

City of Moscow

Presentation to Investors
March 2005





Investment Highlights

- Russia's strongest and most important region
- Investment Grade Ratings: Baa3 / BBB- / BBB-
- Highest growth rates in Russia
- Accounts for Russia's 19% of GDP
- Provides a fourth of Russia's budget revenues
- Accounts for 38% of Russia's FDI
- Dynamic, service-oriented economy
- Low and manageable level of indebtedness
- Effective City Debt Management





Contents

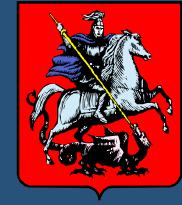
- 1 Overview
- 2 Moscow's Economy
- 3 City's Finances
- 4 Debt Management



1. Overview



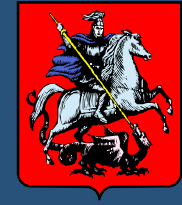
The City of Moscow – Capital of Russia



- Moscow is the economic and political centre of the Russian Federation
- Population - almost 10.4 million (7% of Russia)
- Moscow's economy accounts for Russia's
 - 19% of GDP
 - 1/4 budget revenues
 - 38% FDI
 - 50% financial institutions
 - 84% bank assets
- Stable political system under Mayor Yuri Luzhkov
- Growing service oriented economy



Administrative and Executive Structure of the City of Moscow



Administrative Branch

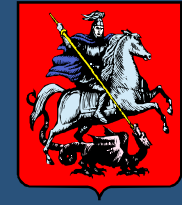
- **Mayor, Mr Yuri Luzhkov**
 - Elected by City residents in December 2003 for the last 4-year term
- The Mayor coordinates activities of the City Government and has the power to veto any legislation

Legislative Branch (City Duma)

- **35 deputies**
 - Elected by City residents for the 4-year term
 - Enacts City laws
 - Approves budget
 - Monitors the activities of the City Government



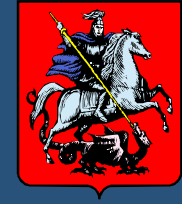
Key Features of the City of Moscow Reforms Efforts



- **Improved budgeting procedures** to ensure more efficient use of funds and greater transparency
 - Creation of Treasury system in 2000 to improve management of the City's financial resources
- **Improvement in tax collections** – uncollected taxes as % of total revenues has fallen steadily in both absolute and relative terms in the past 5 years
- **Reduction in subsidies** – goal over time is to eliminate subsidies and transfer all costs relating to housing and utilities services to City residents
- **Efforts to improve the City's physical environment** - Relocating industrial facilities away from the City centre and building modern business centres, residential premises and hotels at these locations
- **Privatization** – a gradual reduction in the City's investments in industrial enterprises and in residential and non-residential properties



City of Moscow Government – Principal Activities



- In 2004, approximately 74.1% of total expenditure of the City Budget was spent on the following six primary activities

Housing &
Utilities (15.7%)

Healthcare (8%)

Education (9.6%)

Social Services
(9.6%)

Transport &
Comm. (3.8%)

Industry, Energy &
Construction (25.2%)

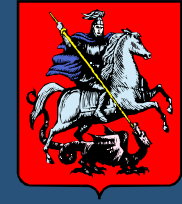
- In 2005, the City has budgeted approximately 73% of the City total Budget Expenditures for these activities



2. Moscow's Economy



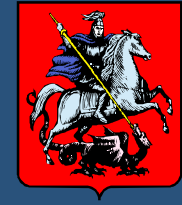
City of Moscow Economic Highlights



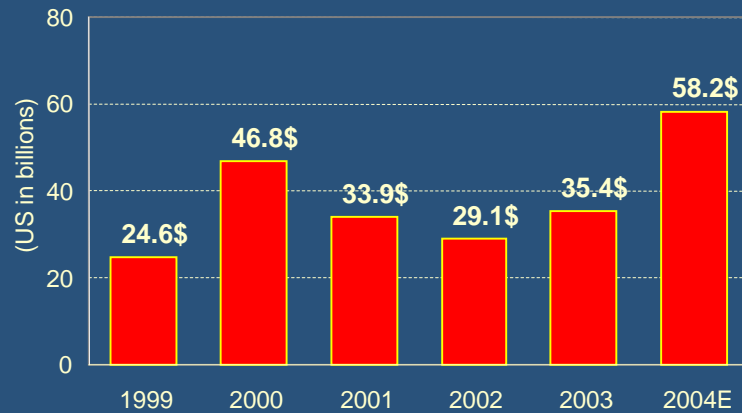
- Moscow's economy represents 19% of Russia's GDP and provides 1/4 of Federal Budget revenues
 - 2004 Gross City Product ("GCP") of US\$ 105.5 billion equivalent
 - 2004 total City Budget revenues of US\$ 14.2 billion equivalent
- Well-diversified service oriented economy
- Highest living standards in Russia
 - GCP per capita at US\$ 10,055 against GDP per capita at US\$ 4,185 for Russia
- Unemployment at 1.0% compared to national average of 8.0% (as of 31.12.2004)



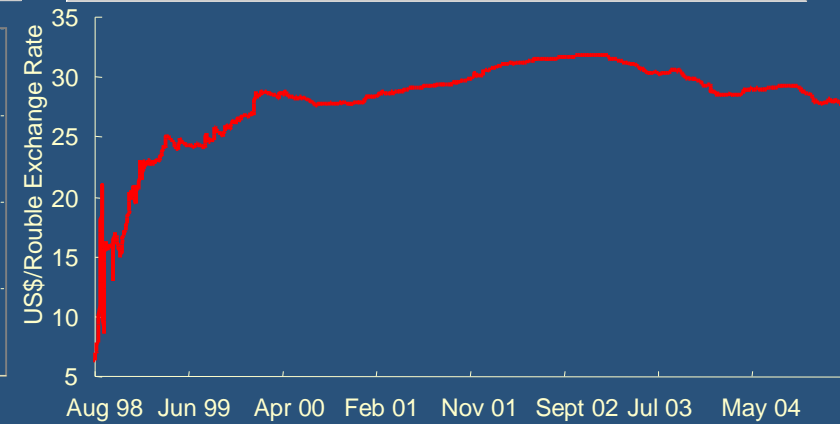
The Strong Russian Economic Growth Beneficial to Moscow...



