commitments) in accordance with World Bank classifications and of the related provisions as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	Exposure (US\$'000)	% share	Provision made (US\$'000)	% of provision to Exposure
31 December 1998				
Total Off Balance Sheet⁽¹⁾				
Good	543,343	98.5	1,086	0.2
Special mention	—	—	—	—
Substandard	—	—	—	—
Doubtful	—	—	—	—
Bad	8,194	1.5	8,194	100
	551,537	100	9,280	1.7
31 December 1999				
Total Off Balance Sheet⁽²⁾				
Good	717,112	99.4	458	0.1
Special mention	—	—	—	—
Substandard	—	—	—	—
Doubtful	—	—	—	—
Bad	4,092	0.6	4,092	100
	721,204	100	4,550	0.6
31 December 2000				
Total Off Balance Sheet⁽³⁾				
Good	619,181	99.9	7,783	1.3
Special mention	—	—	—	—
Substandard	—	—	—	—
Doubtful	—	—	—	—
Bad	144	0.1	144	100
	619,325	100	7,927	1.3
30 June 2001				
Total Off Balance Sheet⁽⁴⁾				
Good	1,064,256	100	7,123	0.7
Special mention	—	—	—	—
Substandard	—	—	—	—
Doubtful	—	—	—	—
Bad	—	—	—	—
	1,064,256	100	7,123	0.7

Notes:

- (1) of which, undrawn loan commitments were US\$357,735 thousand, letters of credit were US\$101,025 thousand and guarantees were US\$92,777 thousand.
- (2) of which, undrawn loan commitments were US\$426,319 thousand, letters of credit were US\$254,011 thousand and guarantees were US\$40,874.
- (3) of which, undrawn loan commitments were US\$227,996 thousand, letters of credit were US\$318,922 thousand and guarantees were US\$72,407 thousand.
- (4) of which, undrawn loan commitments were US\$711,238 thousand, letters of credit were US\$284,996 thousand and guarantees were US\$68,022 thousand.

Credit Policy and Procedures

General

The CBR sets strict guidelines for credit approval. The CBR limits the exposure on a single borrower, or a group of related borrowers to 25% of the ratio between the total sum of the bank's claims to a single borrower or a group of related borrowers in respect of credits (including interbank), placed deposits (including interbank), discounted bills of exchange, loans, credits and deposits in precious metal and the amounts not collected by the bank on its

guarantees to the capital of the bank (i.e. the bank's own resources). The Yamal-Europe Project loan exceeds the single borrower exposure limit by 6 times. Although the CBR is not entitled under Russian legislation to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the CBR was fully consulted in connection with the loan and conducted its own investigation of the exposure. See "Certain Risk Factors – Risks relating to the Guarantor – Yamal-Europe Project; Loan Concentration Risk and Breach of CBR Mandatory Economic Ratio".

The Guarantor's procedures for the approval and monitoring of credit and collateral comply with the CBR guidelines and are set out in a clearly defined credit policy by the credit committee.

Credit Procedures

All credit applications must be submitted on standard forms and registered in the central register of applications. Following receipt together with a complete package of supporting documents, the application is registered in the central register of credit applications and the credit department reviews the application. The credit department comprises three units. The first unit focuses on investment loans targeted at specific projects, the second unit focuses on working capital facilities and the third unit focuses unit on risk limits and risk concentration. Applications are first analysed by the first or second units according to their classification and, where appropriate, include a financial analysis and feasibility study, as well as an examination of the financial standing, reputation and experience of the applicant.

The units focusing on investment loans targeted at specific projects and working capital facilities submit the results of their review to the unit focusing on risk limits and risk concentration which, in addition to assessing the credit, also looks at risk concentration across the Guarantor's credit portfolio. Following this review, the credit department examines the application and formulates its recommendations for the Credit Committee which takes the ultimate decision as to whether to accept the risk. The Credit Committee is a permanent body which is established by and reports to the Management Board.

The Credit Committee also sets and monitors limits for the extension of credit by branch offices. Each branch office is assessed individually on various criteria including managerial experience, bad debt history, regional needs and number of customers. Maximum limits for credit extended by branch offices are US\$100 thousand per borrower and US\$5 million per branch. Credit extended through branch offices comprised around 8% of total exposures in 2000 and only 4 branch offices have been awarded the maximum limits.

Once credit has been extended, monitoring of performance and financial standing is conducted by head office. The credit department monitors the timely payment of interest and other amounts payable by the borrower and must adopt measures to recover payment within 3 days of payment default. In addition, the credit department monitors a borrower's ongoing creditworthiness, the use of proceeds and the value of collateral and produces a monthly report on each credit. A report on any credit exposure where repayment is doubtful is submitted to the Credit Committee and, thereafter, the exposure is monitored more closely.

Collateral

It is the Guarantor's policy to seek collateral for most of its exposures, except where the exposure is to a Gazprom Group company and funded by Gazprom Group deposits or accounts with the Guarantor. Where collateral is taken, the credit department assesses both its value and its legality and enforceability. The main types of collateral accepted are guarantees from Gazprom, charges over inventory, real property and other assets and cash deposits.

Securities Trading Portfolio

Trading activities generated significant income for the Guarantor and in 2000 the Guarantor conducted the largest volume of share trading on the Moscow Stock Exchange. The Guarantor is one of the main traders of Gazprom shares which represented 41% of the securities trading portfolio as at 30 June 2001. The Guarantor is also one of the main traders of Russian Federation Eurobonds and Russian Federation Foreign Currency Bonds.

The following table shows the Guarantor's securities trading portfolio as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	As at 31 December						As at 30 June	
	1998	%	1999	%	2000	%	2001	%
	(US\$ '000)							
Gazprom Shares	1,609	1.7	13,180	9.7	63,200	22.2	141,108	41.2
Russian Federation								
Eurobonds	—	—	—	—	59,898	21.1	92,316	26.9
Russian Federation Foreign								
Currency Bonds (OVVZ) . .	13,561	14.3	52,016	38.3	40,503	14.2	69,762	20.4
Russian Federation Rouble								
Bonds (GKO, OFZ)	486	0.5	3,540	2.6	6,766	2.4	3,831	1.1
Russian Federation Municipal								
Bonds	—	—	54	—	228	0.1	—	—
Equity Securities ⁽¹⁾	8,541	9.0	18,192	13.4	226	0.1	3,844	1.1
Hungarian Government								
Bonds and Treasury Bills .	43,987	46.3	23,109	17.0	—	—	—	—
Gazprom Bonds	—	—	1,037	0.8	—	—	—	—
Bonds issued by the CBR . . .	353	0.4	—	—	—	—	—	—
Gazprom Shares ⁽²⁾	—	—	—	—	84,621	29.8	—	—
Promissory notes ⁽³⁾	26,457	27.8	24,218	17.8	28,620	10.1	31,718	9.3
Other equity securities	—	—	531	0.4	—	—	—	—
	<u>94,994</u>	<u>100</u>	<u>135,877</u>	<u>100</u>	<u>284,062</u>	<u>100</u>	<u>342,579</u>	<u>100</u>

Notes:

(1) Excluding Gazprom Shares.

(2) Comprises shares held under a REPO transaction with Gazprom and recorded at historical cost. All other assets stated at market value.

(3) Promissory notes are comprised mainly of short term notes issued by members of the Gazprom Group.

Foreign Exchange Trading

Foreign Exchange trading generates significant income for the Guarantor. Management estimates that in 2000 the Guarantor handled around 25% of Russia's foreign trade inflows. Currency trading volumes have increased significantly since 1998 when the Guarantor became Gazprom's preferred bank and assumed responsibility for servicing the majority of the Gazprom Group's hard currency gas export proceeds.

Funding

The Guarantor's major sources of funds for its lending and investment activities are current accounts and deposits from corporate and retail customers and banks. In addition, the Guarantor derives funds from the issue of promissory notes and certificates of deposit and cash flow from interest payments, fees and commissions and some bank lending. The availability of deposits is influenced by factors such as prevailing interest rates, market conditions and levels of competition. Reductions in the availability of funds from deposits or other sources may be compensated for by borrowing on the interbank market. Gazprom Group companies provide a significant proportion of the Guarantor's funding (58% of total banking liabilities as at 30 June 2001).

Sources of Funding

The following table shows the Guarantor's sources of funding as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	As at 31 December			As at 30 June
	1998	1999	2000	2001
	(US\$ '000)			
Due to banks and other financial institutions:				
Deposits accepted	128,027	160,694	266,242	191,619
Vostro accounts	9,676	29,925	164,062	200,192
Syndicated loan	262,500	40,000	—	—
Total	400,203	230,619	430,304	391,811
Certificates of deposit and promissory notes	63,997	270,938	458,635	392,604
Customer accounts:				
Current accounts and other demand deposits.	913,757	475,637	531,793	719,072
Term deposits	480,851	942,702	754,636	770,809
Total	1,394,608	1,418,339	1,286,429	1,489,881
Total	1,858,808	1,919,896	2,175,368	2,274,296

The maturity breakdown of the Guarantor's funding as at 31 December 1998, 1999 and 2000 and as at 30 June 2001 was as follows:

	As at 31 December						As at 30 June	
	1998	%	1999	%	2000	%	2001	%
	(US\$ '000)							
Funding								
Less than 3 months	1,365,412	73.5	1,200,622	62.5	1,320,401	60.7	1,288,254	56.7
3 to 6 months	287,516	15.5	153,367	8.0	344,662	15.8	209,917	9.2
6 to 12 months	31,960	1.7	124,688	6.5	62,036	2.9	227,404	10.0
Over 12 months	173,920	9.3	441,219	23.0	448,269	20.6	548,721	24.1
Total	1,858,808	100.0	1,919,896	100.0	2,175,368	100.0	2,274,296	100.0

Current Accounts and Deposits

As at 30 June 2001, current accounts and deposits from customers comprised 61% of the Guarantor's liabilities, of which 70% were due to Gazprom Group companies. The Guarantor offers a full range of deposit products, including overnight deposits, term deposits and call deposits. Term deposits comprise the largest type of deposits, accounting for 51.7% of total customer deposits as at 30 June 2001.

As at 30 June 2001, deposits and balances from banks and other financial institutions comprised 16% of the Guarantor's total liabilities, of which 22% and 7% were due to Altalanos Ertekeforgalmi Bank and Vnesheconombank, respectively.

The Guarantor has attracted additional funds through issues of short-term Rouble denominated certificates of deposit ("CDs") and promissory notes ("PNs") which comprised 16% of the Guarantor's total liabilities as at 30 June 2001. 49% of all CDs and PNs in issue at that date were payable to Gazprom Group companies.

The following table sets out the amount of current accounts and deposits from customers, banks and other financial institutions as at 31 December 1998, 1999 and 2000 and as at 30 June 2001.

	As at 31 December				As at 30 June			
	1998 Balance	%	1999 Balance	%	2000 Balance	%	2001 Balance	%
	(US\$ '000)							
Current accounts and deposits:								
current (RUR)	85,341	6.1	100,527	7.0	277,524	21.3	216,405	14.3
current (foreign currency) . .	828,416	59.2	375,110	26.3	254,269	19.6	502,667	33.3
term (RUR)	26,637	1.9	69,552	4.9	96,612	7.4	111,739	7.4
term (foreign currency) . . .	454,214	32.4	873,150	61.1	658,024	50.6	659,070	43.8
Total current accounts and deposits	1,394,608	99.6	1,418,339	99.3	1,286,429	98.9	1,489,881	98.8
Accrued interest due	6,013	0.4	9,921	0.7	13,752	1.1	18,762	1.2
Total with accrued interest due	1,400,621	100.0	1,428,260	100.0	1,300,181	100.0	1,508,643	100.0
Certificates of deposits and promissory notes (by remaining maturity):								
Less than 1 month.	20,502	31.8	51,780	18.7	128,161	27.3	97,045	24.6
1-6 months	31,739	49.1	199,768	72.0	185,336	39.5	171,668	43.5
6 months – 1 year	2,783	4.3	10,407	3.8	19,669	4.2	43,671	11.1
More than 1 year	8,973	13.9	8,983	3.2	125,469	26.8	80,220	20.3
Total certificates and promissory notes	63,997	99.1	270,938	99.9	458,635	99.9	392,604	99.5
Accrued interest due on certificates.	572	0.9	37	0.1	341	0.1	1,948	0.5
Total certificates and promissory notes with interest due	64,569	100.0	270,975	100.0	458,976	100.0	394,552	100.0
Total current accounts and deposits and certificates and promissory notes	1,458,605	99.6	1,689,277	99.4	1,745,064	99.2	1,882,485	98.9
Accrued interest due	6,585	0.4	9,958	0.6	14,093	0.8	20,710	1.1
Total deposits and certificates and promissory notes with accrued interest due	1,465,190	100.0	1,699,235	100.0	1,759,157	100.0	1,903,195	100.0

Note:

(1) The balance on promissory notes includes accrued interest.

Asset and Liability Management

The primary objective of asset and liability management is to satisfy the dual requirements of controlling exposure to risk while maximising profitability by the appropriate share holding of the assets and liabilities. Its risk management system allowed the Guarantor to substantially reduce its losses on the financial market during the banking crisis of 1998.

Liquidity Risk

The Guarantor's liquidity policy is reviewed and approved by the Board of Management. The Asset and Liability Management Committee (the "ALM Committee") determines policy for asset and liability management, the basis of which is to match the maturity of assets and liabilities and to maintain strict controls over permitted variances. In addition, long term credit or investment (over three years) is extended only against receipt of a matching liability or contribution to equity capital. The Treasury, which includes the dealing department of the Guarantor, carries out day to day liquidity management.

The ALM Committee adopts a yearly financial plan comprising targeted asset and liability ratios and forecasted interest rates. The financial plan is reviewed and revised by the ALM Committee on a quarterly basis. Assets are managed by the ALM Committee by setting limits on sums and dates to maturity of the extended credits, investments in securities and in the inter-bank market. Decisions to realise or restructure assets are made as needed. Liabilities are managed by the ALM Committee by setting limits on the volume and the interest rates of liabilities and the refinancing of assets.

In addition, the Treasury continually monitors the liquidity position of the branch offices while the ALM Committee sets limits on branch assets and liabilities. The head office provides refinancing facilities to the branches which are also subject to limits set by the ALM Committee. Since 1999, the branch network has been a net creditor of the head office.

Long term liquidity (over one year) is managed by the ALM Committee on a quarterly basis. The Treasury, which also covers trading activities, carries out day to day liquidity management. The Treasurer is a full member of the ALM Committee. The Treasury manages short term liquidity (up to one week) on a real time basis and medium term liquidity (up to one year) on a weekly basis.

Management believes that asset and liability management is adequate. Since its establishment the Guarantor has never, even during the 1998 crisis, deferred customer payments or liabilities. Moreover, in 1998 and 1999 the Guarantor repaid aggregate liabilities of US\$290 million in respect of international syndicated loans, at that time the largest repayment of liabilities by a Russian bank not subject to restructuring.

Interest Rate Sensitivity

The ALM Committee monitors the structure of those assets and liabilities which are interest rate sensitive and sets limits on any variance.

In general, long term (over three year) credits granted and deposits received by the Guarantor are LIBOR based. However, for specific projects where the Guarantor has matched funding, the interest rate on both the borrowing and the lending activity is fixed rate.

The Guarantor has a surplus of interest rate sensitive liabilities denominated in Roubles. Since 1999, the CBR's interest rate has decreased from 54% to 25% which has led to a decrease in the Guarantor's net interest expense. However, in 2001 this may be off-set by a decrease in revenues from foreign currency inter-bank operations due to declining US and Euro market interest rates.

Foreign Exchange Rate Risk

The ALM Committee sets limit on foreign currency positions for the head office and each of the branches to ensure that the aggregate foreign currency positions do not exceed the limits set by the CBR regulations. The Guarantor has obtained an exemption from the CBR regulation in respect of its US Dollar exposure under the Yamal-Europe Project.

In addition, internal limits are set by the ALM Committee for each foreign currency position. Each of the dealers, the chief dealers(s) and the Head of Treasury have prescribed limits and stop-loss levels which are closely monitored by the compliance department. Management believes that the Guarantor effectively monitors its foreign exchange operations.

Competition

Despite the 1998 crisis, as of June 2001 there were 1,281 banks operating in the Russian Federation of these banks, a small number of Moscow based banks dominated the Russian banking industry. As at 1 May 2001, Russia's ten largest banks accounted for 57% of total bank assets, and the top five banks account for 49% of total bank assets.

According to Interfax and Mobile the Guarantor is the third largest Russian bank (in terms of net asset value) accounting for 11% of all loans extended by Russian banks having a maturity of more than one year. According to management's own estimates, the Guarantor accounts for around 50% of all loans over five years extended by Russian banks. Interfax Rating has assigned the Guarantor a group A ranking (the 'highest category of reliability') and, based on the Guarantor's financial position for the year ended 31 December 2000, The Expert (a leading Russian business magazine) placed the Bank's financial stability within the highest category for Russian banks.

Although the Guarantor has begun successfully to diversify its customer base, its business continues to be heavily concentrated on the Gazprom Group. As a consequence, any bank which could provide the Gazprom Group with equivalent financial services is a potential threat to the Guarantor. There are several state owned banks which either separately or together could provide the product and regional coverage necessary to compete for the position as the Gazprom Group's preferred bank. However, Management does not believe this possibility to be a significant threat to the business.

Customers

Approximately 1,000 of the Guarantor's customers are major enterprises and organisations of the gas industry. The Guarantor's customers also include their partners and industrial consumers of natural gas. In recent years the Guarantor's customers have grown to include pension funds, insurance companies and a number of other financially stable enterprises in the engineering, petrochemical and transport sectors, the food industry and high-tech machinery. The Guarantor's branches also service approximately 1.5 million accounts held by retail customers.

The following table shows the areas of business of the Guarantor's ten principal non-bank customers (by exposure) as at 30 June 2001, who together account for 67.5% of the Guarantor's total exposure. Approximately 84% of the ten largest exposures were to, or guaranteed by, members of the Gazprom Group. The figures in this table represent gross exposure including commercial loans undrawn loan commitments, guarantees and open letters of credit.

As at 30 June 2001					
Customer	Loans	Guarantees	Letters of Credit	Undrawn Loan Commitments	Total gross exposures
			(US\$ '000)		
Evropolgaz.	867,266	—	—	135,513	1,002,779
AVK Eksima	—	—	—	129,660	129,660
Transgaz	63,729	—	—	50,850	114,579
Sibur	65,783	—	—	36,070	101,853
Interprokom	—	—	75,756	—	75,756
Intpro	—	—	74,755	—	74,755
Itera	50,000	20,000	—	24,229	94,229
Feniks	—	—	65,778	—	65,778
Interconnector.	53,134	—	—	—	53,134
Stroytransgaz	21,306	27,175	2,444	—	50,925
Total.	1,121,218	47,175	218,733	352,093	1,739,219

The following table shows the Guarantor's gross exposure to its largest economic sectors as at 30 June 2001.

As at 30 June 2001					
Economic sector	Loans	Guarantees	Letters of Credit	Undrawn Loan Commitments	Total gross exposures
			(US\$ '000)		
Natural gas	1,306,206	24,370	—	447,106	1,757,682
Trade	67,515	1,008	284,996	230,515	611,209
Construction	59,999	32,185	—	—	65,009
Finance	28,999	1,842	—	—	30,841
Individuals	14,465	—	—	—	14,465
Recycling.	14,035	—	—	—	14,035
Media	9,563	—	—	—	9,563
Manufacturing	29,765	—	—	7,111	36,876
Other.	35,362	8,617	—	26,506	90,485
Total.	1,565,274	68,022	284,996	711,238	2,629,530

Branch Network and Information Technology

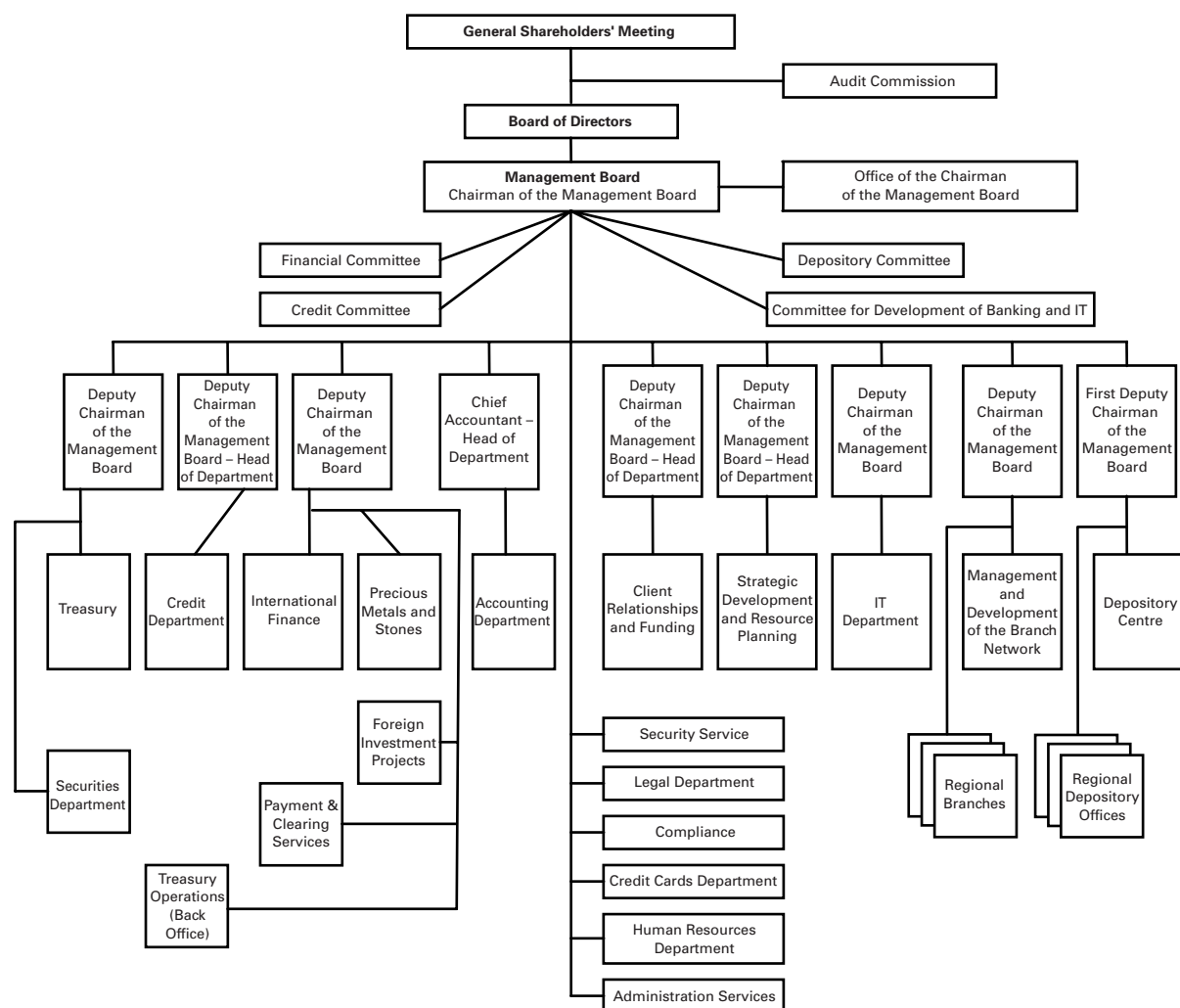
The Guarantor has a branch network which comprises 28 branches throughout the Russian Federation. In 2000, new branches were opened in Bryansk, Ekaterinburg and Shyolkovo and, in early 2001, in Novosibirsk. The branch offices have 29 supplementary offices and 51 teller desks outside their teller units. The branches have introduced modern banking technologies and new methods of customer service, thus ensuring steady client base growth. By the end of 2000, the branches rendered services to over 13,000 corporate customers.

Subsidiaries and Associates

Details of the Guarantor's principal operating subsidiaries and associates, are set out in note 14 to the Guarantor's consolidated financial statements appearing elsewhere in this Information Memorandum. In April 2000, the Guarantor sold part of its 44% shareholding in AEB which reduced its holding to 25.5%. The sale of the controlling interest in AEB has had and will continue to have a material impact on the Guarantor's consolidated financial position. The Guarantor is not planning to further divest its investment in AEB. See note 34 to the Guarantor's consolidated financial statements appearing at page 129 in this Information Memorandum.

Management

Organisation Chart



Management Bodies

According to its Charter, the principal management bodies of the Guarantor are the Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board.

Shareholders' Meeting

The Shareholders' Meeting is the Guarantor's highest management body. The following specific matters can only be dealt with by the Shareholders' Meeting:

- alterations of the Guarantor's Charter and the size of its Charter capital;
- electing members of the Board of Directors, the appointment of the Chairman of the Management Board and the early termination of their respective authorities;
- approval of the Guarantor's annual reports and financial statements and the distribution of the Guarantor's profits;
- decision as to the reorganisation or liquidation of the Guarantor; and
- election of the Audit Commission.

Decisions of the Shareholders' Meeting are adopted by a simple majority of votes. On issues such as changes to the size of the Guarantor's Charter Capital and the distribution of the Guarantor's profits, reorganisation and liquidation of the Guarantor, a three-quarters majority of votes present at the Shareholders' Meeting is required.

Board of Directors

The Board of Directors supervises the Board of Management, approves the agendas for the Shareholders' Meeting, has the power to elect and dismiss the members of the Management Board, approves various regulations for the operation of various management bodies of the Guarantor and approves the annual plan of the Guarantor's operations.

Members of the Board of Directors are elected by the shareholders by a majority of votes for a one year term. Persons elected to the Board of Directors may be re-elected an unlimited number of times. As at 1 November 2001, the Board of Directors comprised eleven members and was chaired by A.B. Miller.