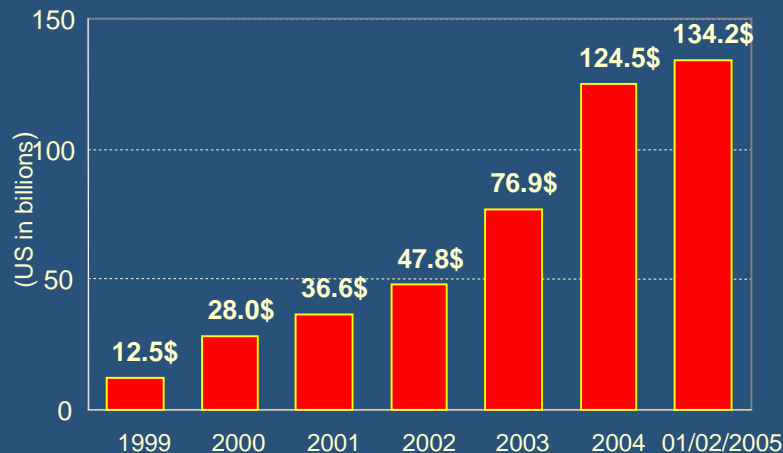
Current Account Balance



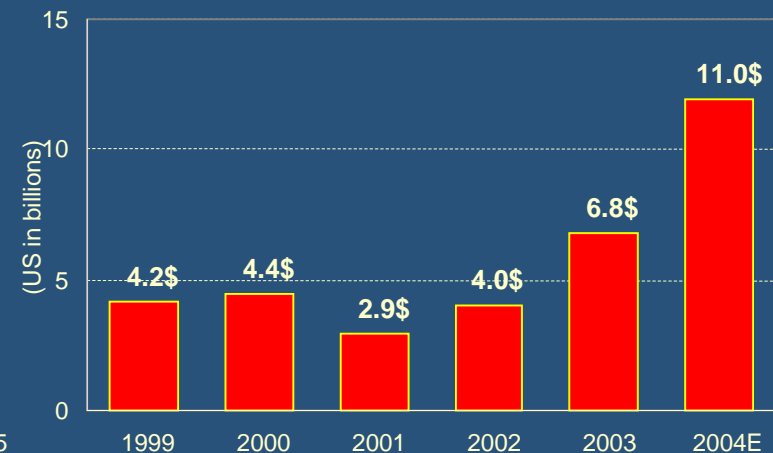
US\$/Rouble Exchange Rate



International Reserves



Foreign Direct Investments



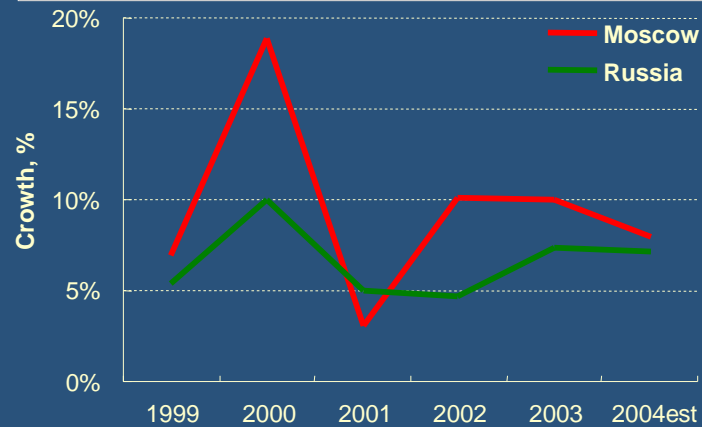
Source: Central Bank of Russia, Goskomstat.



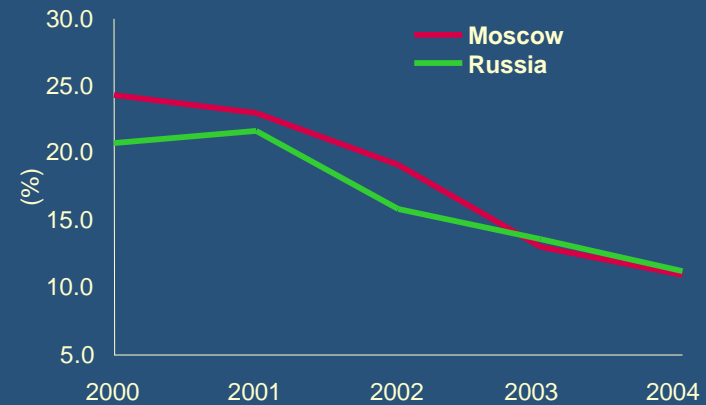


Moscow's Advantage

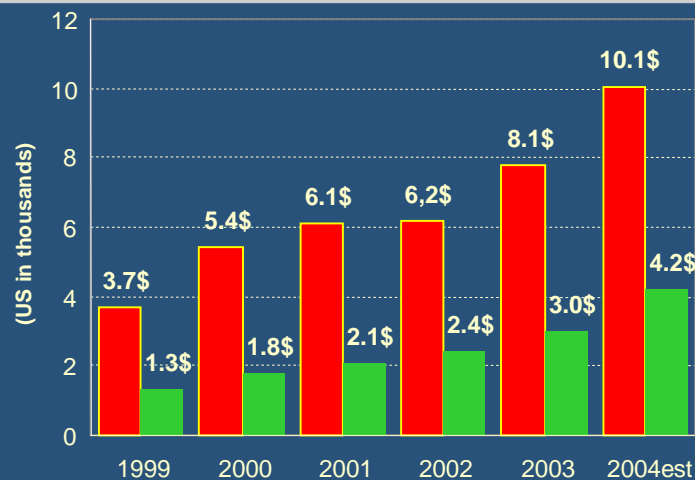
GDP/GCP Growth



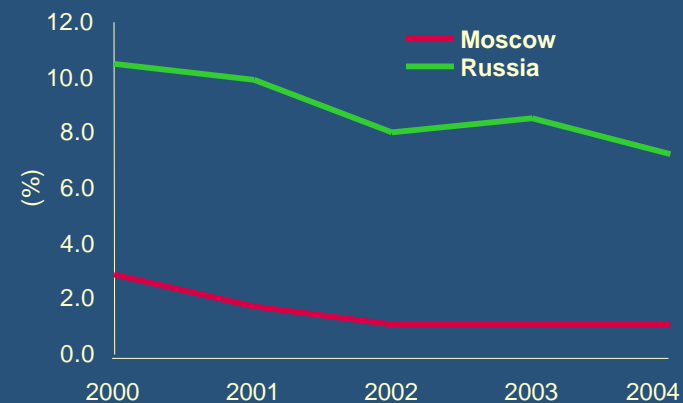
Inflation



GDP/GCP per Capita



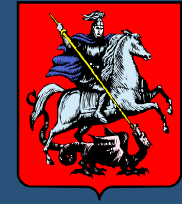
Unemployment Rate



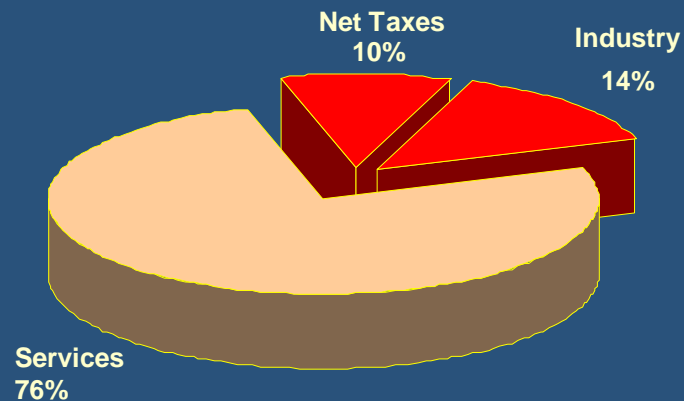
Source: City of Moscow, Economic Intelligence Unit, Global Insight and S&P.