The current members of the Board of Directors are:

Name	Position
Miller A.B.	Chairman of the Board of Directors, Chairman of the Gazprom Management Board
Lvov Y.I.	Deputy Chairman of the Board of Directors, Deputy Chairman of the Guarantor's Management Board
Rodionov P.I.	Deputy Chairman of the Gazprom Management Board
Savelyev V.G.	Deputy Chairman of the Gazprom Management Board
Vazhenin Y.I.	Director General of OOO Surgutgazprom
Bezrukova M.A.	Deputy Managing Director OOO Mezhhregiongaz
Oletschuk N.I.	Managing Director of the Department of Finance of Gazprom
Sereda M.L.	Head of the Office of the Gazprom Management Board
Arkan Y.L.	Head of the Office of the Chairman of the Guarantor's Management Board
Ananenkov A.G.	Managing Director of OOO Yamburggazdobycha
Shkuta A.A.	Deputy Managing Director of OOO Gazexport

On 13 November 2001 the Guarantor was re-registered by the CBR as a closed joint-stock company and is in the process of finalising the placement of newly issued shares and completing other relevant formalities. See "The Guarantor – Re-Registration." The Guarantor has yet to complete the process of changing its legal form and is currently in the process of finalising the placement of newly issued shares with its stakeholders. Thereafter, the Guarantor will need, *inter alia*, to register the report on the results of such placement with the CBR and to notify the Russian tax and other authorities of its being re-registered as a closed joint-stock company. The Guarantor will then be able to convene its first Shareholders' Meeting, at which the Guarantor's shareholders are expected to reappoint the current Board of Directors.

Management Board

The Management Board is the executive body of the Guarantor and is elected by the Board of Directors which also establishes its structure. The Management Board is headed by a Chairman and the persons elected can be re-elected an unlimited number of times. The members of the Management Board are responsible for the day-to-day management and administration of the Guarantor, confer with the Guarantor's employees on current issues and resolve other issues on the instructions of the Chairman of the Board. The Chairman of the Management Board acts in the name of the Guarantor and represents, without a power of attorney, the Guarantor. As required under the Guarantor's Charter registered on 13 November 2001, the Chairman of the Management Board will be re-appointed by the Shareholders' Meeting and the members of the Management Board of the Guarantor will be re-appointed by the Board of Directors when the first Shareholders' Meeting and the first meeting of the Board of Directors are convened.

The name, age and certain other information about each of the current members of the Management Board is set out below:

Lvov Y.I. (56), Chairman of the Management Board, graduated from the Leningrad Financial and Economic Institute in 1975. In 1997 Mr. Lvov obtained a Doctor's degree in Economics. Previously he worked in the Leningradsky regional division of Stroybank of the USSR. From 1987 until 1998 he was a Director of a regional department of Stroybank and the Chairman of the Management Board of Leningrad Commercial Bank for Social Development and Reconstruction, the President-Chairman of the Management Board of OJSC Saint-Petersburg Bank. From 1998 until 2000 Mr. Lvov was Vice President and First Vice President of CJSC Bankirsky Dom Saint-Petersburg. In 2000-2001 he was appointed as Deputy Minister of Finance of the Russian Federation. As from September 2001 Mr. Lvov has been acting as the Chairman of the Management Board of the Guarantor and the Deputy Chairman of the Guarantor's Board of Directors.

Chernoivan A.V. (52), First Deputy Chairman of the Management Board, graduated with a Masters degree from Moscow Mining Institute in 1977, a PhD in Technical Science from Moscow Mining Institute in 1982 and a Masters degree with a major in International Economic Relations from the Academy of External Trade in 1987. Previously he

was a Senior Scientist (Economic Research), Vice President of the Fund for Privatisation Support and Development of Financial Markets, Director of Department at OJSC Federal Funding Corporation. He has also held the position as Head of the Depositary Operations Department at the Guarantor. He has been in his current position since 1998.

Lisovaya L.N. (61), Deputy Chairman of the Management Board, graduated from Kungursky Forestry and Technical college in 1973 and Higher Commercial School of the Academy of National Economy in 1991. Previously she was Head Economist, Deputy General for Economics, Finance and Planning at Mostransgas. She has been in her current position since 1996.

Levin K.Y. (33), Deputy Chairman of the Management Board, graduated from Moscow Aviation Institute with a major in Economics and Management of Scientific Research in 1990. Previously he was Head of the Client Department at the Russian National Commercial Bank and Head of the Client Relations Department at the Guarantor. He has been in his current position since 2000.

Olenev N.I. (56), Deputy Chairman of the Management Board, graduated from Bauman Higher Technical College in 1968, completed his PhD in Technical Science in 1991. He is a Professor at the Academy of Finance and is a member of the International Academy for Science and Business. Previously he was Deputy General Director of "Astrophysics" Scientific Industrial Association, Vice Chairman of the Management Board of AKB Bank for Investment and Savings. He has also held the position as Head of the Analysis and Development Department at the Guarantor. He has been in his current position since 2000.

Primak A.G. (56), Deputy Chairman of the Management Board, graduated from Bauman Higher Technical College in 1968, completed his PhD in Technical Science in 1984 and graduated from Bauman State University with a major in Management in 1997. He was previously Head of Department at Korolev Rocket and Space Corporation 'Energy'. He has been in his current position since 1995.

Seregin V.A. (35), Deputy Chairman of the Management Board, graduated from the Makarov Pacific Ocean Higher Military and Naval School in 1988 and attended the Executive Training Programme graduating with a major in Accountancy at the School of Management of the Moscow State University. Previously he was Head of the Securities Departments at Moscow Funding House, AKB Avyabank and Neftekhimbank. He is Deputy Chairman of the Management Board of AKB Neftekhimbank. He has been in his current position since 1997.

Sobol A.I. (32), Deputy Chairman of the Management Board, graduated from Moscow Aviation Institute in 1991. Previously he was Head of the Finance Department, Head of the Planning Department, Vice-President and Deputy Chairman of the Management Board at the Russian National Commercial Bank. He has also been an advisor to the Chairman of the Management Board and Deputy Head of the Strategic Planning Department at the Guarantor. He has been in his current position since 1999.

Utkin P.V. (43), Deputy Chairman of the Management Board, graduated from Moscow Institute of Finance with a major in Finance and Credit in 1980. Previously he was Head Economist at the State Customs Control Department under the Board of Ministers of the USSR and Head of the Currency Operations Department at the Guarantor. He has been in his current position since 1999.

Muraviov A.V. (47), Member of the Management Board, graduated from the Gubkin Institute for the Oil-Chemical and Gas Industry with a major in Oil and Gas Pipelines in 1976. Previously he was Chief Engineer at the Moscow Gas and Technical Centre, Deputy Head of the Credit and Commerce Department at Megapolisbank and Deputy Head of the Credit Department at the Guarantor. He has been in his current position since 1997.

Committees

In addition, the Management Board has set up four committees, each of which is responsible for a specific activity of the Guarantor and which reports to the Management Board. The Credit Committee develops and adjusts credit policies, decides on the issuance of credits to legal entities and individuals, establishes limits on inter-bank placements and the issuance of loans to branches and submits to the Management Board, for its approval, decisions concerning the granting of housing credits to employees of the Guarantor. The ALM Committee co-ordinates asset and liability management. The Depositary Committee sets the pricing policy for the Guarantor's depositary services and co-ordinates the activities of the Guarantor's branches and departments. The Committee for Development of Banking and IT decides on the Guarantor's IT strategy in accordance with annual plans and budgets and determines levels of spending for the development of the Guarantor's IT systems.

Supervisory Bodies

In addition to the above managerial bodies and committees the Guarantor also uses various supervisory bodies in order to assist managerial control. These bodies are the Audit Commission, the internal control service and the Independent Auditor of the Guarantor.

Audit Commission

The Audit Commission's duties include the review of the Guarantor's compliance with legislative and other acts regulating its activity, the Guarantor's internal controls, credit, settlement and other operations conducted during each year and the condition of the cash department and the Guarantor's property.

The Audit Commission is elected for a one-year term at the annual Shareholders' Meeting. The members of the Audit Commission are independent from the day-to-day management of the Guarantor and may not simultaneously be members of the Board of Directors or hold any other position within the bank.

Internal Control Service

The main task of the internal control service is to protect the interests of investors, banks and their clients. This is achieved through the supervision of the observance by the Guarantor's employees of legislation, regulatory acts and standards of professional activity and minimising the risk of the Guarantor's activities. At present, the functions of internal control are performed by the Guarantor's control and audit section.

Independent Auditor

The Independent Auditor of the Guarantor is appointed by the Shareholders' Meeting. The Independent Auditor performs a review of the financial and business activity of the Guarantor. An audit opinion is compiled on the results of the audit review, containing information on the reliability of the financial statements of the Guarantor, its compliance with rules and regulations established by the CBR and other regulations established by Russian federal laws and the Charter of the Guarantor. The audit opinion must be sent to the CBR within three months of the Guarantor submitting its financial statements to the CBR. KPMG Limited has been the Guarantor's independent auditor since 1996 and was re-appointed in 2001 for a further one year term.

Management Remuneration

In accordance with the Guarantor's Charter, the remuneration of top management is regulated by the Management Board. The following table sets out the principal amounts of loans outstanding to members of the Management Board as at 1 November 2001.

	As at 30 June 2001
	(US\$ '000)
On demand	8,313.4
30-90 days	6.7
Over 3 years	521.7
Total amount	8,841.8

The total amount of outstanding plus loans represent 2.3% of the Guarantor's statutory capital and does not exceed the official norms set by the CBR (3%). There are no other outstanding loans, guarantees (or other contingent liabilities) granted by the Guarantor to any member of the Management Board or Board of Directors.

Employees

As at 1 November 2001, the Guarantor had 3,035 full-time employees, of whom 1,898 were employed at branches or representative offices outside Moscow. The average age of the Guarantor's employees is approximately 37 years and almost 70% of the employees in professional positions hold university degrees. The Guarantor's trade union was established in December 2000 and, as at 1 November 2001, it had 906 members (approximately 30% of employees). The Guarantor has never entered into any collective bargaining or other similar agreements with its employees and the Guarantor's trade union has not raised the question of entering into such agreements. The Guarantor has never experienced industrial action or other work stoppages resulting from labour disputes.

The Guarantor has established its own social programmes, including medical insurance, the funding of an internal non-state pension programme and the granting of loans to its employees for the purpose of buying flats, cars, etc. As at 1 November 2001, outstanding loans and guarantees to employees (including members of the Management Board) were US\$18.5 million.

Shareholders

As at 1 November 2001, the Guarantor had aggregate shareholder capital of RUR 13,331,856 thousand. The following table sets out the Guarantor's Shareholders and their respective shares as at 30 June 2001.

	As at 30 June 2001
	Shareholder Funds (%)
Participants	
OAQ Gazprom	87.488
OOO Gazexport	6.640
OOO New Financial Technologies	1.986
Other	3.8860

Re-Registration

The Guarantor is in the process of completing certain formalities in connection with its re-registration as a closed joint-stock company. On 13 November 2001 the CBR registered the new Charter of the Guarantor under which the Guarantor became a closed joint-stock company. The relevant documents were received by the Guarantor from the CBR on 22 November 2001. In order to finalise the allotment of shares with the shareholders (formerly, the stakeholders), the Guarantor needs to submit a report on the results of the share issuance for registration with the CBR. The report needs to be approved by the Guarantor's Board of Directors and submitted to the CBR within 30 days of the allotment of shares being completed. Once a report which meets all the relevant legislative requirements is submitted to the CBR, the CBR has two weeks to effect the registration. Following such registration, the Guarantor will convene its first Shareholders' Meeting to re-appoint the Board of Directors and the Management Board. Management does not anticipate any material changes to the composition of such boards.

Related Party Transactions

The Guarantor is substantially owned by members of the Gazprom Group and its activities are closely linked with the business requirements of Gazprom Group members. Determination of the pricing of the Guarantor's services to the Gazprom Group is undertaken in conjunction with the other Gazprom Group companies with the objective of achieving optimal pricing arrangements for the Gazprom group as a whole. Details of the Guarantor's related party transactions are set out in note 26 to the consolidated financial statements appearing elsewhere in this Information Memorandum.

Litigation and Contingent Liabilities

Before the 1998 crisis, high volumes of GKO issuance drove an active forward foreign exchange market, particularly for NDF. The announcement of Russia's intention to defer payment on GKO's and the abandonment of the Rouble corridor led to the rapid and significant devaluation of the Rouble which caused severe market disruption in late 1998. As a consequence, many counterparties were unable, or failed, to settle their NDF positions. Attempts to seek a market solution by involving the CBR were not successful and the Guarantor sought bilateral solutions with its counterparties. Although the Guarantor successfully closed out certain NDF positions, it continued to hold open positions in a significant volume of NDFs. In some cases the counterparty is in financial difficulty and, in others there is uncertainty as to the validity and/or enforceability of the NDFs. A number of counterparties have taken proceedings against Guarantor in respect of unsettled NDFs. In all cases, the Guarantor has received judgment in its favour. In July 2001 the Guarantor resolved to write off all of the liabilities and claims arising out of its unsettled NDFs. Management has been advised that it is unlikely that any claimant would succeed in enforcing any claim in respect of such NDFs in a Russian court. However, were any such claims to be enforced against assets of the Guarantor in Russia or abroad, it could have a material adverse effect on the Guarantor's financial condition. See "Certain Risk Factors – Unsettled NDFs" and note 22 of the notes to the Guarantor's consolidated audited interim financial statements for the six months ended 30 June 2001.

The Guarantor Group does not have full insurance coverage. There is a risk that, until it obtains adequate coverage, the loss or destruction of certain assets could have a material adverse effect on the Guarantor Group's operations and the Guarantor's financial position.

The Russian Federation tax system is relatively new and is often unclear, contradictory and subject to differing interpretations. Taxes are subject to review and investigation by a number of authorities who are able to impose severe fines, penalties and interest charges. Management believes it has adequately provided for tax liabilities based on its interpretation of the tax legislation. However, the tax authorities may have different interpretations and the impact of such interpretation on the Guarantor's financial condition could be significant.

Recent Developments

The Guarantor has continued to develop its activities both with gas enterprises and companies operating in other industries and, in August 2001, it was named "The Bank of the Year in Russia – 2001" by the British magazine "The Banker".

In October 2001, the Guarantor entered into financing agreements with Czech Export Bank ("CEB") and Limited Liability Company Severgazprom ("Severgazprom") relating to the reconstruction of Sosnogorsky GPZ (a gas refinery). Under the agreements the Guarantor lent Euro 106 million to Severgazprom (a wholly owned subsidiary of Gazprom in which the Guarantor has a minority interest) backed by a loan of an equivalent amount from CEB. The loan from CEB is secured on gas export receivables.

The Guarantor's financial performance in the second half of 2001 is expected to be weaker than in the first half year. A deterioration in net profit is expected, partly as a consequence of decreased foreign currency interest rates combined with depressed values of Russian stock and decreased stock trading activity.

CAPITAL ADEQUACY

The Guarantor is required to comply with the capital adequacy requirements of the CBR, as set out in Instruction No. 1 of the CBR "On the Procedure for Regulating the Activities of Credit Organisations", approved by the order of the CBR No. 02-430 of 1 October 1997, with further amendments ("Instruction No. 1"). For the purposes of calculating the Guarantor's capital adequacy ratio, in accordance with the CBR requirements, the principal components of the Guarantor's capital are authorised capital and an exchange rate revaluation of the hard currency component of the Guarantor's share capital and the Guarantor's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the CBR is currently 10% for the banks which capital is EUR5 million or exceeds this figure, and 11% for the banks which capital is less than EUR5 million. The Guarantor's capital adequacy ratio was 17.2% as at 30 June 2001.

The Guarantor also meets international standards with respect to capital adequacy. Details of the Guarantor's capital adequacy as at 30 June 2001, calculated in accordance with Basle Guidelines and based on the IAS financial statements, are set out below:

	As at 31 December 2000	As at 30 June 2001
	(US\$ '000, except percentages)	(US\$ '000, except percentages)
Paid up share capital	872,901	863,806
Applicable reserves	(225,592)	(168,205)
Tier I Capital	647,309	695,601
Tier II Capital ⁽¹⁾	27,487	27,276
Total Capital	674,796	722,877
Adjustments ⁽²⁾	(65,127)	(75,416)
Net available capital	609,669	647,461
Risk weighted assets	2,198,978	2,182,061
Capital adequacy ratios		
Tier I ratio (%)	29.4%	31.9%
Total capital ratio (%) ⁽³⁾	28.0%	29.7%

Notes:

(1) General provisions/general loan loss and fixed asset revaluation reserve.

(2) Investment in unconsolidated banking/financial subsidiary plus investment in capital of other banks/financial institutions.

(3) Net available capital as a percentage of risk weighted assets.

GENERAL OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Role of the CBR

The CBR is in many respects the successor to the former State Bank of the USSR, Gosbank, and operates under the general terms of reference of the law "On the Central Bank of the Russian Federation (the Bank of Russia)" of 2 December 1990 as edited on 26 April 1995 with further amendments (the "Central Bank Law"). According to the Central Bank Law the State is not liable for the CBR's obligations, nor is the CBR liable for the State's obligations unless the relevant liability has been undertaken or is required under other Russian laws. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR consists of the Moscow Head Office with a Board of Directors, and a number of regional branches in constitutive subjects of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National Banks) and local branches. The Chairman of the CBR Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in Government (Cabinet) meetings. The Ministers of Finance and of the Economical Development and Trade have the right to participate in meetings of the CBR Board of Directors without voting rights.

Under the Central Bank Law and the laws "On Banks and Banking" (the "Banking Law") and "On Currency Regulation and Currency Control" the CBR is authorised to adopt implementing regulations on issues of banking and currency operations, which are binding. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Under current legislation the CBR has the following major functions:

Function	Summary
Issue of money and regulation of circulation	The CBR is prohibited from the issue of money for the purposes of budget deficit financing.
Financing/Monetary policy	Refinancing of banks by way of granting short-term credits at a discount rate; fixing reserve requirements for the banks; setting capital adequacy and similar ratio requirements for banks.
Transactions and deals with banks	Extending credits to banks; keeping accounts of banks in roubles; cash and settlement services of banks; providing banks with guarantees in favour of third parties in the form of bank acceptances; purchase and sale of securities, cheques, notes, bills, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies, and of payment documents in foreign currencies issued by Russian and foreign banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; purchase of government securities from the Ministry of Finance for their further placement; budget administration; servicing of the Russian Federation state debt.
Exchange control	Rouble exchange control; foreign currency exchange transactions both within Russia and abroad; administration of the gold and currency reserves; imposing restrictions on volumes of credits obtained by banks from foreign creditors and for interest rates.
Currency control	Regulating/providing control over currency transactions; regime of residents' and non-residents' accounts in domestic and foreign currency; currency transfer regulation and control.
Licensing	Issuance of banking licences to banks; issuance of licences/permits on foreign currency transactions and transactions abroad to banks and to other persons.
Control and supervision	Bank supervision (compliance with ratio requirements; sanctions for violation; checking banking transactions); defining format requirements for accounting and statistical reports; fixing reporting schedules; may appoint provisional administration to commercial banks.

Regulation

Banking activities in Russia are broadly governed by the Banking Law and the Central Bank Law which were both adopted on 2 December 1990 by the Supreme Soviet of Russia. Both Laws have been amended since that date. The CBR has a number of supervisory roles (as outlined below). Generally, other institutions have only indirect influence over banks. The Federal Securities Commission issues licences for banking institutions acting as

professional participants of the Russian securities market. Tax authorities supervise tax assessments. Currency control authorities (e.g. the Ministry of Finance) are largely inactive in relation to banks. The Association of Russian Banks and its affiliated associations, consisting of 492 banks, which was established pursuant to the provisions of the Banking Law is a private self-regulatory body, with general legal basis in the Banking Law. It offers various technical support to its members and lobbies the interest of commercial banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia:

1. Licensing

A licence must be obtained from the CBR for any “banking activity” as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for the state registration with an attached feasibility report and submit detailed information on the suitability of the management and other information.

Under the Banking Law a bank can be created in the form of a joint-stock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. An application for a licence may be refused if the legal documents are not in order, if the financial or banking record of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet qualification requirements.
2. Lending Limits

The CBR has established requirements for a number of capital adequacy and similar ratios, as well as various limits on diversification risks, and on currency risks. Details are set by periodic amendments to Instruction No. 1 of the CBR “On the Procedure for Regulating the Activities of Credit Organisations”, approved by the order of the CBR No. 02-430 of 1 October 1997, with further amendments (“Instruction No. 1”). The value of the assets of a bank is assessed by applying risk coefficients to five different groups of risks.

Under Instruction No. 1 banks are not permitted to have an exposure to any single borrower and to a single creditor in excess of 25% of their capital, or to any single related party in excess of 20% of its capital. These limits, which initial figures became effective on 1 March 1996, apply to the Guarantor.
3. Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. As from 1 July 1999 the minimum capital requirement is set to amount of EUR1 million for newly founded banks and EUR10 million for banks founded by foreign banks under Directive of the CBR No. 586-u of 24 June 1999 (with further amendments). As from the end of September 2001, the minimum charter capital for newly founded banks is set to be increased to EUR5 million, except for banks founded by foreign banks in relation to which the EUR10 million requirement is still applicable.

Banks with capital of EUR5 million and more are required to maintain a risk-weighted capital-asset ratio of 10% and the banks with capital of less than EUR5 million – 11% – from 1 January 2000.
4. Reporting Requirements

Banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They must also inform the CBR about providing large loans (exceeding 5% of the bank’s capital).

The CBR may at any time carry out full or selective checks of a bank’s submissions, and may inspect all books and records of the bank. In addition annual audits must be carried out by a licensed auditing company.
5. Liquidity and Reserve Requirements

Banks are obliged under the Banking Law to “ensure a necessary level of liquidity” to comply with Instruction No. 1.

A percentage of the “total sum of money attracted” (which does not include CBR funding for specific governmental programmes, current foreign currency deposits, and several other forms of deposits) must be held on deposit with the CBR. Reserve levels are set by the CBR Board of Directors from time to time.

The key elements of current CBR requirements for reserves deposits and liquidity are as follows:

- Mandatory reserve requirements in the amount of 10% in respect of funds in roubles attracted from legal entities and funds in foreign currency attracted from legal entities and individuals, and 7% in respect of funds attracted from individuals to rouble deposits.
- Liquid, assets/demand deposits – must be maintained at/above a minimum level, currently 20%.
- Assets over one year/deposits, loans and debts over one year – must not exceed 120%.
- Liquid assets/total assets – must be maintained at or above a minimum level, currently 20%.

6. Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accountancy in accordance with the Directive of the CBR No 7-U "On Preparation and Submitting of Accountancy by Lending Organisations to CBR" dated 24 October 1997. Despite certain differences such accountant statements represent a close approximation to International Accounting Standards.

History of the Russian Banking Sector

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with relaxation to controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989 the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between RUR500,000 and RUR300 million. By the start of 1992, 1,500 licences had been granted to banks.

In 1991 three of the specialised state dependent banks were made into joint-stock companies. Some regional branches became independent from head offices through management buy-outs.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Banks

The number of commercial banks increased from about 358 in 1990 to 2,538 in 1996. Since the severe 1998 financial crisis the number of banks operating in Russia, including many major banks, has fallen to 1,281, as of June 2001.

The 1998 financial crisis unveiled the lack of proper controls in the banking sector, and strengthened concerns of the public over the integrity of the banking system, with misleading advertising, laundering, corruption, and criminal contracts all being concerns.

The banking sector currently mostly offers services related to short-term financing, because few companies are transparent and can provide the collateral required.

The limited presence of foreign owned banks holding licences strengthen the financial sector, although their activities have been restricted out of fear that they may overwhelm the nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a licence, there must be a degree of reciprocity in the home country of the foreign bank, and there is a limit for the aggregate level of participation of foreign capital within the Russian banking system established by the CBR Board of Directors.

On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of ARCO, a governmental banking restructuring agency established in the end of 1998. As of 1 January 2001, 20 banks are being administered by ARCO. Six of these banks have almost completed the process of financial restructuring. The settlement agreements have been approved by the creditors of other three banks. Meanwhile, due to stabilisation of banking sector in 2000 – 2001 the importance of ARCO has considerably decreased.

According to the latest available data, as of 1 December 2000, the CBR's assets amount to RUR318,770 million and its gold reserves as of 16 November 2001, amounted to the equivalent of US\$38,300 million.

GENERAL OVERVIEW OF THE RUSSIAN FEDERATION

Territory and Administrative Divisions

The Russian Federation is the largest country in the world, with a land area of 6.6 million square miles. Spanning 11 time zones, it stretches across the continents of Europe and Asia and borders Poland, Belarus, Ukraine and the Baltic countries to the west, Finland and Norway to the north and Georgia, Azerbaijan, Kazakhstan, Mongolia, the People's Republic of China and North Korea to the south. As of January 2001, the population of the Russian Federation was approximately 144.8 million.

The Russian Federation is divided into 89 Federation Subjects, including 21 autonomous republics with their own independent governments, 10 autonomous regions, 49 territories, including one autonomous territory, six districts and two cities of federal importance (Moscow and Saint Petersburg). The republics have a greater degree of autonomy than other Federation Subjects.

Government and Political Factors

The Russian Federation was the dominant member of the former Soviet Union. Following the disintegration of the Soviet Union in 1991, the Russian Federation emerged as one of the 15 newly independent former Soviet republics, and is now a member of the Commonwealth of Independent States (CIS). Boris Yeltsin was elected president of the Russian Federation in June 1991 and was re-elected in July 1996.

The new Russian Constitution was approved by referendum on 12 December 1993, creating a presidential republic with the President wielding extensive executive powers.

Russia's legislature, the Federal Assembly, consists of a lower chamber, the State Duma, and an upper chamber, the Federation Council.

After the resignation of Boris Yeltsin on 31 December 1999, Vladimir Putin assumed the position of acting president. In his earliest statements, Putin advocated a "moderately liberal" economic policy, involving the strengthening of legal institutions, maintaining state regulation of certain portions of the economy, nonpreferential treatment of organisations, and caution in formulating policy. As Putin articulated his economic priorities, a few themes emerged: improving the business climate for both Russian and foreign companies, attracting foreign investment, reforming Russia's tax system and land-code reform. These and other concepts were incorporated into a 10-year action plan adopted in the summer of 2000.

The economic reform and other measures achieved in Putin's first year as President include the development of this long-term reform plan, customs and tariff reform, and the implementation of a second stage of tax reform.

In 2001, Putin has cited a number of additional economic reform priorities. These include additional tax reform, real banking reform, currency liberalisation, diminishing Russian bureaucracy and red tape, land reform, addressing property and shareholder rights and the reform of Russian natural monopolies (energy and railways).

Economic Factors and the General Regulation of Business

Russia has exceptionally rich natural resources, such as oil, diamonds, gold, copper, rare metals, manganese, bauxite, uranium, silver, graphite and platinum, all of which are a source of hard currency because of world-wide demand. In particular, about 10% of the world's proven oil reserves are located in Russia. The Russian Federation is a major producer of most types of minerals and, in many cases, it is the world's leading producer and exporter. It was reported that in 1995, the country accounted for 11% of world oil output, 30% of gas, and 10% of hard coal. Siberia and the Russian Far East are considered the resource backbone of the Russian economy.