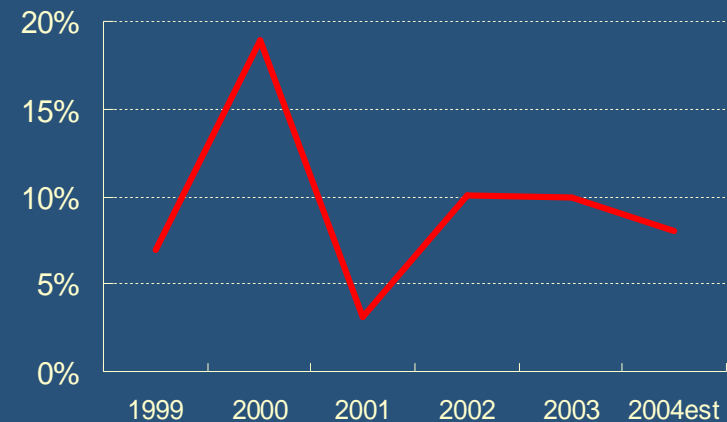
Services is Dominating Sector of the City's Economy



2004E Gross City Product



Gross City Product (GCP) Growth

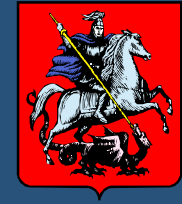


- Total 2004(E) GCP= RUB 2, 926.7 billion (US\$ 105.5 bn. equivalent)
- 1999-2004(E) GCP Real Growth = 57%
- 1999-2004(E) GCP Real CAGR = 9.5%

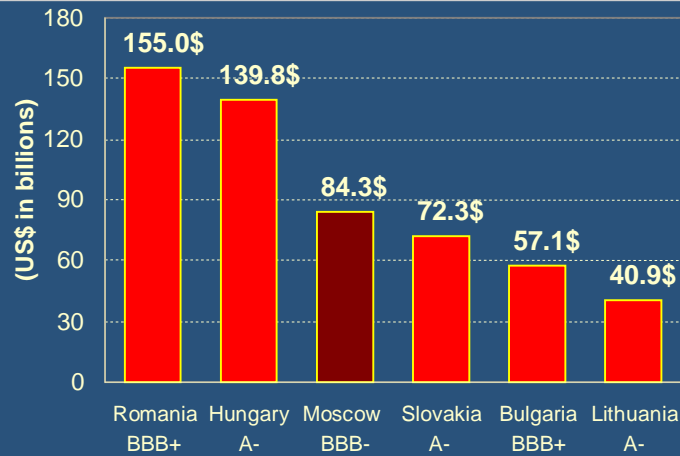
Source: City of Moscow.
N.B. CAGR stands for cumulative average annual growth rate.



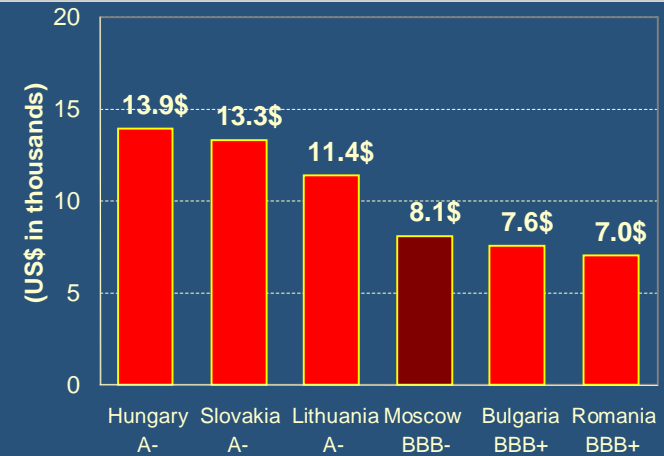
Moscow and CEE Sovereigns



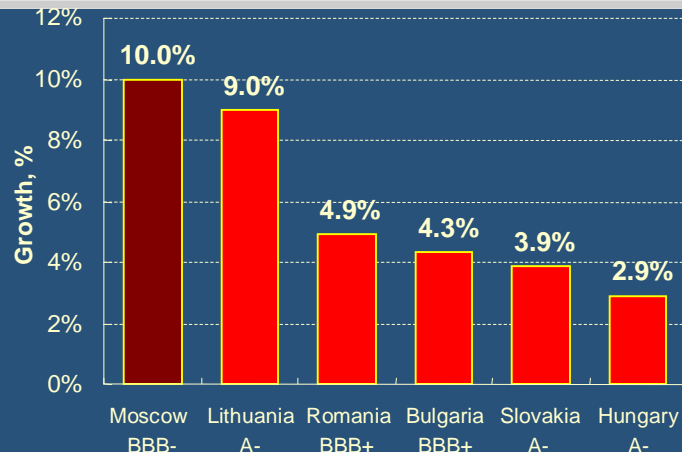
2003 GDP/GCP*



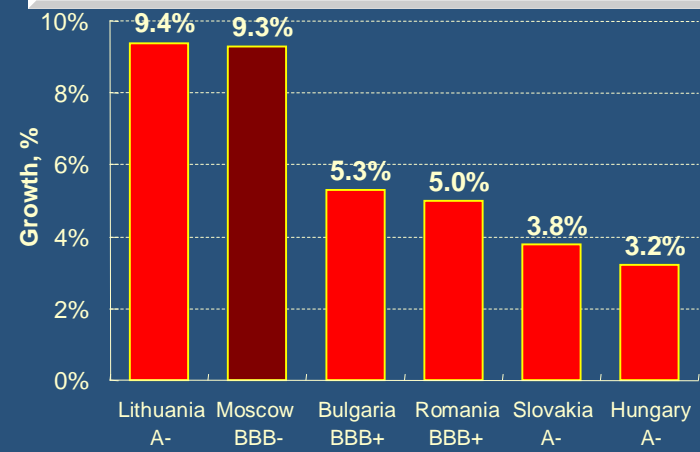
2003 GDP/GCP per Capita



2003 GDP/GCP Growth



2003 GDP/GCP per Capita Growth



*Note: Standard & Poor's ratings as of March 2005

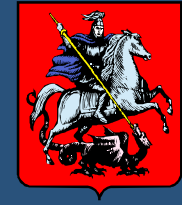
Source: The World Factbook, Standard & Poor's