According to the European Bank for Reconstruction and Development, the GDP per capita in Russia climbed steadily from 1991 to 1997 (1995: US\$1,868; 1996: US\$2,910; 1997: US\$3,056), but then dropped sharply in 1998, to US\$1,867 per capita. However, in 1999 per capita GDP was reported to have recovered, reaching approximately US\$4,200.

According to Goskomstat (the Statistics Committee of the Russian Federation), industrial production in the late 1990s was only 45% of the levels achieved in 1990; other sources suggest larger declines. Among those sectors hit the hardest by this severe decline were the military-industrial complex and light industry.

One of the effects of the August 1998 crisis described below was to facilitate, at least temporarily and only for some sectors, progress at stimulating local production and import substitution. Industrial output in 1999, and again in 2000, reflected this influence and other factors. Although output at medium and large Russian enterprises for the most part steadily declined throughout the 1990s, while small companies and joint ventures were largely responsible for increased output, the Russian financial crisis somewhat altered this dynamic, with some of the medium- and large-sized enterprises ramping up production and their market orientation towards stronger domestic competitiveness.

Russia's economic growth in 2000 was the highest achieved in the last three decades, but many analysts are reluctant to proclaim that this growth – or other isolated macroeconomics indicators showing improvement in 2000 – indicate real economic turnaround. Higher world prices for fuel and metals facilitated improvements, as did

ongoing effects of the 1998 Rouble devaluation, which rendered Russian products relatively less expensive compared to imports and contributed to increased domestic purchases and exports, as well as a decline in barter transactions.

In late 2000, economic growth slowed. Many initial estimates for 2001, including estimates by international organisations, have predicted continued, albeit slower, economic growth in the vicinity of 3% to 4%. Alternative estimates suggest the possibility of 0% economic growth.

Privatisation

Russia has moved through four phases of privatisation. The first phase began on 1 October 1992, and involved the distribution of privatisation vouchers among the population and holding voucher auctions. The second phase of privatisation was initiated in July 1994, and involved the privatisation of Russian companies for cash, including privatisation of some of the largest Russian enterprises. The third phase, which began in the second half of 1995, involved the controversial "loan-for-share auctions". The concept behind the model was to raise long-term loans from major Russian banks in exchange for granting banks controlling stakes in the largest Russian enterprises as collateral, together with voting and management rights. Lastly, since late 1995, Russia has been selling shares – primarily to domestic investors – of approximately 140 enterprises considered the "crown jewels" of the Russian industry.

In 1997 President Yeltsin signed a decree on plans to privatise Russia's natural monopolies, including power and gas enterprises, as well as Russian railroads; however, privatisation of the natural monopolies continues to be a disputed issue. In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law is passed. A draft of the new privatisation law was received by the State Duma in March 2001 and adopted in the first reading in June 2001, although it is under review.

As of the mid 1990s, 75% of medium- and large-scale enterprises in Russia had been privatised. Since January 1996, the Russian Government has reported that at least 70% of Russian GDP is composed of goods and services accounted for by the private sector. In early 1997 Russian Government figures reported that the private sector accounted for 75% of manufacturing enterprises, 85% of manufacturing and more than 80% of the Russian workforce.

Inflation and Exchange Controls

The Rouble exchange rate has declined dramatically since the onset of economic reforms. Monetary authorities concerned with the danger of frequent wide fluctuations have attempted to stabilise the Rouble within a band. The fluctuation band in January 1997 was set at 5,500-6,100 Roubles to US\$1.00.

On 1 January 1998, the Russian Federation redenominated the Rouble, introducing new bills with three fewer zeros than pre-1998 Roubles. At the same time, the Russian Federation reintroduced the kopeck, valued at 1/100 of a Rouble.

In August 1998, a considerable financial crisis paralysed the country's banking system and the total annual inflation rate grew almost eight times (84.4%) in comparison with 1997 (11%). At the end of 1999 the Rouble exchange rate to the US Dollar was 27:1.

In 2000, Russian inflation continued to decrease from the spike that followed Russia's 1998 financial crisis. The total annual rate of inflation for the year 2000 was equal to 20.2%. The average Rouble exchange rate to the US Dollar in 2000 was 28.11:1.

Although initial predictions estimated year-end inflation in 2001 to be around 12%, both Russia and the international community adjusted estimates upward to 20% or more in early 2001.

The Law of the Russian Federation "On Currency Regulation and Currency Control", adopted in October 1992, provides the legislative framework for exchange controls. This law was significantly amended in June 2001. The amendments also significantly change the procedure for performing certain foreign-currency transactions by Russian residents. A new law pertaining to the considerable diminishing of the amount of foreign exchange proceeds which must be sold became effective on 10 August 2001. This new law reduces the amount of foreign exchange proceeds which must be sold from 75% to 50%.

Labour

The Russian Federation benefits from a large workforce and, as a result of growing unemployment, there is now an increasing pool of available labour which includes individuals with Western business exposure, education and experience. Employment statistics from the Russian Federation are unreliable and official unemployment statistics are believed to be artificially low.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or CBL (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but neither the Issuer, the Guarantor, nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer, the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer and the Guarantor that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "Rules"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("DTC Notes") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("Owners") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest with respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Subscription and Sale and Selling and Transfer Restrictions".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and CBL

Euroclear and CBL each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and CBL provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and CBL also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and CBL have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and CBL customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and CBL is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer will apply to DTC in order to have each Tranche of Notes represented by Registered Global Notes accepted in its book-entry settlement system. Upon the issue of any Registered Global Notes, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in a Registered Global Note will be limited to Direct Participants or Indirect Participants, including the respective depositaries of Euroclear and CBL. Ownership of beneficial interests in a Registered Global Note will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note registered in the name of DTC's nominee will be made to the order of such nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC's nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Notes in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participant's account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payments of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and CBL will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note to pledge such Notes to persons or entities that do not participate in the DTC system or to otherwise take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Subscription and Sale and Selling and Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through CBL or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in CBL and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in CBL or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and CBL and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or CBL accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, CBL and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, CBL and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantor, the Agents and any Dealer will be responsible for any performance by DTC, CBL or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general guide only, based upon the tax laws of the Russian Federation and The Netherlands as in effect on the date of this Information Memorandum, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect and should be treated with appropriate caution. The information below is not intended as tax advice and does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of Notes.

Prospective purchasers of Notes who are in doubt as to their tax position on purchase, ownership or transfer of any Notes are strongly advised to consult their own tax advisers.

Russian Federation

1. General Characteristics of the Effective Russian Tax System

The taxation system in Russia is still in the stage of development and is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. The law and legal practice in Russia are not as clearly established as those of Western nations. Therefore, there is a possibility that tax legislation may be changed with retrospective effect, although according to applicable Russian tax legislation, such changes are prohibited from being enforced if they are detrimental to the taxpayer's position.

The domestic tax burden in Russia may be classified as relatively high and the system of tax collection has been relatively ineffective. This situation, plus the existence of government budget deficits, raise the risk of the imposition of additional or arbitrary taxes, which could have a material adverse effect on the Guarantor.

The Russian Government has initiated a revision of the Russian tax system, including the enactment of a Tax Code, and has established the Tax Code as one of the main vehicles for economic reform in Russia. The recent measures, including introduction of the 13% individual income tax rate for Russian residents and significant reductions in turnover taxes, reflect the intention of the Russian Government to decrease the level of domestic taxation.

However, there is still no strong confidence that all of the proposed legislation will be enacted and, if enacted, will result in an overall reduction of the tax burden of Russian companies and the establishment of a more efficient tax system.

Russian Tax Code

A comprehensive Tax Code envisaged as a replacement for existing legislation is currently under development. Part I of the Tax Code, containing general tax rules and provisions, has already been adopted effective as of 1 January 1999. Certain chapters of Part II of the Tax Code, governing the imposition of VAT, individual income tax, excise taxes and the (new) unified social tax, came into effect as of 1 January 2001.

Significant changes to the tax law are provided by Chapter 25 on corporate profits tax of Part II of the Tax Code which will come into effect as of 1 January 2002.

2. Brief Description of the Existing Russian Taxes

The current Russian system of taxation may be characterized by the comparative complexity of the procedures for calculating and paying taxes and the existence and diversity of tax rates established by regional and local authorities. Therefore, in certain circumstances the amount of taxes applicable to a business's activities could ultimately turn out to be different from what is expected.

Widespread non-compliance with the tax laws and inconsistent enforcement by an understaffed and inexperienced tax inspectorate contribute to the difficulty of the tax system in Russia. Moreover, the existence of non-income based taxes may require a business to pay significant taxes even if it realizes no profit.

An entity carrying on commercial activities in Russia must be registered with the tax inspectorate at the place of the entity's location, location of its affiliates, location of its immovable property and transport vehicles subject to taxation. An entity must follow all reporting requirements provided by applicable Russian legislation, including submission of relevant tax declarations on a monthly, quarterly and annual basis.

There is a single corporate profits tax system, but the rates are split between payments to the federal, regional and local budgets. At the present time, the profits tax is imposed at a federal rate of 11%, at a regional rate of between 0% and 19% for most enterprises, and at a local rate of between 0% and 5%. Consequently, the fluctuation of the overall general profits tax rate ranges from 11% to 35%. For certain enterprises such as banks, insurance companies and for intermediary activities, the regional rate may be set as high as 27%, resulting in an overall top rate of 43%.

Under Chapter 25 on corporate profits tax of Part II of the Tax Code the new profits tax rate will be 24% instead of the current 35% and 43% rates.

The unified social tax is payable by employers to four different funds and is imposed on the employees' wage cost at a complex rate depending upon aggregate compensation (from 35.6% of compensation up to 100,000 roubles (US\$3,415) to the sum of 105,600 roubles (US\$3,607) plus 2% (5% till 1 January 2002) of compensation exceeding 600,000 roubles (US\$20,492).

Value added tax, at the rate of 20% (hereinafter referred to as “VAT”), is imposed on the customs value of imported goods, and on supplies or deemed supplies of goods and services in Russia. Exemptions from VAT are available in certain circumstances, including banking operations.

Customs duties are imposed at relatively high rates on a wide range of imports.

Road users’ tax, at the rate of 1%, is imposed on the income from the sale of goods (performance of work, rendering of services).

In addition to the foregoing taxes and duties, certain regional and local taxes may be imposed. In Moscow, for example, the taxes include an advertising tax (currently 5% of the value of advertising services purchased) and a property tax (currently 2% of the annual average value of property).

Foreign entities are subject to a withholding tax on Russian source income that is not attributable to a permanent establishment. The withholding tax is imposed at the following rates: 6% on income from freight, 15% on dividends and interest income, and 20% on royalties, rent, management fees and most other income.

With the introduction of the new chapter of the Tax Code on profits tax, the withholding tax rates is expected to be 10% on income from freight, 15% on dividends, 15% or 20% on interest (depending on the type of securities) and 20% on other income (royalties, management fee, etc.)

The withholding tax may be reduced pursuant to an applicable double tax treaty. This reduction in withholding tax may be obtained either via a refund (as long as the refund claim is made within one year of the payment) or by claiming treaty relief prior to payment in respect of income of a regular and homogeneous nature. To obtain treaty relief, a foreign legal entity is currently required to obtain official certification from its home jurisdiction confirming its residence in that country for the purposes of the treaty and to file it with the Russian tax authorities.

With the introduction of the new chapter of the Tax Code on profits tax, obtaining the official certification from the Russian tax authorities is no longer expected to be required.

3. Taxation of the Issuer, Non-Resident Holders and Resident Holders

3.1. General Information

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes. The summary is based on the laws of the Russian Federation in effect on the date hereof (which, unless otherwise stated herein, includes the profits tax chapter of Part II of the Tax Code) and on the basis of the agreements. The summary does not seek to address the applicability of, and procedures in relation to taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. 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 the adoption of the remaining chapters of Part II of the Tax Code.

For the purposes of this summary, a “non-resident holder” (hereinafter referred to as holder) means a non-resident individual for tax purposes (generally a person resident in Russia for a period less than 183 days in a given calendar year) or a legal entity not organized under Russian law, which activity with the Notes does not create a permanent establishment in Russia.

Holders should be aware that the Russian legal system, including the tax laws, is at a stage of development and constantly undergoing change. Holders should appreciate that one of the risks inherent in investing in the Notes is the unpredictability of the tax treatment which it may eventually be subject to.

3.2. Applicability of Double Tax Treaties

Pursuant to the Russian profits tax law, Russian source income paid to foreign legal entities or to non-resident individuals is generally subject to withholding tax. However, these tax liabilities may be reduced or fully eliminated by an applicable double tax treaty.

Unlike in many countries, the availability of the benefits provided by a double tax treaty under Russian tax regulations is not automatic. In order to benefit from a double tax treaty the non-resident (foreign legal entity/non-resident individual) must file certain forms with the local tax inspectors at the location where the income is realized.

These forms must be certified by the competent tax authority in the country of tax residency. Copies of relevant documents supporting the type of payment (agreements) are also required. The application for exemption or reduced rate under a treaty should be filed before actual payment of income of regular and homogeneous character is made. For other types of income, the tax is required to be withheld, and the foreign legal entity/non resident individual is entitled to claim a refund by filing certain forms, no assurance can be provided that any tax withheld will be refunded due to current government budgetary restraints.

As mentioned above, with the introduction of the new profits tax chapter of the Tax Code, obtaining the official certification from the Russian tax authorities is no longer expected to be required.

3.3. Taxation of Payments Made by the Guarantor to the Noteholders under the Guarantee

The Guarantee issued by the Guarantor in favour of the Noteholders is governed by English law. We have analyzed the Guarantee for the purpose of its possible treatment in accordance with applicable Russian legislation.

There are two potential ways to view the payments made by the Guarantor as either payments of interest and principal amount required for redemption or an "another" type of payment (the guarantee payment).

Payments of Interest and Principal Amount Required for Redemption

According to Clause 2.1. of the Guarantee, the Guarantor has agreed to guarantee unconditionally and irrevocably the payment of all sums due from time to time by the Issuer to each Noteholder, Couponholder and Account Holder (the Beneficiaries) in respect of the Notes, Receipts, Coupons and the Deed of Covenant if the Issuer fails to fulfill its obligations to pay the Beneficiaries. Therefore, pursuant to applicable Russian legislation, the Guarantee may be considered a bank guarantee under which the Guarantor is obligated to pay money to the extent of the guarantee to the Beneficiaries who are the creditors of the Issuer.

Pursuant to applicable Russian legislation, a guarantor is obligated to make payments under a guarantee to the beneficiary. However, in certain circumstances the payments under the bank guarantee may not be made by the Guarantor directly to the Beneficiaries but through the agent (the Principal Paying Agent) which will not have any right to use the funds transferred to it by the Guarantor.

Therefore, the Noteholders will be considered a beneficiaries for tax purposes. The funds received by the Beneficiaries from the Guarantor should be considered as payments with respect to Notes, Receipts or Coupons regardless of the fact that such payments have been made by the Guarantor instead of the Issuer.

Current Russian tax legislation is unclear on the taxation of capital gains received by non-resident individuals on the redemption of the Notes (as securities kept outside Russia). Therefore, there is a possibility that a Beneficiary who is a non-resident individual may be subject to Russian individual income tax at the rate of 30% on the capital gains from the redemption of the Notes. Interest income received by a Beneficiary who is a non-resident individual is subject to Russian individual income tax at the rate of 30%. Withholding of this tax is required to be made by the payer of these proceeds, i.e., by the Guarantor.

Income received by the Beneficiary in the form of the interest and/or the capital gains from the redemption of the Notes should be treated as Russian source income. The income received by the Beneficiary will be subject to withholding tax currently at the rate of 15% with respect to the interest income and 20% with respect to capital gains from the redemption of the Notes. In general, the amount of taxable capital gains is calculated as the difference between the redemption price and the purchase price of the Notes. In the absence of documentation substantiating the seller's gain, the tax may be withheld based on the total redemption proceeds.

With the introduction of the new profits tax chapter of the Tax Code, the withholding tax rates will be 20% on interest income received from operations with Notes. In accordance with this chapter obtaining the official certification from the Russian tax authorities is no longer expected to be required. The income received by the Beneficiary with respect to capital gains from redemption of the Notes should no longer be subject to withholding tax.

If the beneficial owner is a resident of a country which has a double tax treaty with Russia, the withholding tax rates may be reduced or completely eliminated with respect to these types of income and gains.

Currently if the official certification stamped by the Russian tax authorities is not submitted to the Guarantor, a Beneficiary may not be able to avoid withholding. The Guarantor may thus suffer a potential loss if it is obligated to gross up the payments to the Beneficiaries for any taxes withheld.

A possible way to relieve these payments from withholding is to prove to the Russian tax authorities that the income for which the payments with respect to Notes, Receipts or Coupons are made by Guarantor were received outside of Russia. However, the possibility that the tax authorities will take such view is very low.

With the introduction of the profits tax chapter of the Tax Code, the exemption forms are no longer expected to need Russian tax inspectorate approval. However, each Beneficiary should be required to submit to the Guarantor a form confirming the residency of such Beneficiary. The Guarantor should also have the Notes and related agreements (the Guarantee) as documents confirming the beneficial ownership of the respective income.

Other Type of Payment (The Guarantee Payment)

The guarantee payment could be viewed as a kind of payment separate from the interest and principal. According to Article 370 of the Russian Civil Code, a guarantor's obligation to a beneficiary under a bank guarantee is not dependent upon the principal obligation which is secured by the guarantee. Therefore, the Guarantor's transfer of the funds to the Principal Paying Agent may be not considered by the Russian authorities as payments of the principal amount and interest in connection with the Notes, Receipts or Coupons.

As the Guarantor will transfer the funds under and in connection with its guarantee, such payment could be considered by the Russian authorities as payment under a bank guarantee. In this case, the whole amount of the Bank's payment in favour of the Beneficiaries would most likely be considered to be the Russian source income of the Beneficiaries subject to 20% withholding tax with respect to Beneficiaries who are foreign legal entities and 30% withholding tax with respect to Beneficiaries who are non-resident individuals.

To obtain treaty relief, currently Beneficiaries should have the specified form adopted by the Russian tax authorities (the procedure for submitting it is the same as described above) or as of 1 January 2002 the Beneficiaries should submit the form confirming their residency to the Guarantor.

However, if the required documents are not submitted and withholding tax is not made, there is a risk of potential loss for the Guarantor if the Guarantor is obligated to gross up the payments to the Beneficiaries for any withholding tax.

Conclusion

Payments made by the Guarantor may be treated as payments of interest and principal with respect to Notes, Receipts or Coupons regardless of the fact that such payments have been made by the Guarantor instead of the Issuer. In this case to eliminate withholding tax issues in 2001, each Beneficiary should file a form to obtain preliminary treaty relief with the Russian tax authorities with respect to the amount due to such Beneficiary for each type of income separately. To eliminate withholding tax issues as of 1 January 2002, each Beneficiary should submit the form confirming tax residency to the Guarantor.

However, there is a risk that such payments could be considered by the Russian tax authorities as payment under a bank guarantee. In this case, the whole amount of the Bank's payment in favour of the Beneficiaries would be considered to be Russian source income of the Beneficiaries which is subject to Russian taxation (profits withholding tax at the rate of 20% with respect to Beneficiaries which are foreign legal entities and Russian individual income tax at the rate of 30% with respect to Beneficiaries who are non-resident individuals).

In this case to eliminate withholding tax issues in 2001, each Beneficiary should file a form to obtain preliminary treaty relief from the Russian tax authorities. To eliminate withholding tax issues as of 1 January 2002, each Beneficiary should submit the form confirming tax residency to the Guarantor.

3.4 Taxation of Resident Holders

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

The Netherlands

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, the ownership and disposition of Notes. It does not discuss every aspect of taxation that may be relevant to a particular holder of Notes under special circumstances or who is subject to special treatment under applicable law. It assumes that the Issuer is organized, and its business will be conducted, in the manner outlined in this Information Memorandum. Changes in the Issuer's organizational structure or the manner in which the Issuer conducts its business may invalidate its contents.

This summary applies to a holder of Notes who is neither resident nor deemed to be resident in The Netherlands for Dutch tax purposes and, in the case of an individual, has not elected to be treated as a resident of The Netherlands for Dutch tax purposes (a "Non-Resident holder of Notes"). It assumes that each transaction with respect to Notes is at arm's length.

The laws upon which this summary is based are subject to change, perhaps with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect changes in laws. This summary is based on the tax laws of The Netherlands as they are in effect on the date of this Information Memorandum with the exception of the statement included on page 84 in the section "*Taxes on income and capital gains*", under *Entities*, first paragraph under (b). This statement reflects a change to the Dutch Corporate Income Tax Act (*wet op de vennootschapsbelasting*), which is part of a legislative proposal currently pending. Such change is proposed to apply with retroactive effect.

This is a general summary and the tax consequences as described here may not apply to a holder of Notes. A holder of Notes should consult his own tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in his particular circumstances.

Withholding tax

All payments of principal and interest under the Notes may be made free of any Dutch withholding tax.

Taxes on income and capital gains

Individuals

A Non-Resident holder of Notes who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Notes, including any payment under the Notes and any gain realized on the disposal of Notes, provided that both of the following conditions are satisfied.

1. If such holder derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise, other than as an entrepreneur or a shareholder, which enterprise is either managed in The Netherlands or, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, such holder's Notes are not attributable to such enterprise or part of an enterprise, as the case may be.

2. Such holder does not derive benefits from Notes that are taxable as benefits from miscellaneous activities in The Netherlands (*resultaat uit overige werkzaamheden in Nederland*).

Benefits derived from Notes by a Non-Resident holder of Notes who is an individual and who meets condition 1 above will be taxable as benefits from miscellaneous activities in The Netherlands if such holder has a Relevant Substantial Interest (as defined below) in the Issuer.

Furthermore, a Non-Resident holder of Notes who is an individual may, *inter alia*, derive benefits from Notes that are taxable as benefits from miscellaneous activities in the following circumstances, if such activities are performed or deemed to be performed in The Netherlands:

- a. if his investment activities go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge (*voorkennis*) or comparable forms of special knowledge; or
- b. if he makes Notes available or is deemed to make Notes available, legally or in fact, directly or indirectly, to a Connected Person (as defined below) or to a partnership or other form of association in which a Connected Person participates, to the extent that such Notes are used for the purpose of deriving taxable profits from an enterprise or for the purpose of generating taxable benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*); or
- c. if he makes Notes available or is deemed to make Notes available, legally or in fact, directly or indirectly, to a company the capital of which is wholly or partly divided into shares in which he has a Relevant Substantial Interest (as defined below) or to a partnership or other form of association in which a company in which he has a Relevant Substantial Interest participates.

An individual has a Relevant Substantial Interest in a company if either he – alone or together with his partner (*partner*) – or a person who is a Connected Person in relation to such individual, has, directly or indirectly, the ownership of, or certain rights, for instance a right of usufruct, over shares representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of such company, or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent at any time 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of that company or the ownership of, or certain rights, for instance a right of usufruct, over profit participating certificates (*winstbewijzen*) that relate to 5% or more of the annual profit of such company or to 5% or more of the liquidation proceeds of that company.

For purposes of the above, a unit of a fund for joint account (*fonds voor gemene rekening*) is deemed to be a share of a company. Furthermore, for purposes of the above a membership interest in, or an equivalent right to the net assets of a co-operative society (*coöperatie*) or a society on a co-operative basis (*vereniging op coöperatieve grondslag*) is deemed to be a profit participating certificate of a company. Such interest or equivalent right shall also constitute a Relevant Substantial Interest if it represents at least 5% of the voting rights in such co-operative society or society on a co-operative basis.

The following individuals are Connected Persons in relation to a holder of Notes who is an individual:

- a. his partner;
- b. a person who in the presence of a notary has entered into a cohabitation agreement (*samenlevingscontract*) with him;
- c. a person who has been registered as his partner for the application of a pension plan (*pensioenregeling*);
- d. a person who lives together with him in premises that are for both of them an owner-occupied residence (*eigen woning*) and who is liable or jointly liable for a debt for which the premises have been mortgaged;
- e. a person who has been registered with him for more than six months in the population register (*basisadministratie persoonsgegevens*) at the same residential address and who has or had the possibility to elect to be treated as a partner (save certain exceptional cases); and
- f. his minor children (including foster-children) and those of his partner or of a person described in (b) up to and including (e) above.

Entities

A Non-Resident holder of Notes other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain realized on the disposal of Notes, provided that (a) if such Non-Resident holder of Notes derives profits from an enterprise that is either managed in The Netherlands or, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), the Notes are not attributable to such enterprise or part of an enterprise, as the case may be, and (b) such Non-Resident holder of Notes does not have a Substantial Interest (*aanmerkelijk belang*) (as defined below) in the Issuer.

A person other than an individual has a Substantial Interest in the Issuer (x) if it has a Relevant Substantial Interest in the Issuer (as defined above) or (y) if it does not have a Relevant Substantial Interest in the Issuer, it has a deemed substantial interest in the Issuer. A deemed substantial interest is present if it has disposed of, or is deemed to have disposed of, all or part of a Relevant Substantial Interest in the Issuer on a non-recognition basis.

Gift and inheritance taxes

A person who acquires Notes as a gift, in form or in substance, or who acquires or is deemed to acquire Notes on the death of an individual, will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless:

- (i) the donor or the deceased is resident or deemed to be resident in The Netherlands for purposes of gift or inheritance tax, as the case may be; or
- (ii) (if the donor or the deceased is not resident or deemed to be resident in The Netherlands for purposes of gift or inheritance tax, as the case may be, the Notes are or were attributable to an enterprise or part of an enterprise that the donor or the deceased carried on through a permanent establishment or a permanent representative in The Netherlands at the time of the gift or of the death of the deceased; or
- (iii) the donor makes a gift of Notes, then becomes a resident or deemed resident of The Netherlands, and dies as a resident or deemed resident of The Netherlands within 180 days after the date of the gift.