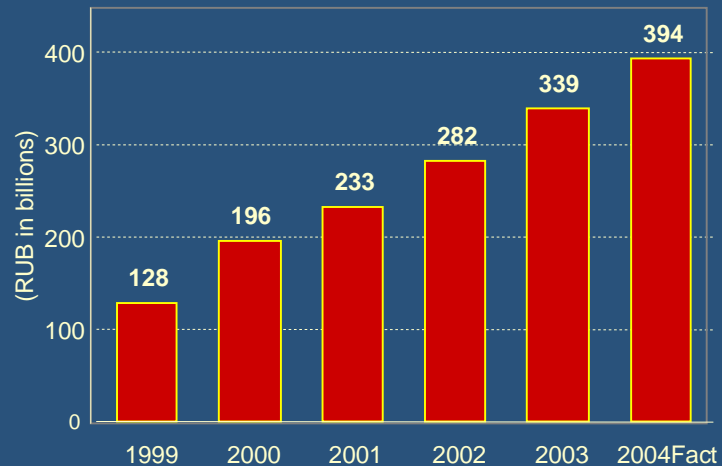
3. City's Finances



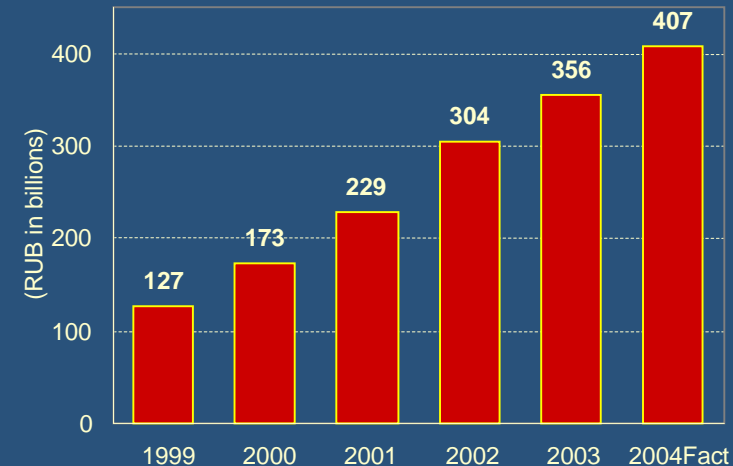
Revenue Growth is Driven by Strong Diversified Economy



Revenue

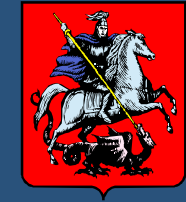


Expenditures



- 2004 Total City Budget Revenue of almost US\$ 14.2 billion equivalent
- Non-tax revenues constitute almost 14% of City's revenues
 - Dividends, rents, payments and fees