If the donor or the deceased is an individual who holds Dutch nationality, he will be deemed to be resident in The Netherlands for purposes of Dutch gift and inheritance taxes if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. If the donor is an individual who does not hold Dutch nationality, he will be deemed to be resident in The Netherlands for purposes of Dutch gift tax if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

Other taxes and duties

No Dutch registration tax, custom duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by a Non-Resident holder of Notes in The Netherlands in respect of or in connection with the execution (*ondertekening*), delivery (*overhandiging*) and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of Notes or the performance by the Issuer or the Guarantor of its obligations thereunder or under the Notes.

U.S. Taxation

The applicable Pricing Supplement relating to any Tranche of Notes, all or a portion of which are to be offered or sold to, or for the account or benefit of, a U.S. person, will set forth information regarding the United States Federal income tax treatment of any such Notes. U.S. persons considering the purchase of Notes should consult their own tax advisers concerning the application of United States Federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of Notes arising under the laws of any state, local or other taxing jurisdictions.

Proposed EU Council Directive on Taxation of Savings Income

On 18 July 2001, the Commission of the European Communities presented to the Council of the European Union a proposal for a directive (COM(2001)400) with respect to taxation of income from savings in the form of cross-border interest payments within the European Union (the "*proposed directive*"). The proposed directive would require each member state of the European Union to adopt either a "*withholding tax system*" or an "*information reporting system*" in relation to such payments of interest.

Under the proposed directive, all member states, except Belgium, Luxembourg and Austria, would introduce an information reporting system. This system would require these member states to provide to the tax authorities or other member states of the European Union certain information concerning interest paid to private individuals who are resident in such other member states. The proposed directive provides for a seven-year transitional period during which Belgium, Luxembourg and Austria would be able to levy a withholding tax. Upon expiry of that period, all member states of the European Union would be under the obligation to apply the information reporting system. The paying agent would be required either to provide the information or, during the transitional period, to apply and pay over the withholding tax to its member state of establishment.

If the proposed directive is adopted, which may or may not happen, whether or not in an amended form, it may apply to payments under the Notes.

SUBSCRIPTION AND SALE AND SELLING AND TRANSFER RESTRICTIONS

The Dealers have in a programme agreement (as amended or supplemented from time to time, the "Programme Agreement") dated 14 December 2001 agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, the Issuer and the Guarantor has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager named in the applicable Pricing Supplement and only for a limited period with respect to the relevant Tranche of Notes.

Selling Restrictions

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.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("Regulation S Notes"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S 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 completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S 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.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

If so specified in the applicable Pricing Supplement, Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). To the extent that the Issuer or the Guarantor is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer or the Guarantor has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each Dealer has agreed that it will have in effect, in connection with the offer and sale of the Notes in bearer form during any restricted period under the United States Internal Revenue Code of 1986, as amended relating thereto, procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling the Notes are aware that the Notes cannot be offered or sold during such restricted periods to a U.S. person or a person within the United States.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any such 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;
- (ii) in relation to any Notes which must be redeemed before the first anniversary of the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iv) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Germany

Each Dealer has agreed not to offer or sell Notes in the Federal Republic of Germany other than in compliance with the Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 13 December 1990 (as amended) or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

The Russian Federation

Each Dealer has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter 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.

The Netherlands

Any Notes issued under the Programme (including rights representing an interest in a Note in global form) that are not listed on the Euronext Amsterdam Stock Market and in the case of Notes issued by the Issuer, are offered in any jurisdiction shall, in order to comply with The Netherlands Supervision of the Securities Trade Act (*Wet toezicht effectenverkeer 1995*, hereinafter the "Netherlands Securities Act"):

- (i) only be issued and offered in the event that such Notes have been or will most likely be admitted to the official listing on a stock exchange in another state which is a party to the Agreement relating to the Treaty on the European Economic Area ("EEA") and, this Information Memorandum has been approved by, and the applicable Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority as referred to in Article 20 or Article 21 of EC Directive 89/298/EEC and the Securities Board of The Netherlands ("Stichting Toezicht Effectenverkeer", hereinafter the "STE") has confirmed the availability of mutual recognition in respect of such documents provided that the first issue of such Notes takes place no later than six months from the date of the approval by the competent authority; or
- (ii) only be issued and offered in the event that this Information Memorandum has been approved by, and the applicable Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority of another EEA member state as referred to in Article 20 or 21 of EC Directive 89/298/EEC in connection with a public offering of such Notes and the STE has confirmed the availability of mutual recognition in respect of these documents provided that the first issue of such Notes takes place no later than six months from the date of the approval of the competent authority; or

- (iii) only be offered, sold, delivered or transferred, directly or indirectly, to persons (including corporate entities) established, resident or domiciled outside The Netherlands, in which case:
 - (a) the offer, the applicable Pricing Supplement and any advertisements and documents announcing the offer state that the offer is not and shall not be made to persons established, resident or domiciled in The Netherlands;
 - (b) the offer, the offer documents and any advertisements and documents announcing the offer satisfy the laws, rules and regulations of any state in which the persons to whom or which the offer is made are established, resident or domiciled;
 - (c) a statement by the Issuer to the effect that the laws, rules and regulations mentioned in (iii)(b) hereof are complied with, is submitted to the STE prior to the offer and is included in the applicable Pricing Supplement and any advertisements and documents announcing the offer; or
- (iv) only be issued and offered if they are part of a Series of Notes comprising only Notes with a denomination of at least NLG100,000 or the equivalent in any other currency; or
- (v) not be offered, transferred or sold, whether directly or indirectly, to any individual or legal entity, other than to individuals or legal entities, situated in or outside The Netherlands, who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case:
 - (a) it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of Notes is publicly announced that the offer is exclusively made to the said individuals or legal entities; and
 - (b) a copy of any offering material (including the applicable Pricing Supplement) must be submitted to the STE before the offering date; or
- (vi) (for syndicated Tranches of Notes) only be issued and offered if the following criteria are met:
 - (a) the Notes are subscribed for and placed by a syndicate of which at least two members are domiciled in different states which are part of the EEA;
 - (b) 60% or more of the issue is placed by syndicate members which are situated in one or more states other than The Netherlands; and
 - (c) investors may only acquire the Notes being offered through the intermediary of a bank or other financial institution;

Provided that the offer or sale of such Notes has not been publicly promoted and shall not be publicly promoted by the relevant Dealer conducting a generalised advertising or cold-calling campaign within or outside The Netherlands; or
- (vii) only be issued and offered if any other exemption from the prohibition contained in article 3 paragraph 1 of the Netherlands Securities Act applies and the provisions of such exemption are fully complied with; or
- (viii) only be issued and offered if the STE has, upon request, granted an (individual) dispensation from the above prohibition and the conditions attached to such dispensation are fully complied with.

Provided that in the case of (i) and (ii) above:

- (a) the Issuer and the Dealer or Dealers procure that any advertisement or document in which a forthcoming offering of Notes is publicly announced will be submitted to the STE prior to publication thereof and will mention the fact that this Information Memorandum will be published and will be made available for inspection at the registered office of the Issuer and at the specified office of the Principal Paying Agent; and
- (b) prior to the submission of this Information Memorandum (with the approval of the competent authorities) and the applicable Pricing Supplement to the STE:
 - (i) unless any Series of Notes comprises only Notes with a denomination of no less than NLG100,000 (or the equivalent in another currency), no Notes have been offered, transferred or sold and no Notes will be offered, transferred, directly or indirectly, or sold with a denomination less than NLG100,000 (or the equivalent in another currency), except to individuals or legal entities as referred to in (v) above; and
 - (ii) either no offering or promotional materials in respect of the Notes have been distributed or will be distributed or the conditions under (v)(a) and (b) above have been and will be complied with;

and each invitation telex and Pricing Supplement in respect of such Notes will set forth the restrictions under (i) and (ii) above.

In addition to the above, Zero Coupon Notes in definitive form may only be transferred and accepted through the mediation of either the Issuer or a permit holder (*toegelaten installing*) of the Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake Spearbewijzen*) of 21st May, 1985. Such restrictions do not apply (a) to a transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, (b) to the transfer and acceptance of Zero Coupon Notes in definitive form within The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in the Zero Coupon Instruments in global form) are issued outside The Netherlands and are not distributed within The Netherlands in the course of initial distribution or immediately thereafter or (c) to the initial issue of such Instruments to the first holders thereof. If the Savings Certificates Act is applicable, certain

identification requirements in relation to the issue, transfer of or payment on the Zero Coupon Notes will have to be complied with. For the purposes of this paragraph “Zero Coupon Notes” are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due prior to maturity or on which no interest is due whatsoever.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Guarantor and any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of an interest in Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, if it holds an interest in a Rule 144A Global Note, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (iv) it will, and will require each subsequent holder to, notify each person to whom it transfers the Notes of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES

LAW OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of each Tranche of Notes as certified by the relevant Dealer, in the case of a non-syndicated issue, or the relevant lead manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act, it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) of Registered Notes.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approval and authorisations in The Netherlands in connection with the Programme. The establishment of the Programme has been duly authorised by a resolution of the Managing Board of the Issuer dated 13 December 2001. The issue of Notes by the Issuer under the Programme will be authorised, prior to each issue of Notes, by resolutions of the Issuer.

The Guarantor has obtained all necessary consents, approval and authorisations in the Russian Federation in connection with the Programme. The establishment of the Programme by the Guarantor has been duly authorised by resolutions of the Management Board of the Guarantor dated 19 March 2001 and 25 April 2001 and the issue of Notes by the Issuer under the Programme, the granting of the Deed of Guarantee and the entering into of the other agreements by the Guarantor under the Programme have been duly authorised by a resolution of the Stakeholders' Meeting of the Guarantor dated 12 November 2001. When the Board of Directors is re-appointed, the Board of Directors and the Shareholders' Meeting will ratify the said resolution.

Listing of Notes on the Luxembourg Stock Exchange

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuer and the Guarantor are being lodged with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12617 to the Programme for listing purposes.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available, without charge in the case of (ii), (iii), (v) and (vi) below from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (i) the by-laws (with an English translation thereof) of the Issuer and the Guarantor;
- (ii) the consolidated audited financial statements of the Guarantor in respect of the financial years ended 1998, 1999 and 2000 (with an English translation thereof) (the Guarantor currently prepares audited consolidated accounts on a semi-annual basis and the Issuer has yet to prepare any accounts);
- (iii) the most recently published audited annual financial statements of the Issuer and the most recently published audited consolidated annual financial statements of the Guarantor and the most recently published interim unaudited non-consolidated interim financial statements (if any) of the Issuer and the most recently published interim audited consolidated financial statements (if any) of the Guarantor (with an English translation thereof). The Guarantor currently prepares audited consolidated interim accounts on a semi-annual basis and the Issuer has yet to prepare any accounts;
- (iv) the Programme Agreement, the Agency Agreement, the Deed of Guarantee, the Deed of Covenant, the Deed Poll and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Information Memorandum;
- (vi) any future Information Memorandums, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Information Memorandum and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and CBL. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and CBL will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Pricing Supplement.

Material Change

There has been no material adverse change in the financial position or prospects of the Guarantor or the Issuer and its subsidiaries taken as a whole since 30 June 2001 or the Issuer since its date of incorporation.

Litigation

Neither the Issuer, the Guarantor nor any subsidiary of the Guarantor is or has been involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the Programme nor, so far as the Issuer and the Guarantor are aware, is any such litigation or arbitration pending or threatened.

Auditors

The auditors of the Guarantor are KPMG Limited, independent auditors who have audited the Guarantor's accounts, without qualification, in accordance with International Standards on Auditing for each of the three financial years ended on 31 December 2000, 1999 and 1998 and for the six month period ended 30 June 2001.

The auditors of the Issuer are KPMG Accountants N.V., independent auditors. The Issuer has yet to prepare any audited accounts.

European Monetary Union

The third stage of European economic and monetary union commenced on 1 January 1999 when the value of the euro as against the currencies of the member states participating in the third stage was irrevocably fixed and the euro became a currency in its own right. With effect from 1 January 2002 the participating member currencies will cease to exist.

SUMMARY OF RELEVANT SIGNIFICANT DIFFERENCES BETWEEN IAS AND RAP

Presented below is a reconciliation of the Bank's 31 December 2000 net income under International Accounting Standards (IAS) to its 31 December 2000 net income under Russian Accounting Practices (RAP). A discussion of each of the main differences between the Bank's IAS and RAP net income is discussed further below.

	Net Income 31 December 2000
	USD '000
Per RAP	19 143
Interest accruals	77 568
Deferred tax expense	(49 808)
Equity accounting for subsidiaries and associates	(18,766)
Expenses charged directly to reserves	(5,005)
Provisions for losses	1,278
Mark-to-market revaluations	(648)
Foreign currency translation	(182)
Other	1 448
Per IAS	25,028

- **Interest accruals** – Under IAS interest income or expense which is due but unpaid is included in the income statement in the period which it is due, under RAP interest income and expense is included in the income statement in the period in which it is paid.
- **Deferred taxation expense** – IAS requires that the current period income taxation expense reflects the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. RAP does not allow the effects of future tax consequences to be recognized in current period taxation expense.
- **Equity accounting for associates and subsidiaries** – IAS requires that an entity include into its income statement its share of the net income or losses of any subsidiary or associated companies it owns in the period when the subsidiary or associate earns the net income/incurs the loss. RAP, as it applies to the Bank, does not allow the income or loss of a subsidiary or associate to be reflected in the income statement of the Bank. Income or losses in relation to subsidiaries and associated can only be recognized under RAP in the income statement when a subsidiary or associate is sold or statutory regulations require a provision be made against its carrying value.
- **Expenses charged directly to reserves** – RAP requires certain expenses, such as charitable contributions, be recorded in retained earnings/equity, not the income statement. IAS requires that these expenses be reflected in the income statement.
- **Provisions for losses** – Under RAP provisions for credit losses are calculated based largely on regulations which often consider only superficial criteria and do require an assessment of the creditors/guarantors actual ability to repay. IAS provisioning for credit losses, in contrast, focuses primarily on the borrowers actual ability to repay.
- **Mark to market revaluations** – Under RAP certain marketable securities held for trading are carried at cost, under IAS all marketable securities held for trading are required to be carried at market value.
- **Foreign currency translation** – RAP requires that non-monetary assets and charter fund be stated at their historical cost in roubles, while IAS, in relation to the Bank, requires that these items be stated at their historical cost in US Dollars. As such foreign exchange differences, which are included into the income statement, arise when translating the rouble historical carrying values of non-monetary assets and charter capital into their original equivalent dollar values.

GAZPROMBANK GROUP

CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998

Partners, Officers and Auditors

Partners

	% Ownerships & Votes		
	2000	1999	1998
OA0 Gazprom	87,49	69,72	78,67
OOO Gazexport	6,64	16,37	1,10
OOO Gazinterpribor	1,35	3,76	4,93
OOO Interprokom	—	3,39	5,47
Other	4,52	6,76	9,83
	100,00	100,00	100,00

Council of the Bank

Viakhirev R.I.	<i>Chairman of the Council</i>
	<i>Chairman of the OA0 Gazprom Board</i>
Rakhimkulov M.N.	<i>Deputy Chairman of the Council</i>
	<i>President of Altalanos Ertekforgalmi Bank RT. (Hungary)</i>
Rodionov P.I.	<i>Deputy Chairman of the Council</i>
	<i>Deputy Chairman of the OA0 Gazprom Board</i>
Tarasov V.I.	<i>Deputy Chairman of the CouncilChairman of the Gazprombank Board</i>
Dubinin S.K.	<i>Deputy Chairman of the OA0 Gazprom Board</i>
Dokuchaev M.V.	<i>Member of the OA0 Gazprom Board</i>
Bezrukova M.A.	<i>Deputy Managing Director OOO Mezhhregiongaz</i>
Chichelov V.A.	<i>Managing Director of OOO Permtransgaz</i>
Kozachenko A.N.	<i>Managing Director of OOO Mostransgaz</i>
Ananenko A.G.	<i>Managing Director of OOO Yamburggazdobycha</i>
Shkuta A.A.	<i>Deputy Managing Director of OOO Gazexport</i>

Board of Management

Tarasov V.I.	<i>Chairman of the Board</i>
Chernoivan A.V.	<i>First Deputy Chairman of the Board</i>
Lisovaya L.N.	<i>Deputy Chairman of the Board</i>
Primak A.G.	<i>Deputy Chairman of the Board</i>
Olenev N.I.	<i>Deputy Chairman of the Board</i>
Utkin P.V.	<i>Deputy Chairman of the Board</i>
Seregin V.A.	<i>Deputy Chairman of the Board</i>
Sobol A.I.	<i>Deputy Chairman of the Board</i>
Levin K.Y.	<i>Deputy Chairman of the Board</i>
Muraviov A.V.	<i>Member of the Board</i>

Auditors

KPMG Limited, Moscow

AUDITORS' REPORT – 2000

We have audited the accompanying consolidated balance sheet of Gazprombank and its subsidiaries ("the Group") as of 31 December 2000 and the related consolidated profit and loss and cash flow statements for the year then ended. The consolidated financial statements, as set out on pages 3 to 36 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2000 and the results of its operations and cash flow for the year then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.

Without qualifying our opinion, we draw attention to note 22 to the consolidated financial statements in respect of unsettled index foreign exchange deals with Russian banks.

KPMG Limited
Moscow, Russian Federation

31 May 2001

AUDITORS' REPORT – 1999

1. We have audited the accompanying consolidated balance sheet of Gazprombank and its subsidiaries ("the Group") as of 31 December 1999 and the related consolidated profit and loss and cash flow statements for the year then ended. The financial statements, as set out on pages 3 to 37 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As described in Note 22 to the financial statements, the Group entered into forward foreign exchange deals, primarily with domestic counterparties, prior to 17 August 1998 which have matured but remained unsettled as of 31 December 1999. As described in the Note, there is uncertainty as to whether such deals will be settled and, if so, at what amount. In these financial statements, the Group has recorded receivables and payables under these deals at amounts which management estimates will be achieved through negotiation. If such amounts were recorded using the Central Bank of Russia US Dollar/Russian Rouble exchange rate at the date of maturity, the mark to market gain on derivative financial instruments, included within other assets, and the market to market loss on derivative financial instruments, included within other liabilities, would increase by US\$ 105,952 thousand (1998 US\$ 175,977 thousand) and US\$ 141,598 thousand (1998 US\$ 200,850 thousand), respectively, excluding any penalties that may be applied to these balances. Additionally, as all forward foreign exchange contracts receivable are with counterparties who are believed to be in financial difficulty, the provision for losses included within other assets would also increase by US\$ 105,952 thousand (1998 US\$ 175,977 thousand). In our opinion, these deals should be recorded in these financial statements on this basis, thereby increasing liabilities and decreasing Partners Funds by the amounts detailed above. These liabilities should be recorded at these amounts until such time as the actual outcome (for example re-negotiation or court decision) is known, at which time the actual settlement amounts should be recorded.
4. In our opinion, except for the effects of the matter discussed in paragraph 3, the aforementioned financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 1999 and the results of its operations and cash flow for the year then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.
5. Without further qualifying our opinion we draw your attention to Notes 2(g) and 3 to the financial statements regarding the basis for adopting the going concern principle of accounting and the operating environment in the Russian Federation.

KPMG Limited

5 July 2000

AUDITORS' REPORT – 1998

We have audited the accompanying consolidated balance sheets of Gazprombank and its subsidiaries (the "Group") as of 31 December 1998 and the related consolidated profit and loss and cash flow statements for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As described in Note 22 to the financial statements, the Group entered into forward foreign exchange deals prior to 17 August 1998 which have matured but remained unsettled at 31 December 1998. As described in the Note, there is uncertainty as to whether such deals will be settled and, if so, at what amount. In these financial statements, the Group has recorded receivables and payables under these deals at amounts which management estimates will be achieved through negotiation. If such amounts were recorded using the Central Bank of Russia US Dollar/Russian Rouble exchange rate at the date of maturity, the mark to market gain on derivative financial instruments, included within other assets, and the market to market loss on derivative financial instruments, included within other liabilities, would increase by US\$ 215,394 thousand and US\$ 221,561 thousand, respectively. Additionally, as all forward foreign exchange contracts receivable are with counterparties who are believed to be in financial difficulty, the provision for losses included within other assets would also increase by US\$ 215,394 thousand. In our opinion, these deals should be recorded in these financial statements based on the Central Bank of Russia US Dollar/Russian Rouble exchange rate at the date of maturity of the deals, thereby increasing liabilities and the loss for the year by US\$ 221,561 thousand. These liabilities should be recorded at these amounts until such time as the actual outcome (for example re-negotiation or court decision) is known, at which time the actual settlement amounts should be recorded.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the aforementioned financial statements present, in all material respects, a true and fair view of the financial position of the Group as at 31 December 1998 and the results of its operations and cash flow for the year then ended in accordance with International Accounting Standards.

Without further qualifying our opinion we draw your attention to Notes 3, 4, and 23 to the financial statements, which contain information regarding the severe economic conditions in Russia, the basis for adopting the going concern principle of accounting, and uncertainty associated with the Year 2000 problem. These financial statements have been prepared on the basis that the Group continues to operate as a going concern. The ultimate effect that these uncertainties could have on the financial position and operations of the Group cannot presently be determined.

Moscow, Russian Federation

21 June 1999

GAZPROMBANK GROUP

**CONSOLIDATED AUDITED PROFIT AND LOSS STATEMENT
FOR THE THREE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998**

	Notes	2000	1999	1998
			USD '000	
Interest income	4	205,455	186,912	249,967
Interest expense	4	(143,884)	(129,388)	(174,879)
Net interest income before recovery of/(provision for) loan impairment		61,571	57,524	75,088
Recovery of/(provision for) loan impairment	5	8,269	(6,620)	(6,222)
Net interest income after recovery of/(provision for) loan impairment		69,840	50,904	68,866
Fee and commission income		23,133	31,719	33,235
Fee and commission expense		(2,016)	(1,734)	(3,201)
Net income (loss) from securities		51,350	73,169	(69,764)
Net income (loss) from foreign exchange		48,642	8,113	(168,653)
(Loss)/income from investment in associates	6	(5,319)	1,387	1,135
(Provision for)/recovery of impairment other than loan impairment	7	(9,793)	5,601	(28,924)
Other income		7,204	4,186	15,879
Non-interest income		113,201	122,441	(220,293)
General and administrative expenses	8	(91,933)	(90,749)	(112,775)
Profit before profit tax and minority interest		91,108	82,596	(264,202)
Profit tax expense	9	(60,480)	(42,059)	(11,892)
Profit before minority interest		30,628	40,537	(276,094)
Minority interest in net profit of subsidiary		(5,600)	(15,094)	(12,466)
Net profit		25,028	25,443	(288,560)

The consolidated profit and loss statement is to be read in conjunction with the notes to the financial statements.

GAZPROMBANK GROUP

**CONSOLIDATED AUDITED BALANCE SHEET
AS OF 31 DECEMBER 2000, 1999 AND 1998**

	Notes	2000	1999	1998
			USD '000	
Assets				
Banking assets				
Cash		26,459	20,078	15,045
Due from central banks	10	238,983	246,775	207,432
Placements with banks and other financial institutions	11	835,881	457,084	775,554
Securities held for short-term purposes	12	284,062	135,877	94,994
Loans to customers	13	1,324,973	1,425,253	1,001,577
Long-term investments	14	161,579	41,672	37,817
Total Banking Assets		2,871,937	2,326,739	2,132,419
Other assets	15	22,043	32,907	91,747
Property and equipment	16	43,483	41,588	24,321
Total Assets		2,937,463	2,401,234	2,248,487
LIABILITIES AND PARTNERS' FUNDS				
Banking Liabilities				
Deposits and balances from banks and other financial institutions	17	430,304	230,619	400,203
Current accounts and deposits from customers	18	1,286,429	1,418,339	1,394,608
Certificates of deposit and promissory notes		458,635	270,938	63,997
Total Banking Liabilities		2,175,368	1,919,896	1,858,808
Deferred tax liability	19	74,455	32,927	8,147
Other liabilities	20	40,331	52,547	49,529
Total Liabilities		2,290,154	2,005,370	1,916,484
Minority interest		—	66,832	43,223
Partners' Funds				
Charter fund	21	872,901	583,558	564,222
Foreign currency translation reserve		(8,475)	(15,534)	(11,007)
Accumulated losses		(217,117)	(238,992)	(264,435)
Total Partners' Funds		647,309	329,032	288,780
Commitments and Contingencies	22, 24 & 25			
Total Liabilities and Partners' Funds		2,937,463	2,401,234	2,248,487

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements.

GAZPROMBANK GROUP

**CONSOLIDATED AUDITED STATEMENT OF CASH FLOWS
FOR THE THREE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998**

	Notes	2000	1999	1998
			USD '000	
Cash flows from operating activities				
Profit before tax expense and minority interest		91,108	82,596	(254,529)
Adjustments to reconcile income before tax expense and minority interest to cash used by operating activities:				
Provisions for impairment		1,735	1,019	35,116
Depreciation expense		2,352	2,367	2,666
Increase in net accruals		(82,924)	(38,395)	(22,795)
Unrealized securities and foreign exchange gains		(2,111)	(2,348)	150,736
Operating cash flow before changes in operating assets and liabilities		10,160	45,239	(88,806)
<i>(Increase)/decrease in operating assets</i>				
Obligatory reserve deposit with central banks		(44,341)	(84,438)	8,411
Placements with banks and other financial institutions		(408,855)	322,139	(127,427)
Securities held for short-term purposes		(105,848)	(41,113)	254,882
Loans to customers		(234,219)	(369,037)	(308,831)
Other operating assets		571	42,655	(39,075)
<i>Increase/(decrease) in operating liabilities</i>				
Deposits and balances from banks and other financial institutions		251,937	(169,975)	(164,354)
Current accounts and deposits from customers		301,543	10,725	357,941
Certificates of deposit and promissory notes		97,517	206,472	(134,653)
Other operating liabilities		(6,981)	7,082	(5,709)
Net cash used in operating activities before taxes		(138,516)	(30,251)	(247,621)
Taxes paid		(10,557)	(14,595)	(26,447)
Net cash used in operating activities		(149,073)	(44,846)	(274,068)
Cash flows from investing activities				
Purchases of securities held for long-term purposes		(54,482)	(3,129)	7,034
Proceeds from the partial sale of subsidiary, net of cash disposed	34	(91,461)	—	—
Net purchases of fixed assets		(15,103)	(19,704)	(7,679)
Net cash used in investing activities		(161,046)	(22,833)	(645)
Cash flows from financing activities				
Proceeds from issuance of charter fund		289,343	19,336	272,582
Minority interest contribution		—	8,515	—
Dividends paid		(3,153)	—	—
Net cash provided by financing activities		286,190	27,851	272,582
Net decrease in cash and cash equivalents		(23,929)	(39,828)	(2,131)
Cash and cash equivalents at beginning of year		128,552	168,380	170,511
Cash and cash equivalents at end of year	27	104,623	128,552	168,380

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

GAZPROMBANK GROUP

**CONSOLIDATED AUDITED STATEMENT OF MOVEMENTS IN PARTNERS' FUNDS
FOR THE THREE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998**

	Charter Fund	Foreign currency translation reserve	Accumulated losses	Total
				USD '000
Balance at 1 January 1998	291,640	(8,738)	24,125	307,027
Loss for the year	—	—	(288,560)	(288,560)
Foreign exchange differences from translation of foreign subsidiary	—	(2,269)	—	(2,269)
Capital contributions	272,582	—	—	272,582
Balance at 31 December 1998	564,222	(11,007)	(264,435)	288,780
Balance at 1 January 1999	564,222	(11,007)	(264,435)	288,780
Profit for the year	—	—	25,443	25,443
Foreign exchange difference from translation of foreign subsidiary	—	(4,527)	—	(4,527)
Capital contributions	19,336	—	—	19,336
Balance at 31 December 1999	583,558	(15,534)	(238,992)	329,032
Balance at 1 January 2000	583,558	(15,534)	(238,992)	329,032
Profit for the year	—	—	25,028	25,028
Foreign exchange difference from translation of foreign subsidiary/associate	—	(672)	—	(672)
Reduction resulting from partial disposal of foreign subsidiary	—	7,731	—	7,731
Capital contributions	289,343	—	—	289,343
Dividends	—	—	(3,153)	(3,153)
Balance at 31 December 2000	872,901	(8,475)	(217,117)	647,309

The foreign currency translation reserve at 31 December 2000 and 1999 has been shown net of deferred tax of US\$ 6,394 thousand and US\$ 2,741 thousand, respectively.

The consolidated statement of movements in partners' funds is to be read in conjunction with the notes to the financial statements.

GAZPROMBANK GROUP

NOTES TO THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998

1. Background

(a) Principal Activities

During 1998 and 1999, the Gazprombank Group (the "Group") primarily consisted of the parent company, Gazprombank, which is incorporated and operates in the Russian Federation, and its foreign subsidiary Altalanos Ertekforgalmi Bank Rt. ("AEB"), which is incorporated and operates in Hungary.

In April 2000, a portion of the controlling interest Gazprombank held in AEB was sold, leaving the Group with a 25% stake in AEB. Thus due to the inability of Gazprombank to control the operations of AEB after April 2000, AEB's financial statements have not been consolidated into the financial statements of the Group after this date.

Additionally, in 2000, Novfintech and Gazcardservice, wholly owned subsidiaries of Gazprombank whose operations were previously immaterial to the Group as a whole, significantly increased their level of operations. As such, the financial statements of these companies have been consolidated into the financial statements of the Group for the year ended 31 December 2000. A description of the operations of Gazprombank, Novfintech, Gazcardservice and AEB is detailed below:

- Gazprombank was established as a limited liability partnership in 1990 and was granted its general banking license in 1996. Gazprombank primarily services gas industry clients in the Russian Federation, with its main activities including deposit taking, lending, and operations with securities and foreign exchange. As of 31 December 2000, these functions were carried out through 27 branches, all located in the Russian Federation.
- Novfintech and Gazcardservice are incorporated and operate in the Russian Federation. Both companies were established as limited liability companies in 1999. The main activity of Novfintech is securities operations. Gazcardservice primarily engages in debit and credit card transaction processing and securities operations.
- Altalanos Ertekforgalmi Bank ("AEB") was established from the former Hungarian and Industrial Commercial Controlling Bank in 1987, and was government owned until 1996, when Gazprombank acquired a controlling interest. AEB's main activities are similar to those of Gazprombank. These activities are carried out through 11 branches in Hungary and a subsidiary in Cyprus.

(b) Russian Business Environment

The Russian Federation has been experiencing political and economic instability which has affected and may continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets.

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Group may be significant.

(c) Business Risk

The Group's operating results are dependent upon its ability to attract deposits, make quality loans, control operating expenses and effectively manage risk. The primary risks to which it is exposed include credit, interest rate, liquidity, and foreign exchange risk. The Group is also exposed to significant risks due to the nature of its operating environment (refer to Note (b) above). Its success is dependent on the business environment in Russia, activities of competitors, and other factors which may be outside the control of the Group.

(d) Economic Dependence

Over 95% of the Gazprombank's Group shares are owned by members of the OAO Gazprom Group, which operates in the Russian natural gas industry. The majority of the Gazprombank Group's funding is from, and credit exposures are to the OAO Gazprom Group. As such the Gazprombank Group is economically dependent on the OAO Gazprom Group. The activities of the Gazprombank Group are closely linked with the requirements of the OAO Gazprom Group and determination of pricing to the OAO Gazprom Group is undertaken in conjunction with other OAO Gazprom Group companies.

2. Basis of Preparation

(a) Statement of Compliance

The financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC") and interpretations issued by the Standing Interpretations Committee of the IASC.

(b) Accounting Records

Gazprombank, Novfintech and Gazcardservice maintain their accounting records in accordance with Russian accounting legislation and regulation and Altalanos Ertekforgalmi Bank follows Hungarian accounting legislation and regulation in performing its accounting. Both of these legislative bases of accounting differ from International Accounting Standards (IAS). At 31 December of each year all Group members adjust their unconsolidated financial statements to conform with IAS. The consolidated financial statements presented in this report have been prepared based on those financial statements. The process of consolidation involves combining the non-consolidated financial statements of the entities and eliminating all inter-company balances, transactions and profits.

(c) Historical Cost Basis

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: unmatured derivative financial instruments and certain marketable securities.

(d) Reporting Currency

The currency of Russia is the Russian Rouble, however the majority of the assets and liabilities of the Group are denominated in currencies other than the Rouble. For this reason the reporting currency, for the purposes of these financial statements, is not the Russian Rouble but the US Dollar.

The Russian economy is a hyperinflationary economy. Had the Rouble been used as the reporting currency, the financial statements would have been required to be restated using general price indices in accordance with the provisions of *IAS 29 Financial Reporting in Hyperinflationary Economies*. Due to a divergence in the movements in the Rouble/US Dollar exchange rate and Russian general price indices, the information presented in these financial statements may differ from the information which would be presented had the Rouble been used as the reporting currency.

(e) Convertibility of the Rouble

The Rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Rouble amounts to US Dollars should not be construed as a representation that Rouble amounts have been, could be, or will be in future, convertible into US Dollars at the exchange rate shown, or at any other exchange rate.

(f) Consolidation

The financial statements for 1998 and 1999 consolidate the financial statements of Gazprombank and Altalanos Ertekforgalmi Bank ("AEB").

During 2000 the Bank sold a portion of its interest in AEB and, as a result of the sale, lost its ability to control the operations of AEB. Thus the Group's 2000 financial statements consolidate the operations of AEB only up to the date at which the Group still controlled AEB. After this date AEB's operations are accounted for using the equity method of accounting.

In addition, the financial statements of Novfintech and Gazcardservice have been consolidated into the 31 December 2000 Group financial statements due to the significance of their operations during 2000 to the Group as a whole. Other subsidiaries owned by the Group are not consolidated in the 1999 or 2000 financial statements due to their immaterial nature.

(g) Going Concern

The accompanying financial statements of the Group have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The future operations of the Group may be significantly affected by the current and future economic environment (refer to Note 1(b)), as well as the ongoing relationship with the OAO Gazprom Group. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

3. Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of the financial statements. These policies have been consistently applied.

(a) Foreign currency transactions

Income and expenses, and non-monetary items included in the balance sheet at year end, denominated in currencies other than the reporting currency are recorded by applying the market exchange rate prevailing on the date of the transaction. Exchange differences resulting from a change in the exchange rate between the transaction date and the date of settlement are recognised in the profit and loss statement.

Non US Dollar denominated monetary items included in the year end balance sheets of Gazprombank, Novfintech and Gazcardservice and, in relation to 31 December 1998 and 1999, non Hungarian Forint denominated monetary items included in the year end balance sheet of Altalanos Ertekforgalmi Bank are translated at the market exchange rate at the year end. The resulting difference is recognised in profit and loss for the year.

Exchange differences arising from the translation from the Hungarian Forint to the US Dollar of the financial statements of Altalanos Ertekeforgalmi Bank, whose operations are considered to be non-integral to the operations of Gazprombank, are included in the "Foreign currency translation reserve".

Non US Dollar charter fund contributions have been included in the financial statements at the market exchange rate on the date of contribution.

(b) Interest income and interest expense

Interest income and expense are recognised when earned or incurred, on an accrual basis, except in the case of non-performing loans. Non-performing loans are those loans for which management believes that the contractual interest or principal due will not be collected. Interest due on loans of this nature is recognised only when received.

(c) Provision for loan impairment

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as recovery of an exposure is identified as doubtful.

A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio as of the balance sheet date, but which have not been specifically identified.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the profit and loss statement if previously written off.

(d) Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss statement over the term of the liabilities.

When liabilities are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the profit and loss statement.

(e) Long-term investments and securities held for short-term purposes

Shares owned in non-subsidiary companies and other investments intended to be held on a continuing basis are classified as long-term investments and are stated at cost less provision for any permanent diminution in value. Shares owned in associated companies are accounted for using the equity method of accounting (see "f" below). Securities which are purchased for resale in a short period of time, and which are not part of structured transactions, are classified as securities held for short-term purposes and are stated at market value where a liquid market exists for the security. In other cases they are carried at the lower of cost and management's estimate of net realizable value.

(f) Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The financial statements include, where material, the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(g) Derivative financial instruments

Derivatives include forwards, options, futures, and other contingent or exchange traded instruments. Unmatured derivatives are valued at fair value and the resultant gains and losses are recognised immediately in the profit and loss statement. Unrealised gains and losses have been reported on a gross basis as other assets or other liabilities as appropriate. Provisions for credit losses related to derivative financial statements are recorded in the profit and loss statement.

(h) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy (j)).

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer accounting policy (j)).

Payments made in respect of operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed.

(iii) Depreciation

Depreciation is charged to the profit and loss statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 – 100 years
Leasehold improvements	Over expected life of the lease
Office equipment	3 – 14 years
Software	5 – 10 years

(j) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

The Group's accounting policy for provisions for loan impairment is presented in note 3 (c).

An impairment loss is recognised in the profit and loss statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Charter Fund

(i) Repurchase of charter fund

When charter fund recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the CBR and other Russian legislation. Dividends are reflected as an appropriation of retained earnings when declared.

(l) Employee Benefits

Salaries and bonuses paid to employees are recorded on an accrual basis. The Group also makes contributions to a Russian Federation State Pension Fund. These contributions are also recorded on an accrual basis.

(m) Provisions

Provisions are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Taxation

Profit tax expense for the year comprises current and deferred tax. Profit tax is recognised in the profit and loss statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Statement of cash flows

The Group considers cash and nostro accounts and short term deposits with central banks to be cash and cash equivalents. For purposes of determining cash flows, obligatory reserve deposits with central banks are not included due to restrictions on their availability.

(p) Comparative information

Comparative information has been restated to conform to changes in presentation in the current year.

4. Interest Income and Interest Expense

	2000	1999	1998
	USD '000	USD '000	USD '000
Interest income			
Loans to customers	167,030	142,658	195,174
Placements with banks and other financial institutions	38,425	44,254	54,793
	205,455	186,912	249,967
Interest expense			
Current accounts and deposits from customers	66,472	69,682	65,638
Deposits and balances from banks and other financial institutions . .	42,512	31,228	85,065
Certificates of deposit and promissory notes	34,900	28,478	24,176
	143,884	129,388	174,879

5. Recovery of/(Provision for) Loan Impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
Recovery of/(provision for) loans to customers	11,747	(11,064)	(6,059)
(Provision for)/recovery of placements with banks and other financial institutions	(3,478)	4,444	(163)
	8,269	(6,620)	(6,222)

Amounts shown in the above table represent net movements in provisions for the year. Movements shown as negative amounts represent net increases in provisions. Movements shown as positive amounts represent net decreases in provisions.

6. (Loss) / Income from Investment in Associates

	2000	1999	1998
	USD '000	USD '000	USD '000
Equity in profit of associated company	7,134	1,387	1,135
Loss on the sale of AEB shares	(12,453)	—	—
	(5,319)	1,387	1,135

The equity in profit of associated company for the period ended 31 December 2000 includes the Group's share of the net profit of AEB from the time the Group relinquished control of AEB's operations until 31 December 2000.

The loss on the sale of AEB shares includes the portion of the foreign currency translation reserve attributable to the disposed shares.

7. (Provision for)/Recovery of Impairment other than Loan Impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
(Provisions for)/recovery of long-term investments	(4,874)	736	(9,108)
(Provision for)/recovery of guarantees and letters of credit	(3,377)	4,730	(4,197)
(Provision for)/recovery of other assets	(1,542)	135	(15,619)
	(9,793)	5,601	(28,924)

Amounts shown in the above table represent net movements in provisions for the year. Movements shown as negative amounts represent net increases in provisions. Movements shown as positive amounts represent net decreases in provisions.

8. General and Administrative Expenses

	2000	1999	1998
	USD '000	USD '000	USD '000
Employee compensation	50,505	42,520	39,104
Revenue based and other taxes	15,258	17,052	27,919
Repairs and maintenance	6,861	2,675	2,846
Rental cost	5,676	5,079	3,357
Communications and information services	3,375	2,236	2,743
Advertising and marketing	2,702	3,077	3,977
Depreciation and amortisation	2,352	2,367	2,665
Penalties	296	1,148	1,228
Other	4,908	14,595	28,936
	91,933	90,749	112,775

9. Profit Tax Expense

	2000	1999	1998
	USD '000	USD '000	USD '000
Current tax expense			
Current year	9,896	14,595	4,572
Under provided in prior periods	776	—	—
	10,672	14,595	4,572
Deferred tax expense (refer to Note 19)			
Origination and reversal of timing differences	45,940	28,224	7,320
Effect of increase/(reduction) in tax rate	3,868	(760)	—
	49,808	27,464	7,320
	60,480	42,059	11,892

The charge for current profit tax was calculated based on profit calculated according to local accounting legislation regulation and adjusted to conform to local tax legislation and regulation. Below is a reconciliation between the expected tax expense based on local accounting legislation profit to the actual current tax expense. A reconciliation between profit according to local accounting legislation and International Accounting Standards is presented in Note 28.

	2000	1999	1998
	USD '000	USD '000	USD '000
Profit before taxes per Gazprombank, Novfintech and Gazcardservice financial statements prepared under Russian accounting legislation	20,623	36,150	46,535
<i>Adjustment for items which are considered income or expenses under Russian accounting legislation but are excludable or non-deductible for profit tax purposes:</i>			
Non-deductible loan loss provision	5,308	7,135	30,536
Income subject to taxes other than profit tax	(7,274)	(15,023)	(26,084)
Exempt income from government securities	—	(4,684)	125,507
Gross deductible foreign exchange gains	—	—	(413,303)
Net loss on forward foreign exchange deals	—	—	6,835
Other differences	3,182	1,358	14,328
Profit for tax purposes	21,839	24,936	(215,646)
Average statutory tax rate	38%	38.8%	43%
Current year tax expense – Gazprombank, Novfintech and Gazcardservice	8,299	9,675	—
Profit before taxation per Altalanos Ertektforgalmi Bank financial statements prepared under Hungarian accounting legislation	9,192	26,853	27,096
<i>Adjustments for items which are considered income or expenses under Hungarian accounting legislation but are excludable or non-deductible for taxation purposes</i>	<i>(319)</i>	<i>480</i>	<i>(1,694)</i>
Taxable profit	8,873	27,333	25,402
Statutory tax rate	18%	18%	18%
Current tax expense – Altalanos Ertektforgalmi Bank	1,597	4,920	4,572
Consolidated current tax expense	9,896	14,595	4,572

10. Due from Central Banks

	2000	1999	1998
	USD '000	USD '000	USD '000
Obligatory reserve deposits	160,819	138,301	54,097
Nostro accounts	78,164	25,422	19,086
Term deposits	—	83,052	134,249
	238,983	246,775	207,432

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the Central Banks of the Russian Federation and, for 1998 and 1999, Hungary, and whose withdrawability are restricted. The nostro balances represent balances related to settlement activity and were available for withdrawal at year end.

11. Placements with Banks and Other Financial Institutions

	2000	1999	1998
	USD '000	USD '000	USD '000
Nostro accounts	341,506	196,130	134,436
Loans and interbank deposits	499,054	262,155	646,763
	840,560	458,285	781,199
Less provision for impairment	(4,679)	(1,201)	(5,645)
	835,881	457,084	775,554

Analysis of movements in the provision for impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of the year	1,201	5,645	5,501
Net charge/(recovery) for the year	3,478	(4,444)	163
Foreign exchange difference	—	—	(19)
Balance at the end of the year	4,679	1,201	5,645

The provision for impairment represents management's assessment of potential losses in relation to the Group's placements with banks and other financial institutions.

Large exposures

At 31 December 2000, 34% of the gross placements with banks and other financial institutions were to Altalanos Erteforgalmi Bank RT. At 31 December 1998, 30% of gross placements with banks and other financial institutions were to Dresdner Bank. At 31 December 1999, there were no significant exposures to any single borrower.

Non-performing loans

Gross non-performing loans, included in placements with banks and other financial institutions, totalled US\$ 547 thousand, US\$ 492 thousand and US\$ 3,438 thousand at 31 December 2000, 1999 and 1998, respectively. No interest related to these loans has been recognized in the financial statements.

Amounts blocked and pledged

As at 31 December 2000, 1999 and 1998, the Group had pledged placements with banks and other financial institutions of US\$ 205,644 thousand, US\$ 63,306 thousand and US\$ 11,353 thousand, respectively, to AEB as collateral for credit exposures of AEB customers.

As at 31 December 2000, the Group had pledged US\$ 200,922 thousand in placements with banks and other financial institutions as collateral for two syndicated loans received by OAO Gazprom.

Frozen accounts

At 31 December 1998 US\$ 13,955 thousand, included in demand deposits, had been frozen by a counterparty seeking payment from the Group in respect of a unsettled forward foreign exchange deal. Subsequent to 31 December 1998 the Group was successful in litigation relating to this forward deal, receiving a final judgement under which the deal was declared invalid. Under the terms of the judgement, the counterparty was required to make available to the Group the US\$ 13,955 thousand previously frozen.

12. Securities held for Short-Term Purposes

	2000	1999	1998
	USD '000	USD '000	USD '000
Securities carried at market value			
Gazprom Shares	63,200	13,180	1,609
Russian Government Eurobonds	59,898	—	—
Russian Government Bonds (OVVZ)	40,503	52,016	13,561
Russian Government Bonds (GKO, OFZ)	6,766	3,540	486
Russian municipal bonds	228	54	—
Equity securities	226	18,192	8,541
Hungarian Government Securities (bonds and treasury bills)	—	23,109	43,987
Gazprom Bonds	—	1,037	—
Bonds issued by Central Bank of the Russian Federation	—	—	353
Securities carried at management's estimate of net realizable value			
Gazprom Shares	84,621	—	—
Promissory notes	28,620	24,218	26,457
Other equity securities	—	531	—
	284,062	135,877	94,994

Promissory notes are comprised mainly of short term notes issued by members of the OAO Gazprom Group.

Gazprom shares classified as securities carried at management's estimate of net realisable value are part of a structured transaction between OAO Gazprom and the Group. Under the terms of this transaction, OAO Gazprom financed the Group to purchase these shares and assumed all market risk in relation to the shares. In early 2001, ownership of the shares was transferred to OAO Gazprom Group and the debt provided to the Gazprombank Group by OAO Gazprom to purchase the shares cancelled. As such the shares and related financing have been recorded in these financial statements at their historical cost.

Pledged securities

As at 31 December 2000, 1999 and 1998, Russian Government Bonds (OVVZ) with a value of US\$ 23,450 thousand, US\$ 34,972 thousand and US\$ 11,698 thousand, respectively, were pledged as security for funds borrowed from other banks. In addition, as at 31 December 2000, Russian Government Eurobonds with a value of US\$ 39,951 thousand were pledged as security for funds borrowed from other banks.

Securities valuation

Securities carried at market value are shown at published market quotations. It should be noted that because of illiquidity in the current markets, the reliability of market quotations used in valuing the Group's securities may not be reflective of their fair value in an exchange between a willing buyer and a willing seller.

13. Loans to Customers

	2000	1999	1998
	USD '000	USD '000	USD '000
Gross loans to customers	1,373,460	1,486,321	1,053,319
Less provision for impairment	(48,487)	(61,068)	(51,742)
	1,324,973	1,425,253	1,001,577

Provision for impairment

Management has performed an assessment of the required provisions for loans outstanding as at 31 December 2000, 1999 and 1998. The above provision for impairment has been prepared on the basis described in Note 3.

In respect of 1999 loan balances totalling US\$ 311,904 thousand granted in favour of the OAO Gazprom Group, while no formal guarantee agreements have been executed between OAO Gazprom and the Gazprombank Group, OAO Gazprom has informed the management of the Gazprombank Group that it assumes responsibility for the credit risk and will reimburse the Group for any credit losses incurred on these loans. On this basis no provision has been created against these loans.

Analysis of movements in the provision for impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of the year	61,068	51,742	45,730
Net (recovery)/charge for the year	(11,747)	11,064	6,059
Foreign exchange revaluation difference	—	(78)	(47)
Amounts written off during the year	(834)	(1,660)	—
Balance at the end of the year	48,487	61,068	51,742

Non-performing loans

Gross non-performing loans, included in loans to customers, totalled US\$ 4,068 thousand, US\$ 33,665 thousand and US\$ 18,948 thousand at 31 December 2000, 1999 and 1998, respectively. In accordance with the Group's policies, uncollected interest of US\$ 1,879 thousand, US\$ 11,881 thousand and US\$ 4,468 thousand as at 31 December 2000, 1999 and 1998, respectively, related to these loans has not been recognized in the financial statements.

Industry analysis

	2000	1999	1998
	USD '000	USD '000	USD '000
Natural Gas	1,080,051	1,333,162	703,952
Construction	78,063	31,137	38,492
Defence	62,759	—	—
Trade	33,935	12,832	21,816
Individuals	31,647	25,599	6,615
Finance	30,204	—	164,785
Recycling	13,037	—	—
Media	9,182	59,260	59,958
Mining	5,387	—	—
Manufacturing	3,771	8,572	—
Communications	92	10,284	29,487
Other	25,332	5,475	28,214
	1,373,460	1,486,321	1,053,319
Less provision for impairment	(48,487)	(61,068)	(51,742)
	1,324,973	1,425,253	1,001,577

Large exposures

As at 31 December 2000, 1999 and 1998, approximately 73%, 93% and 83% of the Group's gross loans to customers, respectively, were either directly to, or guaranteed by, OAO Gazprom or other Gazprom Group companies.

One loan to Europol Gaz SA, a Gazprom Group company, represented 61%, 48% and 38% of the gross loans to customers balance at 31 December 2000, 1999 and 1998, respectively. Europol Gaz SA is a joint-stock company incorporated in Poland and established for the purpose of constructing gas pipelines from Belarus through Poland to Western Europe. Construction of these pipelines began in 1997 and is expected to be completed in stages, with full completion in 2008. Europol will retain ownership of the pipelines and repay the loan from transport fees it will charge for gas shipment via the pipelines, with the first principal repayments on the Group's loan exposure to Europol expected to begin in 2002. The balance of this exposure includes US\$ 131,349 thousand and US\$ 66,514 thousand in capitalised interest at 31 December 2000 and 1999, respectively.

Loans to four Hungarian companies, Interenergo Kft, I.G.P.I Holding Kft, IGM Kft and Metra Kft represented 18% of the gross loans to customers at 31 December 1999. These loans were issued for the purchase of the computer systems, satellite communication equipment and gas distribution equipment necessary to build and operate a pipeline system from Yamal, Russia to Western Europe. These loans are scheduled to make periodic interest and principal payments and are expected to be repaid in full by 2003.

Loan Maturities

The maturity of the Group's loan portfolio is presented in Note 31 which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

14. Long-Term Investments

	2000	1999	1998
	USD '000	USD '000	USD '000
Subordinated loan to Altalanos Ertekforgalmi Bank RT	60,000	—	—
Controlled entities	8,719	10,547	14,196
Associated entities	59,995	16,818	11,368
Gazprom Debentures	40,824	—	—
Other equity holdings	1,641	6,480	4,374
Other debt securities	—	12,956	13,805
	171,179	46,801	43,743
Less provision for impairment	(9,600)	(5,129)	(5,926)
	161,579	41,672	37,817

The US\$ 60,000 thousand subordinated loan to Altalanos Ertekforgalmi Bank RT bears interest at one year LIBOR and matures in December 2007.