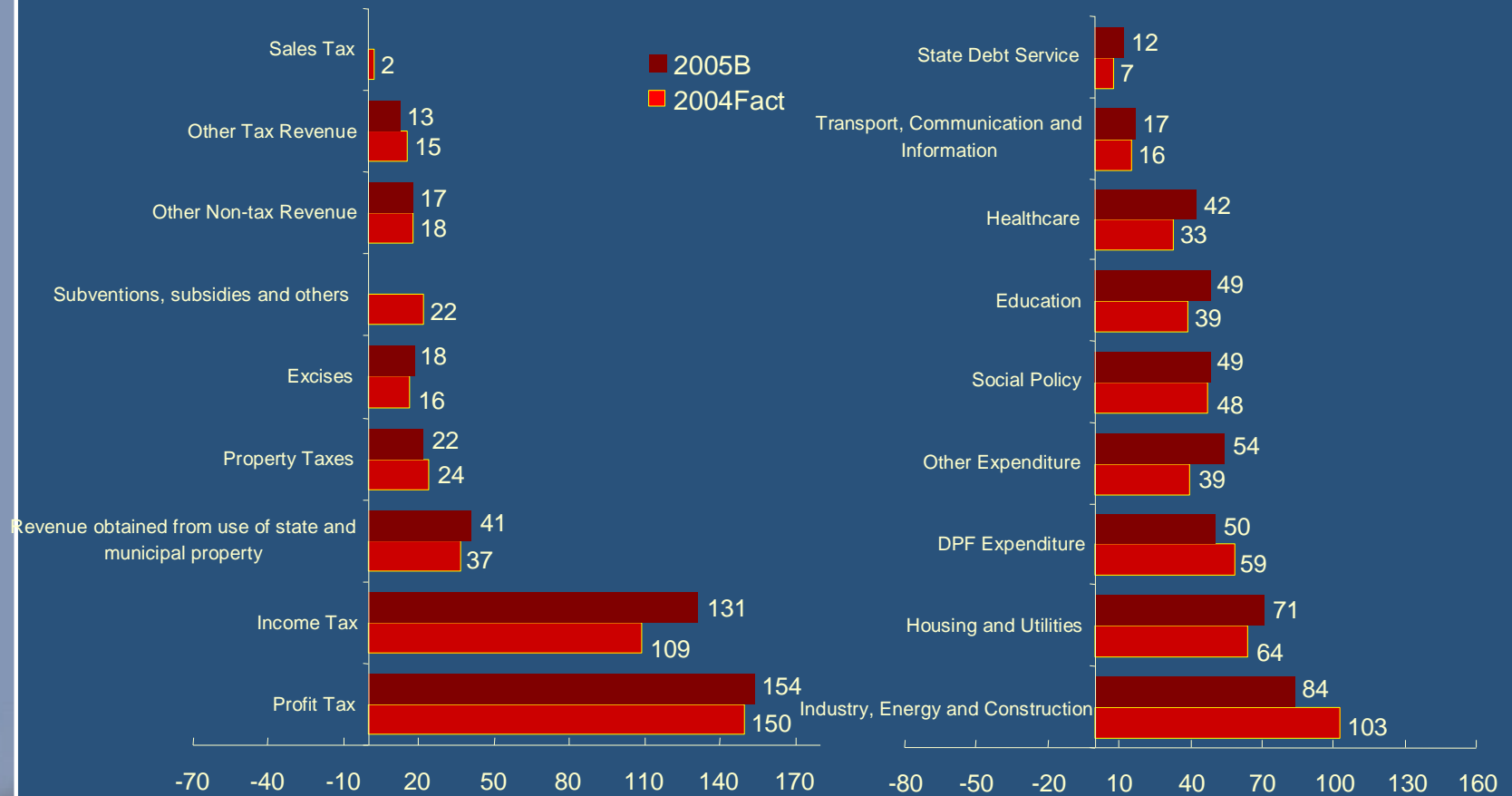




2004 Budget Structure

2004 Total Revenue: RUB 393.6/US\$ 14.2 bn

2004 Total Expenditures: RUB 407.4/US\$ 14.7 bn



2005 Total Revenue: RUB 396.3 bn

2005 Total Expenditures: RUB 428.1 bn

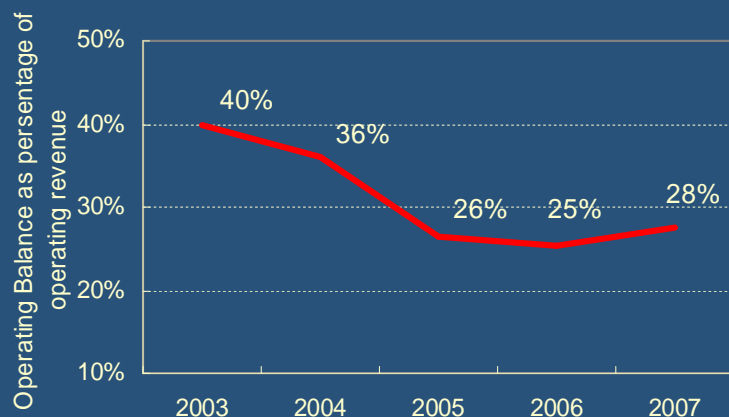
Source: City of Moscow.



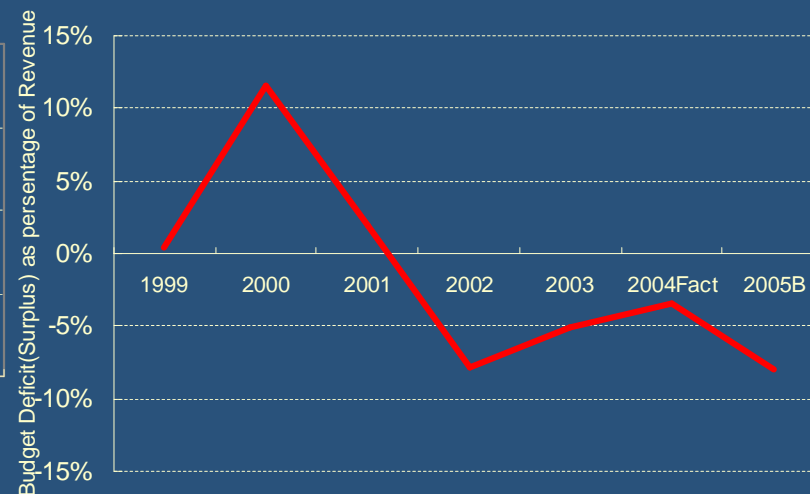


Sound Budgetary Performance

Operating Balance



Financing Deficit/Surplus



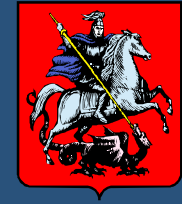
- Guarantee of expenditure on social services, debt service and debt repayment
- Sufficient funds for infrastructure development
- City's CAPEX at 50% of total expenditure

- Since 2002 the City Budget Deficit is composed of the City's extended CAPEX
- City's CAPEX is financed by 70% from the Net Operating Balance and 30% from Borrowings and Sale of Property

Source: City of Moscow.



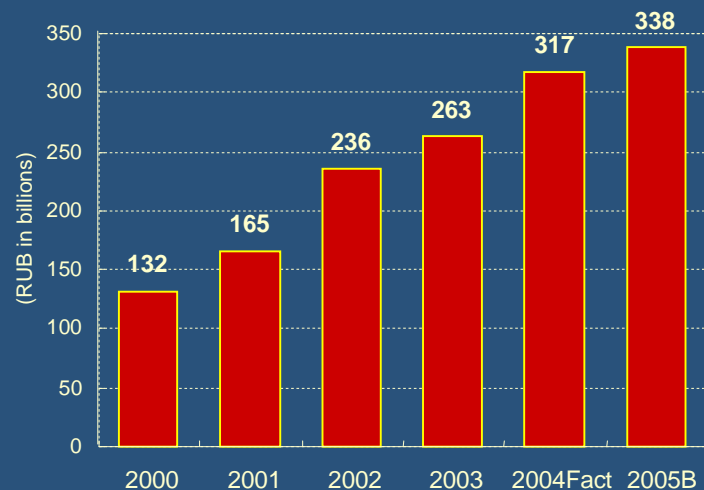
Revenue Growth Minimizes Impact of New Tax Reforms



Distribution of Changed Tax Rates between Moscow and Federal Budgets

	2000		2001		2002		2003		2004	
	Moscow	Federal	Moscow	Federal	Moscow	Federal	Moscow	Federal	Moscow	Federal
Profit Tax	22.1%	13.0%	24.2%	10.9%	16.5%	7.5%	18.0%	6.0%	19.0%	5.0%
Personal Income Tax	progressive rate of between 12% and 35%				13.0	--	13.0	--	13.0	--
VAT	3.0	17.0	--	20.0	--	20.0	--	20.0	--	18.0
Sales Taxes	--	--	5.0	--	5.0	--	5.0	--	--	--
Road User Tax	2.5	--	1.0	--	1.0	--	--	--	--	--

Moscow Tax Revenue Growth



Source: City of Moscow.