Analysis of movements in the provision for impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of the year	5,129	5,926	1,750
Net charge/(recovery) for the year	4,874	(736)	4,197
Amounts written off during the year	(403)	—	—
Foreign exchange revaluation difference	—	(61)	(21)
	9,600	5,129	5,926

Controlled entities:

Name	Country of Incorporation	Main Activity	2000 Holding %	2000 Carrying Value USD '000	1999 Holding %	1999 Carrying Value USD '000	1998 Holding %	1998 Carrying Value USD '000
Sibirgazbank	Russia	Banking	60	5,852	71	3,291	71	3,241
OOO Raschetno – Depositarnaya Company	Russia	Clearing & Custody	64	1,316	100	1,505	100	1,222
Sochigazprombank	Russia	Banking	85	822	71	441	51	268
AOZT Volgobait	Russia	Information Technology	94	613	94	344	94	344
OOO Exor – 2000	Russia	Catering	100	106	—	—	—	—
ZAO Risk – Management Consulting	Russia	Consulting	75	6	75	6	75	6
ZAO Energoinvest – Finance	Russia	Real Estate	100	4	—	—	—	—
Binimex	Hungary	Real estate	—	—	100	3,940	100	4,542
ABI Rt.	Hungary	Debt collection	—	—	100	673	100	776
Gazenergoprombank	Russia	Banking	—	—	—	—	55	3,486
Ligdepo Kereskedelmi Kft	Hungary	Service	—	—	100	194	100	224
OOO Gazcardservice	Russia	Plastic card services	—	—	100	77	—	—
I.G.P.I. Real Ingatlanforg. es Hasznosito Kft.	Hungary	Real estate	—	—	100	75	100	87
OOO Novfintech	Russia	Finance	—	—	100	1	—	—
Total				8,719		10,547		14,196

Associated entities:

Name	Country of Incorporation	Main Activity	2000 Holding %	2000 Carrying Value USD '000	1999 Holding %	1999 Carrying Value USD '000	1998 Holding %	1998 Carrying Value USD '000
Altalanos Ertekforgalmi Bank RT	Hungary	Banking	26	35,204	—	—	—	—
Intrustbank	Russia	Banking	22	7,592	—	—	—	—
Gazenergoprombank	Russia	Banking	37	5,637	47	5,061	—	—
Severgazbank	Russia	Banking	40	5,206	—	—	—	—
Belgazprombank	Belarus	Banking	34	3,794	35	2,031	35	2,031
Evropeyskiy	Russia	Banking	34	1,525	34	1,525	20	1,525
Sreduralbank	Russia	Banking	35	740	35	691	35	691
ZAO Eta & Co	Russia	Information technology	30	150	—	—	—	—
OAO SR-Draga	Russia	Custody	20	81	20	78	20	78
OOO Energogazleasing	Russia	Leasing	50	44	50	44	50	44
Sofrasi	France	Representative office	30	22	—	—	—	—
DKG East	Hungary	Manufacturing	—	—	49	6,974	50	6,539
OOO Gazoil Plus	Russia	Finance	—	—	33	325	20	324
Inimex	Hungary	Trade	—	—	25	46	25	53
Leader	Russia	Investment	—	—	—	—	38	34
Aphipharma	Hungary	Parmaceutical	—	—	45	27	45	31
Tikett Kft.	Hungary	Distribution	—	—	25	16	25	18
Total				59,995		16,818		11,368

The investment in Altalanos Ertekeforgalmi Bank RT has been accounted for using the equity method of accounting. All other associated companies have limited activities and have been accounted for at cost less permanent diminution in value. Additionally the financial statements of subsidiary companies listed above have not been consolidated into those of the Group, as the effect on the consolidated financial statements would be immaterial.

15. Other Assets

	2000	1999	1998
	USD '000	USD '000	USD '000
Accrued interest receivable	13,801	16,376	32,898
Market to market gain on derivative financial instruments	4,707	6,328	15,610
Advances and prepayments	3,956	2,346	1,373
Prepaid taxes	2,220	502	4,201
Materials and supplies	1,406	2,526	1,340
Deferred expenses	1,103	2,586	—
Receivable for equity securities sold	—	—	38,920
Other	1,099	10,156	15,002
	28,292	40,820	109,344
Provision for impairment	(6,249)	(7,913)	(17,597)
	22,043	32,907	91,747

Analysis of movement in provision for impairment

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of the year	7,913	17,597	2,129
Net charge/(recovery) for the year	1,542	(135)	15,619
Foreign exchange difference	(260)	(3,938)	(151)
Amounts written off during the year	(2,946)	(5,611)	—
Balance at the end of the year	6,249	7,913	17,597

16. Property and Equipment

	Buildings	Leasehold improve- ments	Office equipment	Construction in progress	Software	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Cost						
At 31 December 1998.	2,533	5,010	16,594	5,322	2,163	31,622
Additions net of disposals . .	14,305	(530)	4,326	1,047	576	19,634
At 31 December 1999.	16,838	4,480	20,830	6,369	2,739	51,256
Additions.	1,750	—	11,451	317	949	14,467
Disposals	—	(4,480)	(8,609)	(2,145)	(6)	(15,240)
At 31 December 2000.	18,588	—	23,672	4,541	3,682	50,483
Accumulated depreciation						
At 31 December 1998.	217	451	5,874	—	759	7,301
Depreciation charge	25	114	1,971	—	257	2,367
At 31 December 1999.	242	565	7,845	—	1,016	9,668
Depreciation charge	145	—	1,973	—	234	2,352
Disposals	—	(565)	(4,449)	—	(6)	(5,020)
At 31 December 2000.	387	—	5,369	—	1,244	7,000
Carrying value						
At 31 December 2000.	18,201	—	18,303	4,541	2,438	43,483
At 31 December 1999.	16,596	3,915	12,985	6,369	1,723	41,588
At 31 December 1998.	2,316	4,559	10,720	5,322	1,404	24,321

17. Deposits and Balances from Banks and Other Financial Institutions

	2000	1999	1998
	USD '000	USD '000	USD '000
Term deposits.	266,242	160,694	128,027
Vostro accounts	164,062	29,925	9,676
Syndicated loan.	—	40,000	262,500
	430,304	230,619	400,203

Syndicated loan

The Group had two syndicated loans included in deposits and balances from banks and other financial institutions as at 31 December 1998 with outstanding balances of US\$ 222,500 thousand and US\$ 40,000 thousand. The US\$ 222,500 thousand loan bore interest at 9.14% and was repaid in May of 1999. The US\$ 40,000 thousand loan bore interest at LIBOR plus 0.55% and matures in April of 2001.

Large exposures

At 31 December 2000, 23% and 20% of deposits and balances from banks and other financial institutions were from Altalanos Ertekeforgalmi Bank RT and Vnesheconombank, respectively. At 31 December 1999, 23% and 22% of deposits and balances from banks and other financial institutions were from Vnesheconombank and National Reserve Bank, respectively.

18. Current Accounts and Deposits from Customers

	2000	1999	1998
	USD '000	USD '000	USD '000
Current accounts and other demand deposits	531,793	475,637	913,757
Term deposits.	754,636	942,702	480,851
	1,286,429	1,418,339	1,394,608

Significant depositors

Current accounts and deposits by the OAO Gazprom Group composed 74%, 68% and 56% at 31 December 2000, 1999 and 1998, respectively, of the Group's total current accounts and deposits balance.

Deposits by a non-resident company totalling US\$ 62,000 and US\$ 84,000 thousand composed 4% and 6% of the Group's total current accounts and depositors balance as at 31 December 1999 and 1998, respectively.

Blocked accounts

As at 31 December 2000, 1999 and 1998, the Group maintained customer deposit balances of US\$ 433,735 thousand, US\$ 553,106 thousand and US\$ 279,600 thousand, respectively, which were blocked by the Group as collateral against credit exposures of the Group or payments due by the Group's clients to outside counterparties.

19. Deferred Tax Liability

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of year	32,927	8,147	827
Charge for the year to profit and loss statement	49,808	27,464	7,320
Credit to the foreign currency translation reserve	(4,750)	(2,741)	—
Reversal of deferred tax as a result of partial disposal of subsidiary	(3,530)	—	—
Other charges to the profit for the year (revaluation effect).	—	57	—
Balance at the end of year	74,455	32,927	8,147

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a deferred tax liability of US\$ 74,455 thousand, US\$ 32,927 thousand and US\$ 8,147 thousand at 31 December 2000, 1999 and 1998, respectively, which has been reflected in the financial statements. This deferred liability is attributable to the following items, listed below at their tax effected values:

	Assets			Liabilities			Net		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
In thousands of USD									
Net interest accruals and capitalised interest	—	—	—	(53,418)	(21,217)	(17,863)	(53,418)	(21,217)	(17,863)
Mark to market gain on securities held for short-term purposes	—	—	5,534	(4,766)	(3,836)	(90)	(4,766)	(3,836)	5,444
Provision for losses	3,386	—	12,148	—	(4,018)	(2,095)	3,386	(4,018)	10,053
Historical cost restatement of long-term investments and related provisions	—	—	1,724	(19,135)	(9,582)	(12,898)	(19,135)	(9,582)	(11,174)
Historical cost restatement of property and equipment	—	—	—	(4,827)	(3,110)	(3,458)	(4,827)	(3,110)	(3,458)
Revaluation of loan in foreign currency	—	—	—	(1,924)	—	—	(1,924)	—	—
Provision for forward contracts	6,229	7,758	8,851	—	—	—	6,229	7,758	8,851
Other items	—	1,078	—	—	—	—	—	1,078	—
Tax assets/(liabilities)	9,615	8,836	28,257	(84,070)	(41,763)	(36,404)	(74,455)	(32,927)	(8,147)

20. Other Liabilities

	2000	1999	1998
	USD '000	USD '000	USD '000
Accrued interest payable	14,875	15,336	12,816
Mark to market loss on derivative financial instruments	14,485	17,532	19,531
Provision for guarantees and letters of credit	7,927	4,550	9,280
Taxes payable	1,555	1,420	—
Other	1,489	13,709	7,902
	40,331	52,547	49,529

Analysis of movement in provision for guarantees and letters of credit

	2000	1999	1998
	USD '000	USD '000	USD '000
Balance at the beginning of the year	4,550	9,280	5,083
Net charge/(recovery) for the year	3,377	(4,730)	4,197
Balance at the end of the year	7,927	4,550	9,280

21. Charter Fund

	2000	1999	1998
	USD '000	USD '000	USD '000
Charter fund at face value (Roubles at year end exchange rate)	443,958	166,120	176,921
Translation adjustment to reflect historical value of capital contributed	428,943	417,438	387,301
	872,901	583,558	564,222

Charter fund represents contributions made mainly in US Dollars by the owners of the Bank. Contributions made by the Bank's partners, primarily OAO Gazprom, are often made for the express purpose of providing the Group with the funding necessary to provide loans to specific projects or companies which OAO Gazprom controls or has an interest in, or to purchase the equity or debt securities of OAO Gazprom.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank which are determined according to accounting regulation and legislation in the Russian Federation. In accordance with this regulation and legislation, US\$ 17,520 thousand, US\$ 20,911 thousand and US\$ 14,261 thousand was available to be distributed as dividends at 31 December 2000, 1999 and 1998, respectively.

22. Derivative Financial Instruments

	Net Nominal Amounts by Counterparty		
	2000	1999	1998
	USD '000	USD '000	USD '000
Unsettled index foreign exchange deals			
Forward deals to sell US Dollars and buy Roubles	252,910	343,410	499,010
Forward deals to buy US Dollars and sell Roubles	521,487	581,737	587,887
Unmatured deliverable forward currency deals			
Forward deals to sell US Dollars and buy Euros	102,951	10,144	—
Forward deals to sell US Dollars and buy Roubles	3,000	—	—
Forward deals to sell US Dollars and buy Deutsche Marks	—	216	—
Forward deals to sell US Dollars and buy Hungarian Forints	—	45,925	34,772
Unmatured deliverable forward bullion deals			
Forward deals to buy gold	33,312	—	—
Unmatured deliverable forward securities deals			
Forward deals to buy OVZ	10,722	—	—
Unmatured securities futures deals			
Futures deals to buy shares	—	4,321	1,016

Unsettled index foreign exchange deals

Gazprombank entered into US Dollar/Russian Rouble index foreign exchange deals prior to 17 August 1998 which had matured but remain unsettled at 31 December 1998, 1999 and 2000. These deals were with Russian resident counterparties.

Due to the significant devaluation of the Rouble during late 1998, there has been widespread non settlement of index forward deals, especially between Russian bank counterparties. A large number of market participants are financially unable to settle their obligations under these deals and in addition, there is uncertainty on a number of grounds as to the enforceability of these deals. Further, there are various issues relating to the documentation underlying such deals which may present problems in their enforceability.

The Bank has been involved in litigation with three counterparties in respect of amounts payable by the Bank under forward deals. In all of these cases the Bank has received a final judgement in its favour and has excluded amounts payable under these deals from the financial statements.

In these financial statements, the Group has recorded receivables and payables under these deals at amounts which management estimates will be achieved through negotiation, as it believes Russian courts will continue to follow their past practice of holding these contracts legally unenforceable. If the Bank recorded these amounts at market rates prevailing at the date of maturity, the mark to market gain on derivative financial instruments, included within other assets, would increase by US\$ 84,306 thousand, US\$ 105,952 thousand and US\$ 175,977 thousand as at 31 December 2000, 1999 and 1998, respectively, and the market to market loss on derivative financial instruments, included within other liabilities, would increase by US\$ 106,386 thousand, US\$ 141,598 thousand and US\$ 200,850 thousand as at 31 December 2000, 1999 and 1998, respectively, excluding any penalties that may be applied to these balances. Additionally, as all unsettled index foreign exchange deals receivable are with counterparties who are believed to be in financial difficulty, the provision for losses included within other assets would also increase by US\$ 84,306 thousand, US\$ 105,952 thousand and US\$ 175,977 thousand as at 31 December 2000, 1999 and 1998, respectively, thereby increasing liabilities and decreasing Partners Funds by the amounts detailed above.

Unmatured deliverable forward foreign exchange deals

The nominal value of unmatured deliverable forward foreign exchange deals at 31 December 2000, 1999 and 1998 was US\$ 105,951 thousand, US\$ 60,606 thousand and US\$ 34,772 thousand, respectively. Net unrealised results on these deals totalled US\$ 15 thousand profits and US\$ 24 thousand losses at 31 December 2000 and 1999, respectively, based on the forward rate for similar deals. The Group expects to settle these deals in the normal course of business.

Unmatured deliverable forward bullion deals

Deliverable forward gold deals are floating rate purchase contracts settled at the market price at the date of maturity. As at 31 December 2000 the market value of unmatured deliverable forward gold deals at the prevailing spot prices was US\$ 33,312 thousand. The Group expects to settle these deals in the normal course of business. There were no unmatured forward gold deals at 31 December 1999.

Unmatured deliverable forward security deals

The nominal value of unmatured deliverable forward security deals at 31 December 2000 was US\$ 10,722 thousand. Net unrealised losses on these deals totalled US\$ 46 thousand, based on the 31 December 2000 market value of the securities. The Group expects to settle these deals in the normal course of business. There were no unmatured forward security deals at 31 December 1999.

23. Risk Management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group.

The Group has developed policies and procedures for the management of credit exposures, including the establishment of a Credit Committee which actively monitors the Group's credit risk.

The Group's credit policy is reviewed and approved by the Board of Management.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Board of Management.

See Note 30 "Average effective interest rates".

Liquidity risk

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Group's liquidity policy is reviewed and approved by the Board of Management.

See Note 31 "Maturity analysis".

Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's foreign currency policy is reviewed and approved by the Board of Management.

See Note 32 "Currency analysis".

24. Off-Balance Sheet Commitments

Guarantees and letters of credit

The Group issues guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted. The amounts of these instruments outstanding at are as follows:

	2000	1999	1998
	USD '000	USD '000	USD '000
Guarantees	72,407	40,874	92,777
Import letters of credit	318,922	254,011	101,025

Primarily general provisions for losses of US\$ 7,927, US\$ 4,550 thousand and US\$ 9,280 thousand at 31 December 2000, 1999 and 1998, respectively, have been created for guarantees and letters of credit and are included in other liabilities. The total outstanding amount of guarantees and import letters of credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Undrawn Loan Commitments

At 31 December 2000, 1999 and 1998 the Group had the following undrawn loan commitments:

	2000	1999	1998
	USD '000	USD '000	USD '000
	227,996	426,319	357,735

These commitments are mainly to member companies of the OAO Gazprom Group.

Operating leases

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years. Future payments due under these leases are detailed, by the period in which they become due, as follows:

	2000	1999	1998
	USD '000	USD '000	USD '000
Less than one year	5,035	4,530	3,386
Between one and five years	11,004	7,655	4,340
More than five years	4,778	1,106	—
	20,817	13,291	7,726

25. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental

damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(c) Legal

In the normal course of business the Group is presented with legal claims; the Group's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2000 (refer to Note 22 for discussion on legal issues related to foreign exchange derivative financial instruments).

26. Related Party Transactions

For the purposes of these financial statements, related parties include all members of the OAO Gazprom Group, controlled and associated companies and managers and directors of the Group. As at 31 December 2000, 1999 and 1998, these parties had the following outstanding balances:

	2000	1999	1998
	USD '000	USD '000	USD '000
Deposits with banks and other financial institutions			
Deposits with subsidiary and associated banks	320,278	13,120	14,334
Securities held for short-term purposes			
OAO Gazprom shares	147,821	13,180	1,609
OAO Gazprom bonds	—	1,037	—
Promissory notes receivable from OAO Gazprom and subsidiaries . .	23,070	24,129	15,835
Loans to customers			
Loans receivable from related parties	978,476	1,276,779	827,078
Loans made to unrelated parties and guaranteed by OAO Gazprom and subsidiaries	25,000	104,988	50,493
Long-term investments			
Subordinated loan	60,000	—	—
OAO Gazprom debentures	40,824	—	—
Other assets			
Receivable for equity securities.	—	—	38,920
Deposits from banks and other financial institutions			
Deposits from subsidiary and associated banks	140,249	58,900	956
Current accounts and deposits from customers			
Current accounts and deposits from related parties	950,150	962,182	784,997
Certificates of deposits and promissory notes			
Promissory notes payable to OAO Gazprom and subsidiaries	160,253	135,923	52,531
Certificates of deposit payable to OAO Gazprom and subsidiaries. . .	12,074	30,884	148
Commitments and contingencies			
Import letters of credit issued on behalf of related parties	309,423	187,996	75,823
Guarantees issued on behalf of related parties	30,711	13,981	43,587
Forward foreign exchange deals	—	36,302	—

In addition to the above are accrued interest receivable and payable on related party balances.

During 2000 a member of the Bank's Council acquired an 8.5% interest in AEB.

The Group is substantially owned by members of the OAO Gazprom Group and its activities are closely linked with the business requirements of OAO Gazprom Group members. Determination of the pricing of the Group's services to the OAO Gazprom Group is undertaken in conjunction with the other OAO Gazprom Group companies with the objective of achieving optimal pricing arrangements for the OAO Gazprom Group as a whole.

27. Cash and Cash Equivalents

Cash and cash equivalents as shown in the statement of cash flows is composed of the following items:

	2000	1999	1998
	USD '000	USD '000	USD '000
Cash	26,459	20,078	15,045
Due from central banks – nostro accounts	78,164	25,422	19,086
Due from central banks – short term deposits	—	83,052	134,249
	104,623	128,552	168,380

28. Reconciliation of the International Accounting Standards Financial Statements to those Prepared According to Local Legislation

	2000	1999	1998
	Profit After Taxation	Profit After Taxation	Profit After Taxation
	USD '000	USD '000	USD '000
Per local accounting legislation and regulations	19,143	48,408	69,059
Net interest accrual	77,568	20,011	24,267
Deferred tax expense	(49,808)	(27,872)	(7,396)
Result from partial disposal of subsidiary	(20,300)	—	—
Income from associates	7,134	1,953	1,135
Minority interest in net profit of subsidiary	(5,600)	(15,094)	(12,466)
Reclassification of expenses charged directly to reserves	(5,005)	(4,922)	(16,948)
Provisions for losses	1,278	71,461	51,906
Mark-to-market revaluations	(648)	28,506	(80,143)
Effect of foreign currency translation	(182)	(81,460)	(292,345)
Other taxes	—	(15,360)	(25,746)
Other	1,448	(188)	117
Per IAS	25,028	25,443	(288,560)

29. Fair Value of Financial Instruments

The Group has estimated the fair value of financial instruments in accordance with *IAS 32 Financial Instruments*.

Balance Sheet instruments

Management has estimated that the fair value of certain balance sheet instruments are not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits with the central banks, placements with banks and other financial institutions, securities held for short-term purposes, loans to customers, long-term investments (except investments in subsidiary or associated companies), deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and promissory notes and other short-term assets and liabilities which are of a contractual nature.

Obligatory reserve deposits with the Central Bank of the Russian Federation are non interest bearing and are estimated to mature as the underlying deposits in respect of which those deposits are maintained mature. The book values of obligatory reserve deposits as of 31 December 2000, 1999 were US\$ 160,819 thousand, US\$ 138,301 thousand, respectively. Their fair values as of 31 December 2000 and 1999 were US\$ 146,659 and US\$ 120,506 thousand, respectively.

The fair values of equity securities in associated and subsidiary companies, partners' funds, property and equipment, and other assets and liabilities which were not of a contractual nature were not calculated as they are not considered financial instruments under IAS 32.

Off-Balance Sheet Instruments

The fair values of off-balance sheet unmatured forward contracts are based on management's estimates of fair value and are shown in Note 22.

The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

30. Average Effective Interest Rate

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2000, 1999 and 1998 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2000	2000	1999	1999	1998	1998
	Value	Average Effective Interest Rate	Value	Average Effective Interest Rate	Value	Average Effective Interest Rate
	USD '000		USD '000		USD '000	
Interest Bearing Assets						
Due from central banks						
– denominated in Roubles	238,983	0.0%	141,837	0.0%	57,023	0.1%
– denominated in Forints	—	—	98,569	10.7%	38,345	13.9%
– denominated in other currencies	—	—	6,369	4.3%	112,064	4.8%
Placements with banks and other financial institutions						
– nostros denominated in Roubles	12,408	0.8%	9,553	0.6%	2,782	0.0%
– nostros denominated in other currencies	329,098	1.0%	185,868	3.1%	127,731	2.1%
– loans denominated in Roubles	2,960	23.6%	11,461	17.0%	24,293	28.1%
– loans denominated in Forints	—	—	13,860	14.5%	22,025	16.6%
– loans denominated in other currencies	491,415	4.9%	236,342	5.0%	598,723	6.1%
Securities held for short-term purposes						
– Russian Government Bonds (OVVZ) denominated in other currencies	40,503	26.5%	52,016	31.2%	13,561	445.5%
– Russian Government Eurobonds denominated in other currencies	59,898	15.9%	—	—	—	—
– Promissory notes denominated in Roubles	28,620	20.0%	24,218	33.4%	26,457	10.4%
– Russian Government Bonds (OFZ, GKO) denominated in Roubles	6,766	23.2%	3,540	56.8%	486	N/A
– Russian municipal bonds denominated in Roubles	228	0.0%	54	0.0%	—	—
– Hungarian Government Securities (bonds and treasury bills) denominated in Forints	—	—	23,109	14.7%	43,987	16.1%
– Gazprom Bonds denominated in Roubles	—	—	1,037	28.1%	—	—
– Bonds issued by the CBR	—	—	—	—	353	38.8%
Loans to customers						
– loans to individuals denominated in Roubles	4,038	4.7%	2,264	4.2%	3,967	10.6%
– loans to individuals denominated in Forints	—	—	1,377	18.2%	598	23.4%
– loans to individuals denominated in other currencies	26,969	11.5%	21,725	10.1%	1,435	5.6%
– loans to enterprises denominated in Roubles	168,096	17.0%	76,844	37.0%	70,394	47.2%
– loans to enterprises denominated in Forints	—	—	8,141	17.4%	3,085	18.3%
– loans to enterprises denominated in other currencies	1,125,870	10.0%	1,314,902	8.6%	922,098	9.6%
Long-term investments						
– subordinated loan denominated in other currency	60,000	6.0%	—	—	—	—
– Gazprom debentures denominated in other currencies	40,824	12.0%	—	—	—	—
– debt securities denominated in Forints	—	—	12,518	14.2%	13,299	18.8%
– debt securities denominated other currencies	—	—	438	7.8%	506	7.9%

	2000	2000	1999	1999	1998	1998
	Value	Average Effective Interest Rate	Value	Average Effective Interest Rate	Value	Average Effective Interest Rate
	USD '000		USD '000		USD '000	
Interest Bearing Assets						
Deposits and balances from banks and other financial institutions						
– vostro accounts denominated in Roubles	26,886	0.6%	3,118	1.8%	4,498	4.0%
– vostro accounts denominated in Forints	—	—	1	3.3%	77	3.3%
– vostro accounts denominated in other currencies	137,176	1.0%	26,806	1.1%	5,101	1.1%
– term deposits denominated in Roubles	7,920	17.7%	22,598	25.8%	5,083	15.9%
– term deposits denominated in Forints	—	—	650	15.3%	12,075	18.8%
– term deposits denominated in other currencies	258,322	12.2%	137,446	10.1%	110,869	5.3%
– syndicated loans denominated in other currencies	—	—	40,000	6.6%	262,500	8.6%
Current accounts and deposits from customers						
– current accounts and other demand deposits denominated in Roubles	277,524	0.0%	100,527	0.0%	85,341	0.0%
– current accounts and other demand deposits denominated in Forints	—	—	62,530	6.5%	66,268	5.5%
– current accounts and other demand deposits denominated in other currencies	254,269	0.5%	312,580	0.2%	762,148	0.5%
– term deposits denominated in Roubles	96,612	11.6%	69,552	10.0%	26,637	16.3%
– term deposits denominated in Forints	—	—	63,973	13.4%	49,276	16.2%
– term deposits denominated in other currencies	658,024	3.6%	809,177	6.3%	404,938	8.1%
Certificates of deposit and promissory notes						
– denominated in Roubles	350,112	13.0%	173,831	22.5%	50,069	21.2%
– denominated in other currencies	108,523	7.6%	97,107	7.9%	13,928	3.5%

31. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2000.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 year to 5 years	More than 5 years	No maturity	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Banking Assets								
Cash	26,459	—	—	—	—	—	—	26,459
Due from Central Banks	190,344	17,910	9,844	3,764	7,907	9,214	—	238,983
Placements with banks and other financial institutions	427,716	1,877	202,314	17,342	186,086	—	546	835,881
Securities held for short-term purposes	7,627	3,445	5,881	16,950	41,182	60,930	148,047	284,062
Loans to customers	22,845	87,454	60,946	117,350	213,192	823,186	—	1,324,973
Long-term investments	—	—	—	—	40,824	60,000	60,755	161,579
Total Banking Assets	674,991	110,686	278,985	155,406	489,191	953,330	209,348	2,871,937
Banking Liabilities								
Deposits from banks and other financial institutions	267,779	151,379	3,118	2,534	5,494	—	—	430,304
Current accounts and deposits from customers	569,418	81,502	278,370	39,833	216,598	100,708	—	1,286,429
Certificates of deposit and promissory notes	128,161	122,162	63,174	19,669	125,285	184	—	458,635
Total Banking Liabilities	965,358	355,043	344,662	62,036	347,377	100,892	—	2,175,368
Net position at 31 December 2000	(290,367)	(244,357)	(65,677)	93,370	141,814	852,438	209,348	696,569

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 1999.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	No maturity	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Banking Assets							
Cash	20,078	—	—	—	—	—	20,078
Due from Central Banks	108,474	—	—	—	—	138,301	246,775
Placements with banks and other financial institutions	360,632	75,306	17,820	37	3,289	—	457,084
Securities held for short-term purposes	2,954	4,776	14,076	12,612	69,556	31,903	135,877
Loans to customers	32,507	145,961	9,543	121,098	1,116,144	—	1,425,253
Long-term investments	—	—	—	—	12,553	29,119	41,672
Total Banking Assets	524,645	226,043	41,439	133,747	1,201,542	199,323	2,326,739
Banking Liabilities							
Deposits from banks and other financial institutions	58,818	93,197	24,500	3,232	50,667	205	230,619
Current accounts and deposits from customers	718,370	123,299	84,257	111,049	381,364	—	1,418,339
Certificates of deposit and promissory notes	51,780	155,158	44,610	10,407	8,983	—	270,938
Total Banking Liabilities	828,968	371,654	153,367	124,688	441,014	205	1,919,896
Net position at 31 December 1999	(304,323)	(145,611)	(111,928)	9,059	760,528	199,118	406,843

The following table shows banking assets and liabilities by contractual maturity dates as at 31 December 1998.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 years	No maturity	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Banking Assets							
Cash	15,045	—	—	—	—	—	15,045
Due from Central Banks	153,335	—	—	—	—	54,097	207,432
Placements with banks and other financial institutions	660,740	114,451	339	—	24	—	775,554
Securities held for short-term purposes . . .	7,862	8,515	21,907	570	45,990	10,150	94,994
Loans to customers	49,562	52,238	253,336	40,168	606,273	—	1,001,577
Long-term investments	—	—	—	—	13,805	24,012	37,817
Total Banking Assets	<u>886,544</u>	<u>175,204</u>	<u>275,582</u>	<u>40,738</u>	<u>666,092</u>	<u>88,259</u>	<u>2,132,419</u>
Banking Liabilities							
Deposits from banks and other financial institutions	87,820	27,425	230,721	146	54,091	—	400,203
Current accounts and deposits from customers	1,176,768	47,310	30,643	29,031	110,856	—	1,394,608
Certificates of deposit and promissory notes	20,502	5,587	26,152	2,783	8,973	—	63,997
Total Banking Liabilities	<u>1,285,090</u>	<u>80,322</u>	<u>287,516</u>	<u>31,960</u>	<u>173,920</u>	<u>—</u>	<u>1,858,808</u>
Net position at 31 December 1998	<u>(398,546)</u>	<u>94,882</u>	<u>(11,934)</u>	<u>8,778</u>	<u>492,172</u>	<u>88,259</u>	<u>273,611</u>

32. Currency Analysis

The following table shows the currency structure of banking assets and liabilities at 31 December 2000.