Moscow Revenue growth rate vs CPI

- Growth in corporate and personal incomes, trade and favourable investment climate help the City to neutralize negative effects of new tax reforms in 2000-2004
 - Income Tax CAGR = 37.3%
 - Profit Tax CAGR = 49.3%
 - Tax Revenue CAGR = 33.3%





Internal Borrowings

City of Moscow bond market, as of 01.03.2005

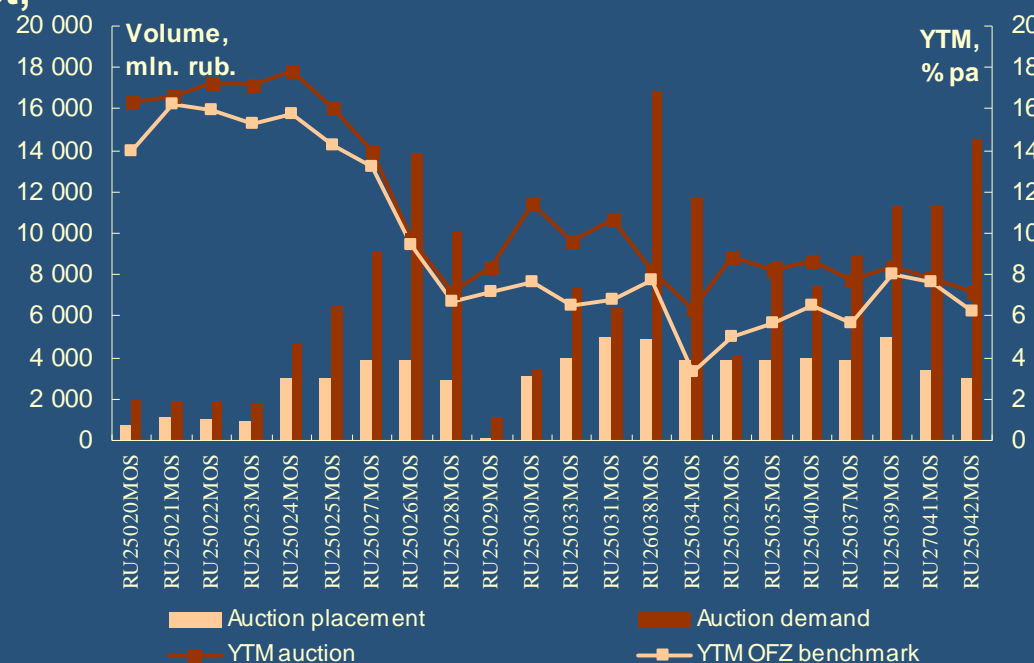
Total volume, RUB bln.	64.2
Number of issues	17
Duration, years	
maximum	9.5
average	2.9

Loans – instruments of debt diversification

Amount, RUB bn	2
Maturity, years	2
Interest rate, % pa	7.5

Flexibility in setting loans' maturities is provided through use of credit line

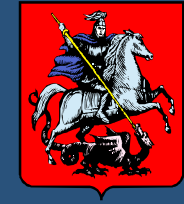
Auctions' Results



	RUB in billions
Auction placements in 2004	29.5
Placement in the secondary market in 2004	2.9
Number of auctions in 2004	7
Yield to maturity	% pa
minimum	6.29
maximum	8.88
average	8.08



City of Moscow RUB Bond market

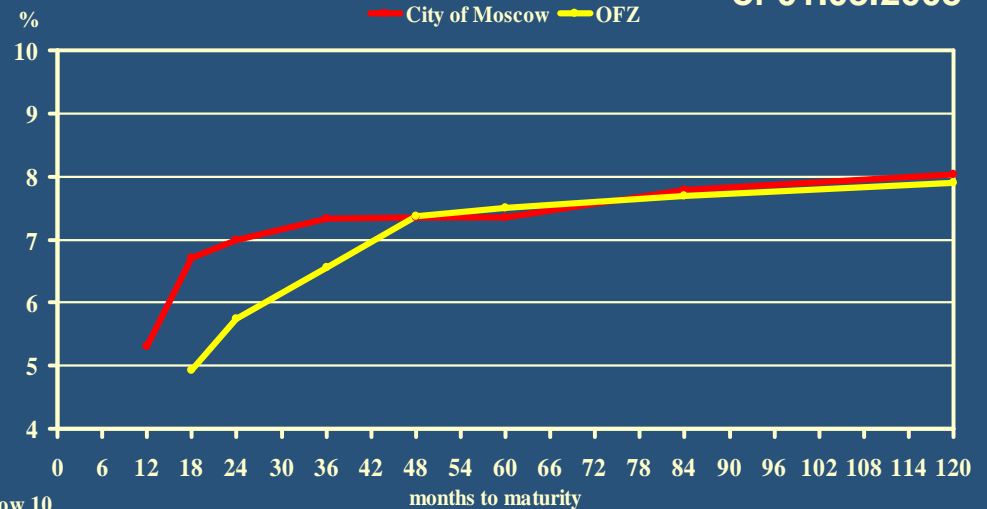


Total bonds in circulation*

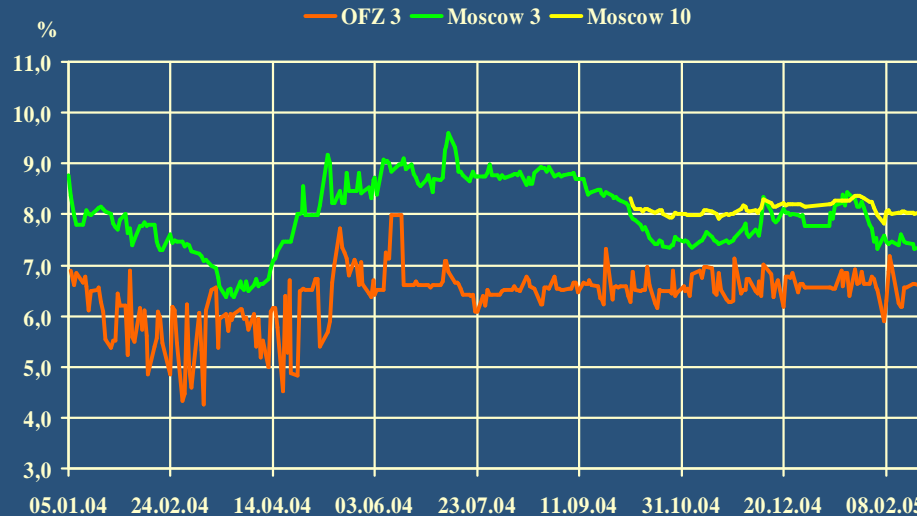
Type of bonds	RUB, billions 01.01.2005
Federal bonds	566.4
Corporate bonds	245.0
Municipal bonds including City of Moscow bonds	122.4
TOTAL	933.8

* Data from public sources

City of Moscow Vs Russian Federation Yield curve as of 01.03.2005



Yield Index



Monthly average bond turnover in 2004

Type of bonds	RUB, billions
Federal bonds	39.8
Corporate bonds	34.9
Municipal bonds including City of Moscow bonds	30.5
TOTAL	105.2





External Borrowings in 2004

12 October 2004 State Debt Committee raised a €374 million 6.45% 7 year loan. The loan was financed through issuance of Loan Participation Notes by Dresdner AG

Nominal Issue Size	€374 mln.
Maturity Date	12.10.2011
Denomination	€50,000
Interest	Annually
Coupon Rate	6.45%
Issue Price of Notes, %	100%
Listing	Luxembourg Stock Exchange