	Roubles	USD	Other currencies	Total
	USD '000	USD '000	USD '000	USD '000
Banking Assets				
Cash	17,407	9,052	—	26,459
Due from central banks	238,983	—	—	238,983
Placements with banks and other financial institutions	15,368	537,019	283,494	835,881
Securities held for short-term purposes	183,661	100,401	—	284,062
Loans to customers	172,134	1,092,713	60,126	1,324,973
Long-term investments	21,735	100,824	39,020	161,579
Total Banking Assets	<u>649,288</u>	<u>1,840,009</u>	<u>382,640</u>	<u>2,871,937</u>
Banking Liabilities				
Deposits and balances from banks and other financial institutions	34,806	290,379	105,119	430,304
Current accounts and deposits from customers	374,136	623,342	288,951	1,286,429
Certificates of deposit and promissory notes	350,112	93,253	15,270	458,635
Total Banking Liabilities	<u>759,054</u>	<u>1,006,974</u>	<u>409,340</u>	<u>2,175,368</u>
Total balance sheet position	<u>(109,766)</u>	<u>833,035</u>	<u>(26,700)</u>	<u>696,569</u>
Off balance sheet position (refer to Note 22)	<u>3,000</u>	<u>(105,951)</u>	<u>102,951</u>	<u>—</u>
Net Position as of 31 December 2000	<u>(106,766)</u>	<u>727,084</u>	<u>76,251</u>	<u>696,569</u>

The following table shows the currency structure of banking assets and liabilities at 31 December 1999:

	Russian Roubles	Hungarian Forint	US Dollars	Other currencies ⁽¹⁾	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Banking Assets					
Cash	10,609	1,934	5,951	1,584	20,078
Due from Central Banks	141,837	98,569	1	6,368	246,775
Placements with banks and other financial institutions	21,014	13,860	301,682	120,528	457,084
Securities held for short-term purposes	42,560	41,301	52,016	—	135,877
Loans to customers	79,108	9,518	1,238,174	98,453	1,425,253
Long-term investments	14,945	24,212	—	2,515	41,672
Total Banking Assets	310,073	189,394	1,597,824	229,448	2,326,739
Banking Liabilities					
Deposits from banks and other financial institutions	25,716	651	196,001	8,251	230,619
Current accounts and deposits from customers	170,079	126,503	978,085	143,672	1,418,339
Certificates of deposit and promissory notes	173,831	—	97,107	—	270,938
Total Banking Liabilities	369,626	127,154	1,271,193	151,923	1,919,896
Total balance position	(59,553)	62,240	326,631	77,525	406,843
Off-balance sheet position	—	45,925	(56,285)	10,360	—
Net Position as at 31 December 1999	(59,553)	108,165	270,346	87,885	406,843

(1) Other currencies comprise mainly GB Pounds and Euros.

The following table shows the currency structure of banking assets and liabilities at 31 December 1998:

	Roubles	USD	Other currencies	Total
	USD '000	USD '000	USD '000	USD '000
Banking Assets				
Cash	5,692	1,194	8,159	15,045
Due from central banks	57,023	38,345	112,064	207,432
Placements with banks and other financial institutions	27,075	22,025	726,454	775,554
Securities held for short-term purposes	28,905	52,528	13,561	94,994
Loans to customers	74,361	3,683	923,533	1,001,577
Long-term investments	11,965	25,346	506	37,817
Total Banking Assets	205,021	143,121	1,784,277	2,132,419
Banking Liabilities				
Deposits and balances from banks and other financial institutions	9,581	12,152	378,470	400,203
Current accounts and deposits from customers	111,978	115,544	1,167,086	1,394,608
Certificates of deposit and promissory notes	50,069	—	13,928	63,997
Total Banking Liabilities	171,628	127,696	1,559,484	1,858,808
Net Position as of 31 December 1998	33,393	15,425	224,793	273,611

(1) Other currencies comprise mainly US Dollars and GB Pounds.

33. Concentration of Assets and Liabilities

The geographical concentration of banking assets and liabilities as at 31 December 2000 was as follows:

	Non-OECD Government and central banks	Other Russian Entities ⁽¹⁾	Other Non- OECD	OECD	Total
	USD '000	USD '000	USD '000	USD '000	USD '000
Banking assets					
Cash	17,407	—	—	9,052	26,459
Due from central banks	238,983	—	—	—	238,983
Placements with banks and other financial institutions	—	18,905	34,589	782,387	835,881
Securities held for short-term purposes	107,167	176,895	—	—	284,062
Loans to customers	—	347,975	81,246	895,752	1,324,973
Long-term investments	—	62,559	3,794	95,226	161,579
Total banking assets	<u>363,557</u>	<u>606,334</u>	<u>119,629</u>	<u>1,782,417</u>	<u>2,871,937</u>
Banking liabilities					
Deposits and balances from banks and other financial institutions	—	281,179	767	148,358	430,304
Current accounts and deposits from customers	—	1,284,639	1,181	609	1,286,429
Promissory notes and certificates of deposit	—	442,703	15,932	—	458,635
Total banking liabilities	<u>—</u>	<u>2,008,521</u>	<u>17,880</u>	<u>148,967</u>	<u>2,175,368</u>
Net position as of 31 December 2000	<u>363,557</u>	<u>(1,402,187)</u>	<u>101,749</u>	<u>1,633,450</u>	<u>696,569</u>

(1) Includes all entities domiciled in the Russian Federation, including the Russian subsidiaries of foreign entities.

The geographical concentration of banking assets and liabilities as at 31 December 1999 was as follows:

	OECD ⁽¹⁾	Non OECD Government and Central Bank ⁽²⁾	Non OECD Other ⁽²⁾	Total
	USD '000	USD '000	USD '000	USD '000
Banking Assets				
Cash	9,469	10,609	—	20,078
Due from Central Banks	104,938	141,837	—	246,775
Placements with banks and other financial institutions	417,441	—	39,643	457,084
Securities held for short-term purposes	41,301	55,556	39,020	135,877
Loans to customers	1,156,358	—	268,895	1,425,253
Long-term investments	24,696	—	16,976	41,672
Total Banking Assets	<u>1,754,203</u>	<u>208,002</u>	<u>364,534</u>	<u>2,326,739</u>
Banking Liabilities				
Deposits from banks and other financial institutions . .	124,794	—	105,825	230,619
Current accounts and deposits from customers	408,356	—	1,009,983	1,418,339
Certificates of deposit and promissory notes	—	—	270,938	270,938
Total Banking Liabilities	<u>533,150</u>	<u>—</u>	<u>1,386,746</u>	<u>1,919,896</u>
Net position at 31 December 1999	<u>1,221,053</u>	<u>208,002</u>	<u>(1,022,212)</u>	<u>406,843</u>

(1) Represents persons, entities or government bodies located within OECD countries.

(2) Represents persons, entities or government bodies located outside OECD countries.

The geographical concentration of banking assets and liabilities as at 31 December 1998 were as follows:

	OECD ⁽¹⁾	Non OECD Government and Central Bank ⁽²⁾	Non OECD Other ⁽²⁾	Total
	USD '000	USD '000	USD '000	USD '000
Banking Assets				
Cash	9,353	5,692	—	15,045
Due from Central Banks	150,409	57,023	—	207,432
Placements with banks and other financial institutions	700,600	—	74,954	775,554
Securities held for short-term purposes	52,528	14,400	28,066	94,994
Loans to customers	608,057	—	393,520	1,001,577
Long-term investments	25,852	—	11,965	37,817
Total Banking Assets	1,546,799	77,115	508,505	2,132,419
Banking Liabilities				
Deposits from banks and other financial institutions	375,076	—	25,127	400,203
Current accounts and deposits from customers	304,299	—	1,090,309	1,394,608
Certificates of deposit and promissory notes	—	—	63,997	63,997
Total Banking Liabilities	679,375	—	1,179,433	1,858,808

(1) Represents persons, entities or government bodies located within OECD countries.

(2) Represents persons, entities or government bodies located outside OECD countries.

34. Partial Disposal of Subsidiary

During 2000 the Group relinquished control of AEB by selling a portion of its controlling interest in AEB. The fair value of the assets and liabilities disposed at the disposal date were as follows:

	USD '000
ASSETS	
Banking assets	
Cash and cash equivalents	106,661
Due from Central Bank of Hungary	35,936
Placements with banks and other financial institutions	292,176
Securities held for short-term purposes	53,082
Loans to customers	371,999
Long-term investments	24,032
Total Banking Assets	883,886
Other assets	14,407
Property and equipment	10,706
Total Assets	908,999
LIABILITIES	
Banking Liabilities	
Deposits and balances from banks and other financial institutions	345,647
Current accounts and deposits from customers	350,118
Subordinated loan	60,000
Total Banking Liabilities	755,765
Deferred tax liability	3,530
Other liabilities	32,516
Total Liabilities	791,811
Cash proceeds from sale of investment	15,200
Less: cash of AEB disposed	(106,661)
Proceeds from the partial sale of subsidiary, net of cash disposed	(91,461)

GAZPROMBANK GROUP

CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001

Partners, Officers and Auditors

Partners

	% Ownership	% Vote
OA0 Gazprom	87.49	87.49
OOO Gazexport	6.64	6.64
OOO Novfintech	1.99	1.99
Other	3.88	3.88
	100.00	100.00

Council of the Bank at 30 June 2001

Viakhirev R.I.	<i>Chairman of the Council</i>
	<i>Chairman of the OA0 Gazprom Board</i>
Rakhimkulov M.N.	<i>Deputy Chairman of the Council</i>
	<i>President of Altalanos Ertektorgalmi Bank</i>
Rodionov P.I.	<i>Deputy Chairman of the Council</i>
	<i>Deputy Chairman of the OA0 Gazprom Board</i>
Tarasov V.I.	<i>Deputy Chairman of the Council</i>
	<i>Chairman of the Gazprombank Board</i>
Dubinin S.K.	<i>Deputy Chairman of the OA0 Gazprom Board</i>
Dokuchaev M.V.	<i>Member of the OA0 Gazprom Board</i>
Bezrukova M.A.	<i>Deputy Managing Director OOO Mezhtregiongaz</i>
Chichelov V.A.	<i>Managing Director of OOO Permtransgaz</i>
Kozachenko A.N.	<i>Managing Director of OOO Mostransgaz</i>
Ananenkov A.G.	<i>Managing Director of OOO Yamburggazdobycha</i>
Shkuta A.A.	<i>Deputy Managing Director of OOO Gazexport</i>

Board of Management at 30 June 2001

Tarasov V.I.	<i>Chairman of the Board</i>
Chernoivan A.V.	<i>First Deputy Chairman of the Board</i>
Lisovaya L.N.	<i>Deputy Chairman of the Board</i>
Primak A.G.	<i>Deputy Chairman of the Board</i>
Olenev N.I.	<i>Deputy Chairman of the Board</i>
Utkin P.V.	<i>Deputy Chairman of the Board</i>
Seregin V.A.	<i>Deputy Chairman of the Board</i>
Sobol A.I.	<i>Deputy Chairman of the Board</i>
Levin K.Y.	<i>Deputy Chairman of the Board</i>
Muraviov A.V.	<i>Member of the Board</i>

Auditors

KPMG Limited, Moscow

AUDITORS' REPORT – 30 JUNE 2001

We have audited the accompanying consolidated balance sheet of Gazprombank and its subsidiaries ("the Group") as of 30 June 2001 and the related consolidated income and cash flow statements for the six month period then ended. The consolidated financial statements, as set out on pages 4 to 39, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements do not present comparative information as is required by International Accounting Standard 34 *Interim Financial Reporting*.

In our opinion, except for the omission of comparative information as described in the preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2001 and the results of its operations and its cash flows for six month period then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Board.

Without further qualifying our opinion, we draw attention to note 22 to the consolidated financial statements in respect of unsettled index foreign exchange deals with Russian banks.

KPMG Limited Moscow,
Russian Federation

5 December 2001

**CONSOLIDATED AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

**CONSOLIDATED AUDITED INCOME STATEMENT
FOR THE PERIOD 30 JUNE 2001**

		30 June 2001
	Notes	USD '000
Interest income	4	98,453
Interest expense	4	(60,995)
Net interest income before provision for loan impairment		37,458
Provision for loan impairment.	5	(18,628)
Net interest income after provision for loan impairment		18,830
Fee and commission income		13,610
Fee and commission expense		(1,662)
Net income from debt securities		38,421
Net income from foreign exchange		39,826
Net income from equity securities		68,222
Income from investment in associate	6	4,456
Recovery of provision for impairment other than loan impairment	7	536
Other income.		3,570
Non-interest income		166,979
General administrative expenses	8	(53,196)
Income before income tax		132,613
Income tax expense	9	(71,437)
Net Income.		61,176

The consolidated unaudited income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

**CONSOLIDATED AUDITED BALANCE SHEET
AS OF 30 JUNE 2001**

		30 June 2001
	Notes	USD '000
ASSETS		
Banking assets		
Cash		27,610
Due from the Central Bank of the Russian Federation	10	227,326
Placements with banks and other financial institutions	11	911,187
Securities held for trading	12	342,579
Loans to customers	13	1,500,274
Available-for-sale investments		5,732
Investments in unconsolidated subsidiaries and associates	14	65,032
Total Banking Assets		3,079,740
Other assets	15	24,519
Property, plant and equipment	16	47,788
Total Assets		3,152,047
LIABILITIES AND PARTNERS' FUNDS		
Banking Liabilities		
Deposits and balances from banks and other financial Institutions	17	391,811
Current accounts and deposits from customers	18	1,489,881
Certificates of deposit and promissory notes		392,604
Total Banking Liabilities		2,274,296
Deferred tax liability	19	136,729
Other liabilities	20	45,421
Total Liabilities		2,456,446
Partners' Funds		
Charter capital	21	863,806
Foreign currency translation reserve		(9,249)
Accumulated losses		(158,956)
Total Partners' Funds		695,601
Commitments and Contingencies	24 & 25	
Total Liabilities and Partners' Funds		3,152,047

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

**CONSOLIDATED AUDITED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2001**

	30 June 2001
Notes	USD '000
CASH FLOWS FROM OPERATING ACTIVITIES	
Income before income tax expense	132,613
Adjustments to reconcile income before tax expense to cash used by operating activities:	
Provisions for impairment	18,092
Depreciation expense	1,823
Increase in net accruals	(24,559)
Unrealized securities gains	(57,596)
Operating cash flow before changes in operating assets and liabilities	70,373
(Increase)/decrease in operating assets	
Obligatory reserve deposit with the Central Bank of the Russian Federation	(5,340)
Placements with banks and other financial institutions	(16,786)
Securities held for trading	(5,375)
Loans to customers	(113,166)
Other operating assets	(5,531)
Increase/(decrease) in operating liabilities	
Deposits and balances from banks and other financial institutions	(38,493)
Current accounts and deposits from customers	203,452
Certificates of deposit and promissory notes	(68,633)
Other operating liabilities	(807)
Net cash from operating activities before taxes paid	19,694
Taxes paid	(8,579)
Net cash from operating activities	11,115
CASH FLOWS FROM INVESTING ACTIVITIES	
Net investments into available-for-sale securities	(4,091)
Net investments into unconsolidated subsidiaries and associates	(4,632)
Net purchases of fixed assets	(6,128)
Net cash used in investing activities	(14,851)
CASH FLOWS FROM FINANCING ACTIVITIES	
Redemption of charter capital	(9,095)
Dividends paid	(3,015)
Net cash used in financing activities	(12,110)
Net decrease in cash and cash equivalents	(15,846)
Cash and cash equivalents at beginning of period	104,623
Cash and cash equivalents at end of period	88,777

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The consolidated statement of cash flows is to be read in conjunction with the notes, to and forming part of, the financial statements.

**CONSOLIDATED AUDITED STATEMENT OF MOVEMENTS IN PARTNERS' FUNDS
FOR THE PERIOD ENDED 30 JUNE 2001**

	Charter capital	Foreign currency translation reserve	Accumulated losses	Total
			USD '000	
Balance at 1 January 2001	872,901	(8,475)	(217,117)	647,309
Net income	—	—	61,176	61,176
Foreign exchange difference from translation of foreign associate	—	(774)	—	(774)
Redemption of Charter Capital	(9,095)	—	—	(9,095)
Dividends	—	—	(3,015)	(3,015)
Balance at 30 June 2001	<u>863,806</u>	<u>(9,249)</u>	<u>(158,956)</u>	<u>695,601</u>

The foreign currency translation reserve at 30 June 2001 has been shown net of deferred tax of USD 6,978 thousand.

The consolidated statement of movements in partners' funds is to be read in conjunction with the notes, to and forming part of, the financial statements.

NOTES TO, AND FORMING A PART OF, THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2001

1. Background

(a) Organisation and operations

During the first half of 2001, the Gazprombank Group (the "Group") primarily consisted of the parent company, Gazprombank, which is incorporated and operates in the Russian Federation, and Novfintech and Gazcardservice, wholly owned subsidiaries of Gazprombank.

A description of the operations of Gazprombank, Novfintech and Gazcardservice is detailed below:

- Gazprombank was established as a limited liability partnership in 1990 and was granted its general banking license in 1996. Gazprombank primarily services gas industry clients in the Russian Federation, with its main activities including deposit taking, lending, and operations with securities and foreign exchange. As of 30 June 2001, these functions were carried out through 28 branches, all located in the Russian Federation.
- Novfintech and Gazcardservice are incorporated and operate in the Russian Federation. Both companies were established as limited liability companies in 1999. The main activity of Novfintech is securities operations. Gazcardservice primarily engages in debit and credit card transaction processing and securities operations.

(b) Russian business environment

The Russian Federation has been experiencing political and economic instability which has affected and may continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets.

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Group may be significant.

(c) Business risk

The Group's operating results are dependent upon its ability to attract deposits, make quality loans, control operating expenses and effectively manage risk. The primary risks to which it is exposed include credit, interest rate, liquidity, and foreign exchange risk. The Group is also exposed to significant risks due to the nature of its operating environment (refer to Note (b) above). Its success is dependent on the business environment in Russia, activities of competitors, and other factors which may be outside the control of the Group.

(d) Economic dependence

Over 95% of the Gazprombank's Group shares are owned by members of the OAO Gazprom Group, which operates in the Russian natural gas industry. The majority of the Gazprombank Group's funding is from, and credit exposures are to the OAO Gazprom Group. As such the Gazprombank Group is economically dependent on the OAO Gazprom Group. The activities of the Gazprombank Group are closely linked with the requirements of the OAO Gazprom Group and determination of pricing to the OAO Gazprom Group is undertaken in conjunction with other OAO Gazprom Group companies.

2. Basis of preparation

(a) Statement of compliance

Except for the fact that no comparative information has been presented as is required by International Accounting Standard 34 *Interim Financial Reporting*, the financial statements have been prepared in accordance with the accounting standards issued by International Accounting Standards Board ("IASB") and interpretations issued by the Standing Interpretations Committee of the IASB.

(b) Accounting records

Gazprombank, Novfintech and Gazcardservice maintain their accounting records in accordance with Russian accounting legislation and regulation which differs from International Accounting Standards (IAS). At each reporting date all Group members adjust their unconsolidated financial statements to conform with IAS. The consolidated financial statements presented in this report have been prepared based on those financial statements.

(c) Historical Cost Basis

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: unmatured derivative financial instruments and certain marketable securities.

(d) Measurement and presentation currency

The currency of Russia is the Russian Rouble, however the majority of the assets and liabilities of the Group are denominated in US Dollars. For this reason the measurement and presentation currency of the Group is not the Russian Rouble but the US Dollar.

(e) Convertibility of the Rouble

The Rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Rouble amounts to US Dollars should not be construed as a representation that Rouble amounts have been, could be, or will be in future, convertible into US Dollars at the exchange rate shown, or at any other exchange rate.

(f) Consolidation

The financial statements consolidate the financial position and results of operations of Gazprombank, Gazcardservice and Novfintech. Other subsidiaries owned by the Group are not consolidated due to their immaterial nature.

(g) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. These policies have been consistently applied.

(a) Foreign currency transactions

Income and expenses, and non-monetary items included in the balance sheet at year end, denominated in currencies other than the presentation currency are recorded by applying the market exchange rate prevailing on the date of the transaction. Exchange differences resulting from a change in the exchange rate between the transaction date and the date of settlement are recognised in the income statement.

Non US Dollar denominated monetary items included in the year end balance sheet of the Group are translated at the market exchange rate at the year end.

Exchange differences arising from the translation from the Hungarian Forint to the US Dollar of the investment in Altalanos Ertekgalmi Bank, whose operations are considered to be non-integral to the operations of Gazprombank, are included directly in the "Foreign currency translation reserve".

Non US Dollar charter fund contributions have been included in the financial statements at the market exchange rate on the date of contribution.

(b) Interest income and interest expense

Interest income and expense are recognised when earned or incurred, on an accrual basis.

(c) Provisions for loan impairment

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as recovery of an exposure is identified as doubtful.

A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio as of the balance sheet date, but which have not been specifically identified.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement if previously written off.

(d) Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the term of the liabilities.

When liabilities are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

(e) Financial instruments

(i) Classification

Trading instruments are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Originated loans and receivables are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

(ii) Recognition

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to the Group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principals

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities are recognised in the income statement.

(f) Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The financial statements include, where material, the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(g) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy (i)).

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer accounting policy (i)).

Payments made in respect of operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed.

(iii) Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 – 100 years
Leasehold improvements	Over expected life of the lease
Office equipment	3 – 14 years
Software	5 – 10 years

(i) Impairment

(i) [Impairment??]

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

The Group's accounting policy for provisions for loan impairment is presented in note 3 (c).

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(ii) Reversals of impairment

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Charter Fund

(i) Repurchase of charter fund

When charter fund recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the CBR and other Russian legislation.

Dividends are reflected as an appropriation of retained earnings when declared.

(k) Employee benefits

Salaries and bonuses paid to employees are recorded on an accrual basis. The Group also makes contributions to a Russian Federation State Pension Fund. These contributions are also recorded on an accrual basis.

(l) Provisions

Provisions are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Taxation

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable income. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Statement of cash flows

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its availability.

4. Interest income and interest expense

	30 June 2001
	USD '000
<i>Interest income</i>	
Loans to customers	79,656
Placements with banks and other financial institutions	18,797
	<u>98,453</u>
<i>Interest expense</i>	
Current accounts and deposits from customers	23,068
Deposits and balances from banks and other financial institutions	12,636
Certificates of deposit and promissory notes	25,291
	<u>60,995</u>

5. Provision for loan impairment

	30 June 2001
	USD '000
Provision for impairment on loans to customers	(17,148)
Provision for impairment on placements with banks and other financial institutions	(1,480)
	<u>(18,628)</u>

Amounts shown in the above table represent net movements in provisions for the year. Movements shown as positive amounts represent net decreases in provisions. Movements shown as negative amounts represent net increases in provisions.

6. Income from investment in associate

Income from investment in associate is comprised of Group's share of the income of Altalanos Ertekforgalmi Bank.

7. Recovery of provision for an impairment other than loan impairment

	30 June 2001
	USD '000
Provisions for long-term investments	(1,810)
Recovery of provision for guarantees and letters of credit	804
Recovery of provision for of other assets	1,542
	<u>536</u>

Amounts shown in the above table represent net movements in provisions for the year. Movements shown as negative amounts represent net increases in provisions. Movements shown as positive amounts represent net decreases in provisions.

8. General and administrative expenses

	30 June 2001
	USD '000
Employee compensation	32,697
Revenue based and other taxes	4,160
Repairs and maintenance	3,453
Rental cost	3,060
Depreciation and amortisation	1,823
Communications and information services	1,217
Advertising and marketing	612
Other	6,174
	<u>53,196</u>

9. Income tax expense

	30 June 2001
	USD '000
Current tax expense	8,579
Deferred tax expense (refer to note 19)	62,858
	<u>71,437</u>

The entire amount of deferred tax expense relates to the origination and reversal of temporary differences.