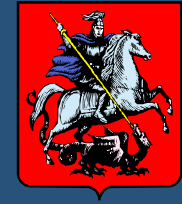
- Demand for the bonds was 3 times the size of the offering
- The lowest coupon rate in the history of placement of Federal and Sub-federal bonds in the international capital markets
- The bonds were purchased by 156 financial institutions from 23 countries
- High quality investors, including pension funds and insurance companies normally dealing with “investment class” securities were among the buyers of the Eurobond in 2004



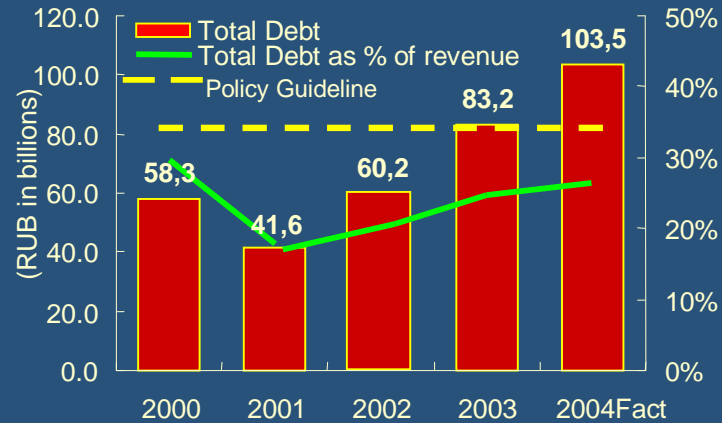
4. Debt Management



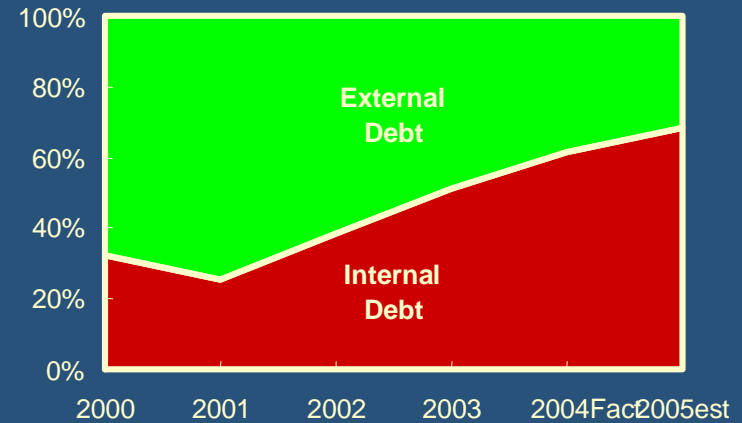
Moscow's Commitment to Prudent Debt Levels



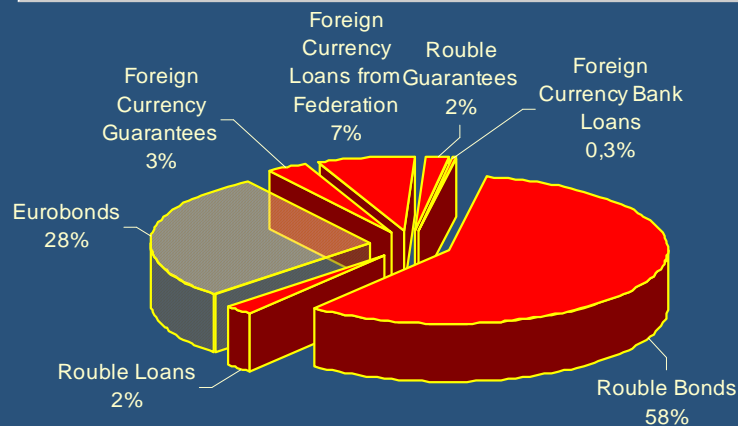
City of Moscow Debt Level



City of Moscow Debt Composition



Structure of Overall Debt

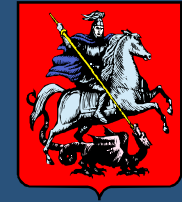


Debt Maturity Profile

	(US\$ equivalent in millions)		
	Balance as of Jan 1st	Maturity during	
		2005-2007	2008-2014
Rouble Bonds	2,150.01	1,568.98	581.02
Rouble Loans	72.08	72.08	
Eurobonds	1,055.50	545.48	510.02
Foreign Currency Guarantees	114.08	66.32	47.76
Foreign Currency Loans from Federation	264.51	105.71	158.80
Rouble Guarantees	63.43		63.43
Foreign Currency Bank Loans	9.59	9.59	
Total Debt and Guarantees	3,729.19	2,368.15	1,361.04

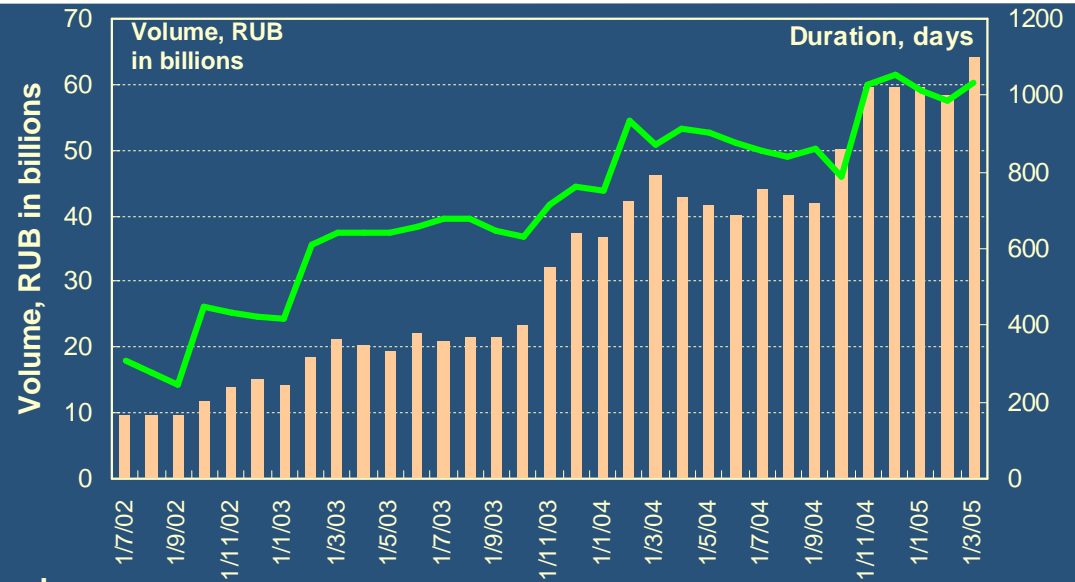
Source: City of Moscow.

N.B. Assumes US\$/RUB and EUR/RUB exchange rates of 27.7487 and 37.8104, respectively.