The charge for current income tax was calculated based on income calculated according to Russian accounting practices and adjusted to conform to Russian tax legislation and regulation. Below is a reconciliation between the expected tax expense based on Russian accounting practices to the actual current tax expense. A reconciliation between income according to Russian accounting practices and International Accounting Standards is presented in Note 28.

	30 June 2001
	USD '000
Income before taxes per financial statements prepared under Russian accounting practices	14,935
<i>Adjustment for items which are considered income or expenses under Russian accounting practices but are excludable or non-deductible for profit tax purposes:</i>	
Non-deductible loan loss provision	8,406
Government securities income	(2,593)
Other differences	(797)
	<u>19,951</u>
Income for tax purposes	19,951
Statutory tax rate	43%
	<u>8,579</u>
Current income tax expense	<u>8,579</u>

10. Due from the Central Bank of the Russian Federation

	30 June 2001
	USD '000
Obligatory reserve deposits	166,159
Nostro accounts	61,167
	<u>227,326</u>

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the Central Bank of the Russian Federation and whose withdrawability is restricted. The nostro balances represent balances related to settlement activity and were available for withdrawal at year end.

11. Placements with banks and other financial institutions

	30 June 2001
	USD '000
Nostro accounts	325,768
Deposits	531,578
Subordinated loan	60,000
Less provision for impairment	(6,159)
	<u>911,187</u>

Analysis of movements in the provision for impairment

	30 June 2001
	USD '000
Balance at the beginning of the period	4,679
Net charge for the period	1,480
	<u>6,159</u>

The provision for impairment represents management's assessment of potential losses in relation to the Group's placements with banks and other financial institutions.

Large exposures

At 30 June 2001, 28% and 22% of the gross placements with banks and other financial institutions were to Altalanos Ertekforgalmi Bank RT and Wspolpracy Europejskiej Bank (Poland), respectively.

Subordinated loan

The USD 60,000 thousand non-convertible subordinated loan to Altalanos Ertekforgalmi Bank (AEB) bears interest at one year LIBOR, was made by the Group to AEB in December 1997 and matures in December 2007.

Amounts blocked and pledged

As at 30 June 2001 the Group had pledged placements with banks and other financial institutions of USD 258,583 thousand to AEB as collateral for credit exposures of AEB customers.

Additionally, as at 30 June 2001, the Group had pledged USD 250,266 thousand in placements with banks and other financial institutions as collateral for two syndicated loans received by OAO Gazprom.

12. Securities held for trading

	30 June 2001
	USD '000
Gazprom Shares	141,108
Russian Government Eurobonds	92,316
Russian Government Bonds (OVVZ)	69,762
Russian Government Bonds (GKO, OFZ)	3,831
Other equity securities	3,844
Promissory notes	31,718
	<u>342,579</u>

Promissory notes are comprised mainly of short term notes issued by members of the OAO Gazprom Group.

Pledged securities

As at 30 June 2001 Russian Government Bonds (OVVZ) with a value of USD 5,720 thousand and Russian Government Eurobonds with a value of USD 53,389 thousand were pledged as security for funds borrowed from other banks.

Securities valuation

Securities held for trading are shown at published market quotations. It should be noted that because of illiquidity in the Russian markets, the reliability of market quotations used in valuing the Group's securities may not be reflective of their fair value in an exchange between a willing buyer and a willing seller.

13. Loans to customers

	30 June 2001
	USD '000
Gross loans to customers	1,565,909
Less provision for impairment	(65,635)
	<u>1,500,274</u>

Provision for impairment

Management has performed an assessment of the required provisions for loans outstanding as at 30 June 2001. The above provision for impairment has been prepared on the basis described in Note 3 (c).

Analysis of movements in the provision for impairment

	30 June 2001
	USD '000
Balance at the beginning of the period	48,487
Net charge for the period	17,148
	<u>65,635</u>

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Russian Federation and who operate in the following economic sectors (gross of provision for impairment):

	30 June 2001
	USD '000
Natural Gas	1,306,206
Trade	67,515
Construction	59,999
Finance	28,999
Mining	16,304
Individuals	14,465
Recycling	14,035
Manufacturing	13,461
Media	9,563
Other	35,362
	<u>1,565,909</u>
Less provision for impairment	(65,635)
	<u>1,500,274</u>

Significant Credit Exposures

As at 30 June 2001 approximately 76% of the Group's gross loans to customers were either directly to, or guaranteed by, OAO Gazprom or other Gazprom Group companies.

One loan to Europol Gaz SA, a Gazprom Group company, represented 56% of the gross loans to customers balance as at 30 June 2001. Europol Gaz SA is a joint-stock company incorporated in Poland and established for the purpose of constructing gas pipelines from Belarus through Poland to Western Europe. Construction of these pipelines began in 1997 and is expected to be completed in stages, with full completion in 2008. Europol will retain ownership of the pipelines and repay the loan from transport fees it will charge for gas shipment via the pipelines, with the first principal repayments on the Group's loan exposure to Europol expected to begin in 2002. The balance of this exposure includes USD 169 808 thousand in capitalised interest as at 30 June 2001.

Loan Maturities

The maturity of the Group's loan portfolio is presented in Note 31 which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

Contractually Overdue Loans

Loans with contractually overdue principal or interest totalled USD 34 098 at 30 June 2001.

14. Investments in unconsolidated subsidiaries and associates

	30 June 2001
	USD '000
Unconsolidated subsidiaries	8,677
Associates	67,765
	76,442
Less provision for impairment.	(11,410)
	65,032

Analysis of movements in the provision for impairment

	30 June 2001
	USD '000
Balance at the beginning of the period	9,600
Net charge for the period	1,810
	11,410

Unconsolidated subsidiaries

Name	Country of Incorporation	Main Activity	% Controlled	Carrying Value
'000 USD				
Sibirgazbank	Russia	Banking	60	5,852
OOO Raschetno – Depositarnaya Company	Russia	Clearing & Custody	64	1,274
Sochigazprombank	Russia	Banking	85	822
AOZT Volgobait	Russia	Information Technology	94	613
OOO Exor – 2000	Russia	Catering	100	106
ZAO Risk – Management Consulting.	Russia	Consulting	75	6
ZAO Energoinvest – Finance	Russia	Real Estate	100	4
				8,677

The financial statements of the subsidiary companies listed above have not been consolidated into those of the Group, as the effect on the consolidated financial statements would be immaterial.

Associates

Name	Country of Incorporation	Main Activity	% Controlled	Carrying Value
				'000 USD
Altalanos Ertekforgalmi Bank.	Hungary	Banking	26	38,300
Intrustbank	Russia	Banking	22	11,211
Gazenergoprombank	Russia	Banking	37	8,558
Belgazprombank	Belarus	Banking	34	3,794
Severgazbank	Russia	Banking	40	3,340
Evropeyskiy	Russia	Banking	34	1,525
Sreduralbank	Russia	Banking	35	740
ZAO Eta & Co.	Russia	Information technology	30	150
OAO SR-Draga	Russia	Custody	20	81
OOO Energogazleasing	Russia	Leasing	50	44
Sofrasi	France	Representative office	30	22
				<u>67,765</u>

The investment in Altalanos Ertekforgalmi Bank has been accounted for using the equity method of accounting. All other associated companies have been accounted for at cost less permanent diminution in value as equity accounting for these associates would have an immaterial effect on the consolidated financial statements of the Group.

15. Other assets

	30 June 2001
	USD '000
Accrued interest receivable.	9,204
Market to market gain on derivative financial instruments.	4,707
Advances and prepayments	3,479
Deferred expenses	2,455
Materials and supplies	1,477
Prepaid taxes	1,172
Other	6,732
	<u>29,226</u>
Less provision for impairment	(4,707)
	<u>24,519</u>

Analysis of movements in the provision for impairment

	30 June 2001
	USD '000
Balance at the beginning of the period	6,249
Net recovery for the period.	(1,542)
	<u>4,707</u>

16. Property, plant and equipment

	Land and Buildings	Office equipment and leasehold improvements	Software	Construction in progress	Total
			'000 USD		
<i>Cost</i>					
At 31 December 2000 .	18,588	23,672	3,682	4,541	50,483
Additions	—	4,948	117	1,992	7,057
Disposals	—	(56)	(18)	(1,561)	(1,635)
At 30 June 2001	18,588	28,564	3,781	4,972	55,905
<i>Depreciation</i>					
At 31 December 2000 .	387	5,369	1,244	—	7,000
Depreciation charge . . .	128	1,495	200	—	1,823
Disposals	(36)	(583)	(87)	—	(706)
At 30 June 2001	479	6,281	1,357	—	8,117
<i>Net book value</i>					
At 30 June 2001	18,109	22,283	2,424	4,972	47,788

17. Deposits and balances from banks and other financial institutions

	30 June 2001
	USD '000
Term deposits.	191,619
Vostro accounts	200,192
	391,811

Large exposures

As at 30 June 2001, 22% and 7% of deposits and balances from banks and other financial institutions were from Altalanos Ertekeforgalmi Bank and Vnesheconombank, respectively.

18. Current accounts and deposits from customers

	30 June 2001
	USD '000
Current accounts and other demand deposits.	719,072
Term deposits.	770,809
	1,489,881

Significant depositors

Current accounts and deposits by the OAO Gazprom Group composed 70% of the Group's total current accounts and deposits balance as at 30 June 2001.

Blocked accounts

As at 30 June 2001 the Group maintained customer deposit balances of USD 344,487 thousand which were blocked by the Group as collateral against credit exposures of the Group or payments due by the Group's clients to outside counterparties.

19. Deferred tax liability

	30 June 2001
	USD '000
Balance at the beginning of the period	74,455
Charge for the period to the income statement	62,858
Credit to the foreign currency translation reserve	(584)
Balance at the end of the period	<u>136,729</u>

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a deferred tax liability of USD 136,729 thousand as at 30 June 2001 which has been reflected in the financial statements. This deferred liability is attributable to the following items, listed below at their tax effected values:

	Assets	Liabilities	Net
		USD '000	
Net interest accruals and capitalised interest	—	(62,829)	(62,829)
Mark to market gain on securities held for trading	—	(35,770)	(35,770)
Provision for losses	—	(10,638)	(10,638)
Historical cost restatement of long-term investments and related provisions	—	(16,959)	(16,959)
Historical cost restatement of property and equipment	—	(7,461)	(7,461)
Revaluation of loan in foreign currency	—	(9,655)	(9,655)
Mark-to-market loss on derivative financial instruments	6,229	—	6,229
Other items	354	—	354
Tax assets/(liabilities)	<u>6,583</u>	<u>(143,312)</u>	<u>(136 729)</u>

20. Other liabilities

	30 June 2001
	USD '000
Accrued interest payable	21,576
Mark to market loss on derivative financial instruments	14,485
Provision for guarantees and letters of credit	7,123
Taxes payable	627
Other	1,610
	<u>45,421</u>

Analysis of movement in the provision for guarantees and letters of credit

	30 June 2001
	USD '000
Balance at the beginning of the period	7,927
Net recovery for the period	(804)
Balance at the end of the period	<u>7,123</u>

21. Charter fund

	30 June 2001
	USD '000
Charter capital at face value (Roubles at year end exchange rate).	420,374
Translation adjustment to reflect historical value of capital contributed.	443,432
	<u>863,806</u>

Charter capital represents contributions made mainly in US Dollars by the owners of the Bank. Contributions made by the Bank's partners, primarily OAO Gazprom, are often made for the express purpose of providing the Group with the funding necessary to provide loans to specific projects or companies which OAO Gazprom controls or has an interest in, or to purchase the equity or debt securities of OAO Gazprom.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank which are determined according to accounting regulation and legislation in the Russian Federation.

22. Derivative financial instruments

	Net Nominal Amounts by Counterparty
	USD '000
Unsettled index foreign exchange deals	
Forward deals to sell US Dollars and buy Roubles	252,910
Forward deals to buy US Dollars and sell Roubles	521,487
Unmatured deliverable forward currency deals	
SWAP deals to buy US Dollars and sell Euros	852
Unmatured deliverable forward precious metals deals	
Forward deals to buy precious metals	47,315
Forward deals to sell precious metals.	17,731
Unmatured deliverable forward securities deals	
Forward deals to buy OVZ securities	79,245
Forward deals to sell OVZ securities	100,986

Unsettled index foreign exchange deals

Gazprombank entered into US Dollar/Russian Rouble index foreign exchange deals prior to 17 August 1998 which had matured but remain unsettled as at 30 June 2001. These deals were with Russian resident counterparties.

Due to the significant devaluation of the Rouble during late 1998, there has been widespread non settlement of pre-1999 index forward deals, especially between Russian bank counterparties. A large number of market participants are financially unable to settle their obligations under these deals and in addition, there is uncertainty on a number of grounds as to the enforceability of these deals. Further, there are various issues relating to the documentation underlying such deals which may present problems in their enforceability.

The Group has been involved in litigation with three counterparties in respect of amounts payable by the Bank under forward deals. In all of these cases the Group has received a final judgement in its favour and has excluded amounts payable under these deals from the financial statements.

In these financial statements, the Group has recorded receivables and payables under these deals at amounts which management estimates will be achieved through negotiation, as it believes Russian courts will continue to follow their past practice of holding these contracts legally unenforceable. If the Group recorded these amounts at market rates prevailing at the date of maturity, the mark to market gain on derivative financial instruments, included within other assets, and the market to market loss on derivative financial instruments, included within other liabilities, would increase by USD 81,555 thousand and USD 102,914 thousand, respectively, excluding any penalties that may be applied to these balances. Additionally, as all unsettled index foreign exchange deals receivable are with counterparties who are believed to be in financial difficulty, the provision for losses included within other assets would also increase by USD 81,555 thousand, thereby decreasing assets and Partners Funds by the amounts detailed above.

Unmatured deliverable forward foreign exchange deals

The nominal value of unmatured deliverable swap foreign exchange deals as at 30 June 2001 was USD 852 thousand. Net unrealised results on these deals amounted to a loss of USD 8 thousand as at 30 June 2001, based on the forward rate for similar deals. The Group expects to settle these deals in the normal course of business.

Unmatured deliverable forward precious metals deals

Unmatured deliverable forward precious metals deals are floating rate purchase/sale contracts settled at the market price at the date of maturity. The Group expects to settle these deals in the normal course of business.

Unmatured deliverable forward security deals

The nominal value of unmatured deliverable forward security deals as at 30 June 2001 was USD 79,245 thousand to buy OVZ bonds and USD 100,986 thousand to sell OVZ bonds. Net unrealised losses on these deals at 30 June 2001 totalled USD 2 thousand. The Group expects to settle these deals in the normal course of business.

23. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has significant amounts of credit risk exposure to OAO Gazprom and other Gazprom Group Companies.

The Group has developed policies and procedures for the management of credit exposures, including the establishment of a Credit Committee which actively monitors the Group's credit risk.

The Group's credit policy is reviewed and approved by the Board of Management.

(ii) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Board of Management.

See Note 30 "Average effective interest rates".

(iii) Liquidity risk

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Group's liquidity policy is reviewed and approved by the Board of Management.

See Note 31 "Maturity analysis".

(iv) Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's foreign currency policy is reviewed and approved by the Board of Management.

See Note 32 "Currency analysis".

24. Commitments**Guarantees and letters of credit**

The Group issues guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted. The amount of these instruments outstanding is as follows:

	30 June 2001
	USD '000
Guarantees	68,022
Import letters of credit	284,996

General provisions for losses of USD 7,123 thousand as at 30 June 2001, have been created for guarantees and letters of credit and are included in other liabilities. The total outstanding amount of guarantees and import letters of credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Undrawn Loan Commitments

As at 30 June 2001, the Group had the undrawn loan commitments in the amount of USD 711,238 thousand.

Operating leases

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years. Future payments due under these leases are detailed, by the period in which they become due, as follows:

	30 June 2001
	USD '000
Less than one year.	8,596
Between one and five years.	10,311
More than five years	5,435
	<hr/>
	24,342
	<hr/>

25. Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(ii) Litigation

In the normal course of business the Group is presented with legal claims; the Group's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 30 June 2001 (refer to Note 22 for discussion on legal issues related to foreign exchange derivative financial instruments).

(iii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

26. Related party transactions

For the purposes of these financial statements, related parties include all members of the OAO Gazprom Group, controlled and associated companies and managers and directors of the Group. As at 30 June 2001, these parties had the following outstanding balances:

	USD '000
Deposits with banks and other financial institutions	
Deposits with subsidiary and associated banks	196,692
Subordinated loan to an associated bank	60,000
Securities held for trading	
OAO Gazprom shares	141,108
Promissory notes receivable from OAO Gazprom and subsidiaries	31,664
Loans to customers	
Loans receivable from related parties	1,140,896
Loans made to unrelated parties and guaranteed by OAO Gazprom and subsidiaries	50,000
Investments in unconsolidated subsidiaries and associates	
Controlled entities	8,677
Associated entities	67,765
Deposits from banks and other financial institutions	
Deposits from subsidiary and associated banks	89,493
Current accounts and deposits from customers	
Current accounts and deposits from related parties	1,040,726
Certificates of deposits and promissory notes	
Promissory notes payable to OAO Gazprom and subsidiaries	180,413
Certificates of deposit payable to OAO Gazprom and subsidiaries	13,363
Commitments and contingencies	
Undrawn loan commitments	283,462
Import letters of credit issued on behalf of related parties	278,389
Guarantees issued on behalf of related parties	50,218

In addition to the above are accrued interest receivable and payable on related party balances.

The Group is substantially owned by members of the OAO Gazprom Group and its activities are closely linked with the business requirements of OAO Gazprom Group members. Determination of the pricing of the Group's services to the OAO Gazprom Group is undertaken in conjunction with the other OAO Gazprom Group companies with the objective of achieving optimal pricing arrangements for the OAO Gazprom Group as a whole.

27. Cash and cash equivalents

Cash and cash equivalents as shown in the statement of cash flows is composed of the following items:

	30 June 2001
	USD '000
Cash	27,610
Due from the Central Bank of the Russian Federation – nostro accounts	61,167
	88,777

28. Reconciliation of the International Accounting Standards financial statements to those prepared according to Russian Accounting Practices

	Net Income 30 June 2001
	USD '000
Per Russian Accounting Practices	6,356
Mark-to-market revaluations	68,563
Deferred tax expense	(62,858)
Net interest accrual	22,777
Provisions for losses	16,089
Effect of foreign currency translation	7,406
Income from associates	4,456
Expenses charged directly to reserves	(1,472)
Other	(141)
Per International Accounting Standards	61,176

29. Fair value of financial instruments

The Group has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Group has concluded that it is not possible to assess the fair values of its non-publicly tradable financial assets and financial liabilities which were created as a result of related party transactions, as these transactions were not negotiated between independent parties and thus little independent basis exists for determining their fair values. Additionally, the Group has concluded that due to the lack of liquidity and published "indicator interest rates" in the Russian markets it is not possible to determine the fair value of the remaining non-related party financial assets and financial liabilities with Russian counterparties which are not publicly traded. Details of interest rates and terms of these transactions is presented in notes 30 and 31.

The financial assets and financial liabilities that the Group does believe it is able to estimate fair values for include cash, securities held for trading and non-Russian, non-related party placements with banks and financial institutions. The Group estimates the fair value of these assets to be not materially different from their carrying values. This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.

30. Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2000 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2001	
	Value	Average Effective Interest Rate
	USD '000	Interest Rate
Interest Bearing Assets		
Due from the Central Bank of the Russian Federation		
– denominated in Roubles	227,326	0.0%
Placements with banks and other financial institutions		
– nostros denominated in Roubles	19,660	0.2%
– nostros denominated in other currencies	306,108	0.4%
– deposits denominated in Roubles	15,124	19.4%
– deposits and loans denominated in other currencies	570,295	4.5%
Securities held for trading purposes		
– Russian Government Bonds (OVVZ) denominated in other currencies	69,762	16.2%
– Russian Government Eurobonds denominated in other currencies	92,316	12.3%
– Promissory notes denominated in Roubles	31,718	22.2%
– Russian Government Bonds (OFZ, GKO) denominated in Roubles	3,831	23.3%
Loans to customers		
– loans to individuals denominated in Roubles	8,518	14.4%
– loans to individuals denominated in other currencies	5,168	11.9%
– loans to enterprises denominated in Roubles	299,941	17.2%
– loans to enterprises denominated in other currencies	1,186,647	7.7%
Interest Bearing Liabilities		
Deposits and balances from banks and other financial institutions		
– vostro accounts denominated in Roubles	42,770	1.1%
– vostro accounts denominated in other currencies	157,422	1.1%
– term deposits denominated in Roubles	67,595	27.3%
– term deposits denominated in other currencies	124,024	3.7%
Current accounts and deposits from customers		
– current accounts and other demand deposits denominated in Roubles	216,405	0.6%
– current accounts and other demand deposits denominated in other currencies	502,667	0.1%
– term deposits denominated in Roubles	111,739	13.7%
– term deposits denominated in other currencies	659,070	3.5%
Certificates of deposit and promissory notes		
– denominated in Roubles	272,192	16.6%
– denominated in other currencies	120,412	6.3%

31. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 30 June 2001:

	Less than 1 month	1 to 3 Months	3 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
'000 USD								
Banking Assets								
Cash	27,610	—	—	—	—	—	—	27,610
Due from the Central Bank of the Russian Federation	136,732	8,055	16,645	19,714	24,460	21,720	—	227,326
Placements with banks and other financial institutions	575,389	261	—	253,533	9,561	72,443	—	911,187
Securities held for trading	1,826	1,523	21,600	5,845	79,412	87,421	144,952	342,579
Loans to customers	26,191	43,533	124,942	8,084	97,239	1,200,285	—	1,500,274
Available-for-sale investments	—	—	—	—	—	—	5,732	5,732
Investments in unconsolidated subsidiaries and associates	—	—	—	—	—	—	65,032	65,032
Total banking assets	767,748	53,372	163,187	287,176	210,672	1,381,869	215,716	3,079,740
Banking Liabilities								
Deposits and balances from banks and other financial institutions	340,351	543	21,334	4,053	25,530	—	—	391,811
Current accounts and deposits from customers	759,057	53,282	54,891	179,680	197,020	245,951	—	1,489,881
Certificates of deposit and promissory notes	97,045	37,976	133,692	43,671	80,093	127	—	392,604
Total banking liabilities	1,196,453	91,801	209,917	227,404	302,643	246,078	—	2,274,296
Net position as at 30 June 2001	(428,705)	(38,429)	(46,730)	59,772	(91,971)	1,135,791	215,716	805,444

32. Currency analysis

The following table shows the currency structure of banking assets and liabilities at 30 June 2001:

	RUR	USD	Other currencies	Total
'000 USD				
Banking Assets				
Cash	7,941	17,805	1,864	27,610
Due from the Central Bank of the Russian Federation	227,326	—	—	227,326
Placements with banks and other financial institutions	34,784	651,038	225,365	911,187
Securities held for trading	180,501	162,078	—	342,579
Loans to customers	308,459	1,125,102	66,713	1,500,274
Available-for-sale investments	5,732	—	—	5,732
Investments in unconsolidated subsidiaries and associates	22,916	—	42,116	65,032
Total Banking Assets	787,659	1,956,023	336,058	3,079,740
Banking Liabilities				
Deposits and balances from banks and other financial institutions	110,365	228,572	52,874	391,811
Current accounts and deposits from customers	328,144	912,532	249,205	1,489,881
Certificates of deposit and promissory notes	272,192	119,274	1,138	392,604
Total Banking Liabilities	710,701	1,260,378	303,217	2,274,296
Net Position as of 30 June 2001	76,958	695,645	32,841	805,444

33. Concentration of assets liabilities

The geographical concentration of banking assets and liabilities as at 30 June 2001 was as follows:

	Government of the Russian Federation	Other Russian Entities ⁽¹⁾	Other Non- OECD	OECD	Total
			'000 USD		
Banking assets					
Cash	7,941	—	—	19,669	27,610
Due from the Central Bank of the Russian Federation	227,326	—	—	—	227,326
Placements with banks and other financial institutions	—	50,999	33,910	766,278	911,187
Securities held for trading	165,909	176,670	—	—	342,579
Loans to customers	—	444,958	104,328	950,988	1,500,274
Available-for-sale investments	—	5,732	—	—	5,732
Investments in unconsolidated subsidiaries and associates	—	22,916	3,794	38,322	65,032
Total banking assets	401,176	701,275	142,032	1,835,257	3,079,740
Banking liabilities					
Deposits and balances from banks and other financial institutions	—	276,256	871	114,684	391,811
Current accounts and deposits from customers	—	1,486,505	588	2,788	1,489,881
Promissory notes and certificates of deposit	—	380,036	—	12,568	392,604
Total banking liabilities	—	2,142,797	1,459	130,040	2,274,296
Net position as of 30 June 2001 . . .	401,176	(1,441,522)	140,573	1,705,217	805,444

(1) Includes all entities domiciled in the Russian Federation, including the Russian subsidiaries of foreign entities.

34. Subsequent events

Unsettled forward foreign exchange deals

In July 2001 the Group assessed that the probability of paying out or receiving any amounts in relation to pre-1999 unsettled foreign exchange deals as remote. As such in July of 2001 it removed the USD 14,485 thousand in liabilities and USD 4,707 thousand in assets, and related provisions, in respect of these deals from its balance sheet.

Additionally, in October 2001 one counterparty filed a legal suit against the Group for its nonpayment on pre-1999 forward foreign exchange deals. The trial related to this suit was concluded in November 2001, with the court ruling in the Group's favor. Although the counterparty may still appeal, the Group does not expect any appeal to be successful.

Legal form

In November 2001 Bank changed its legal form from a partnership to a limited liability company.

Change in income taxation rate

In August of 2001 legislation was enacted which effectively reduced the Group's taxation rate from 43% to 24%. This change in tax law is expected to cause a USD 60,000 thousand decrease in the Group's 30 June 2001 deferred tax liability of USD 136,729. This decrease will be reflected in the Group's financial statements in the last half of 2001.

Sibur credit exposure

In November 2001 the Group became aware that events which occurred subsequent to 30 June 2001 may have caused a significant impairment in the recoverability of its USD 65,873 thousand credit exposure to AK Sibur and its related companies ("Sibur"). Based on the Group's knowledge of these events and of the financial position and operations of Sibur, it assessed that additional provisions of USD 27,000 thousand will need to be created during the last half of 2001 for the Sibur exposure.

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