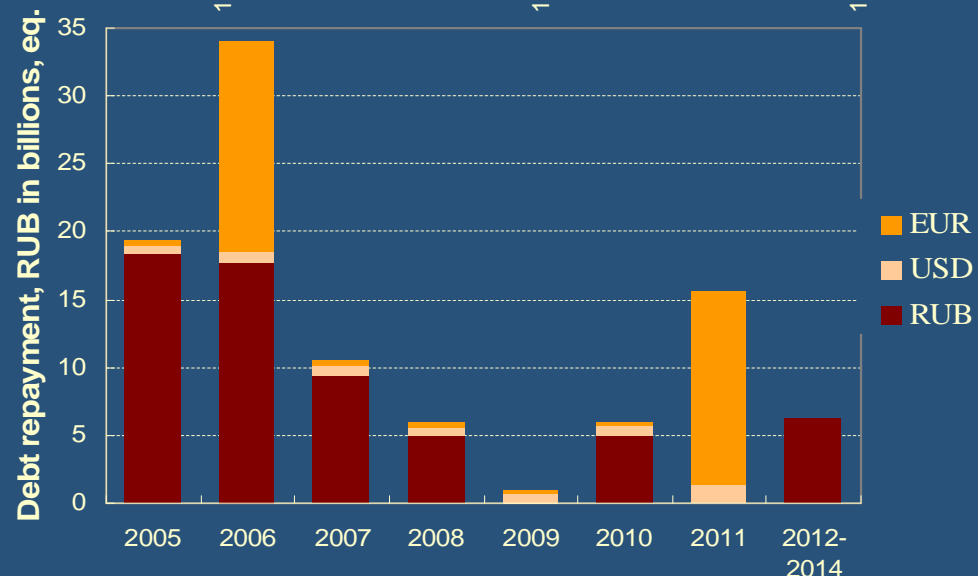


Debt Profile & Duration

Debt in circulation and debt duration



Direct debt repayment as of 01.01.2005





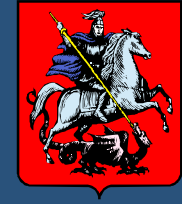
Budget & Debt Indicators

RUB in billions

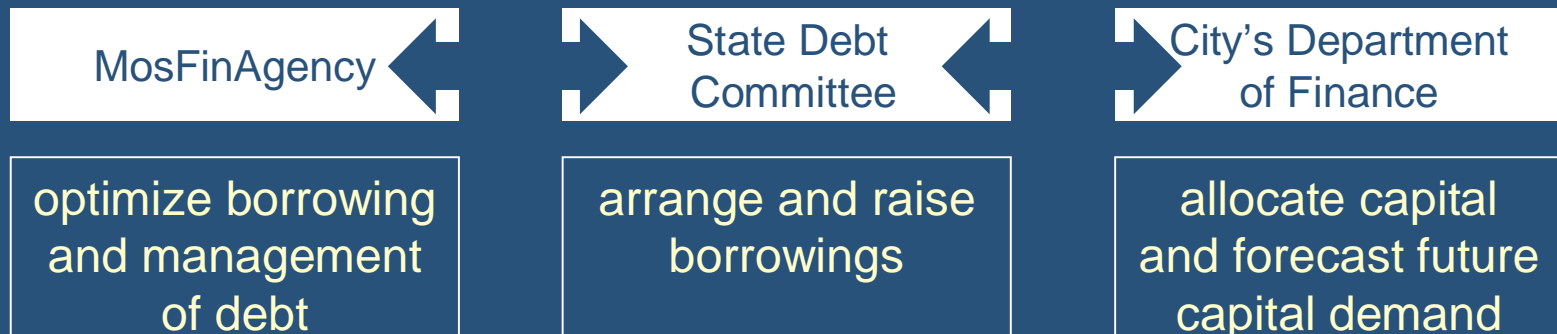
	Law on Budget Execution No55 of 08.09.2004	Statement on Budget Execution as of 01.01.2005	Law on Budget for 2005 No85 of 15.12.2004	Forecast	
	2003	2004	2005	2006	2007
Total Budget Revenues	338.5	393.6	396.3	423.0	466.0
Total Budget Expenditure	355.7	407.4	428.1	441.5	486.5
Deficit(-)/Surplus(+)	-17.2	-13.8	-31.7	-18.5	-20.5
Operating balance	130.0	137.7	101.1	103.9	124.1
<i>Debt Parameters</i>					
Total Debt at the end of the year	83.2	103.5	129.8	139.2	153.3
Debt repayment	17.3	28.9	19.5	33.7	24.5
Interest paid	6.6	7.5	12.3	15.2	16.4
Total Debt as a percentage of total budget revenues	24.6%	26.3%	32.8%	32.9%	32.9%
Interest paid as a percentage of total budget expenditure	1.8%	1.8%	2.9%	3.4%	3.4%
Debt repayment as a percentage of total budget revenues	5.1%	7.3%	4.9%	8.0%	5.2%
Deficit as a percentage of total budget expenditure	4.8%	3.4%	7.4%	4.2%	4.2%
Debt repayment as a percentage of operating balance	13.3%	21.0%	19.3%	32.5%	19.7%



Transparent Debt Management Strategy



- Obtaining necessary funds for development while maintaining debt size at a safe level
 - Total Debt cannot exceed **1/3** of the City's Revenues
 - Debt Repayment cannot exceed **100%** of Capital Resource⁽¹⁾
- Active debt management
 - Even debt maturity profile
 - Reduction of FX exposure by growing domestic borrowings
- Increase transparency of City's debt management



(1) Capital Resource equals to Total Budget Revenue net of Current and Designated Purpose Funds expenditures.





Long-Term Credit Ratings

	Local Currency	Foreign Currency	Note
Fitch Ratings	BBB-	BBB-	Investment grade rating
Moody's Investors Service	Baa3	Baa3	
Standard & Poor's		BBB-	

“Improving overall Russian economic and fiscal environment as well as Moscow's growing economy and revenues, strong financial performance in 2004 and expected in the medium term, modest debt level, above-average wealth and improving financial management continue to support the rating.”

- S & P, Feb 2005

“Moscow has benefited from consistent and strong economic growth. Moscow derives the fiscal benefits from an economic base that is markedly stronger than other regions in the country. The investment-grade rating and positive outlook also stem from the City's importance on the national scene and its significant presence in the capital markets.”

- Moody's, Nov 2004

“The rating reflects not only the general improvements in Russia's macro economic environment in recent years, which has had direct impact on Moscow's revenue, but also the robust debt protection ratios of the City by international standards, and which are projected to remain strong despite debt increase.”

- Fitch, Nov 2004

