



DEVELOPMENT OF DOMESTIC BOND MARKET IN RUSSIA



May 2006



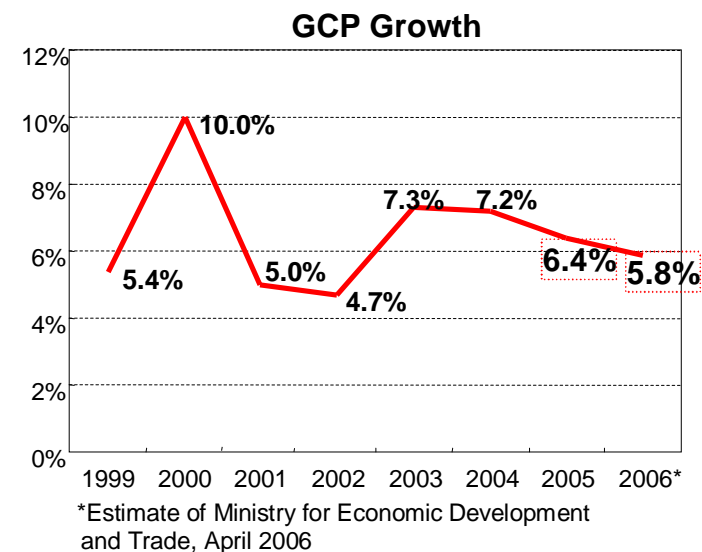
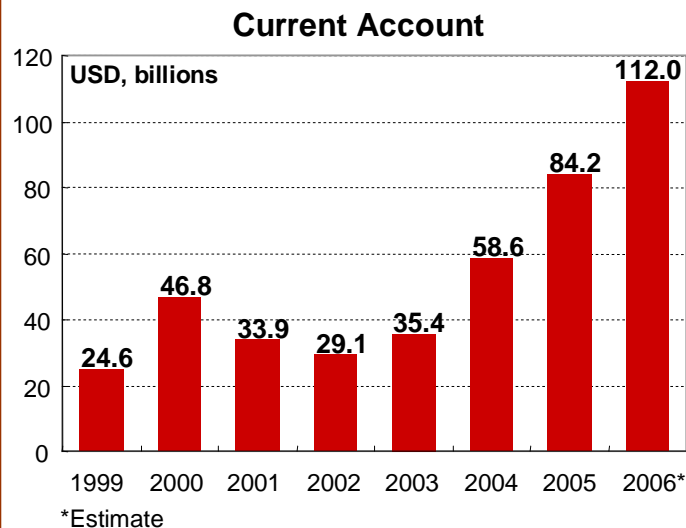
Part 1. Macroeconomic Indicators



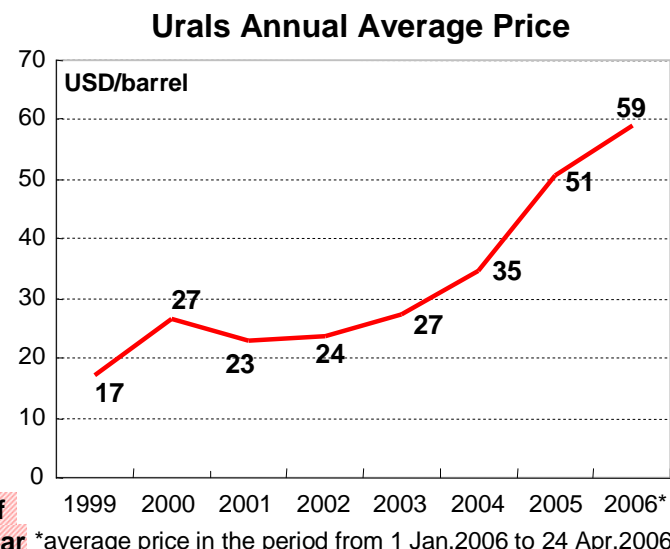
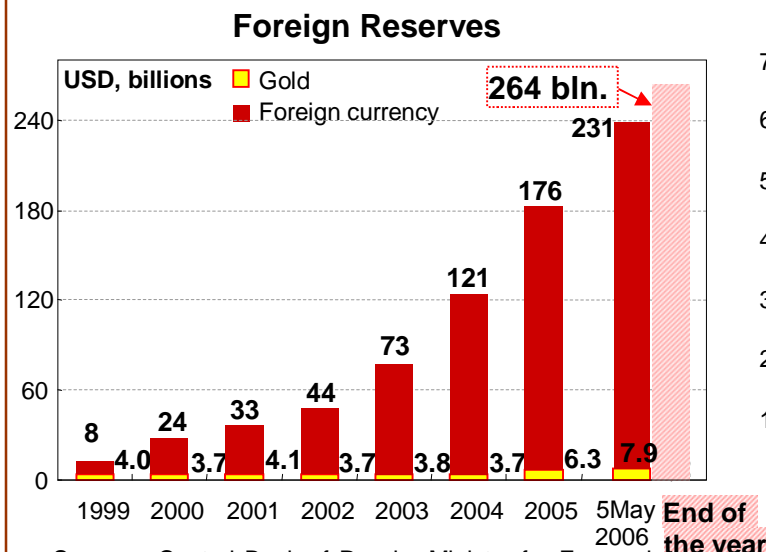


Growing Economic Stability of Russia

In 2005 GDP of Russia grew by 6.4%. In 2006 Ministry for Economic Development and Trade of Russia estimates GDP to grow by 5.8%.



In 2006 Foreign Reserves are expected to grow to USD 260-280 billion subject to high oil prices (Urals \geq \$40-55/barrel)



Sources: Central Bank of Russia, Ministry for Economic Development and Trade

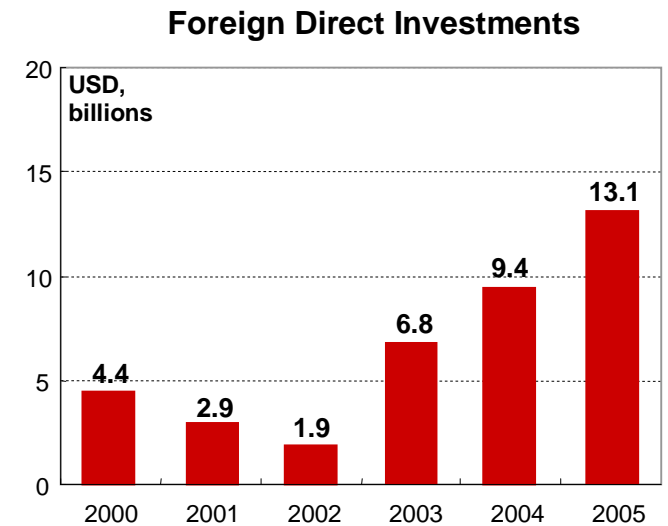
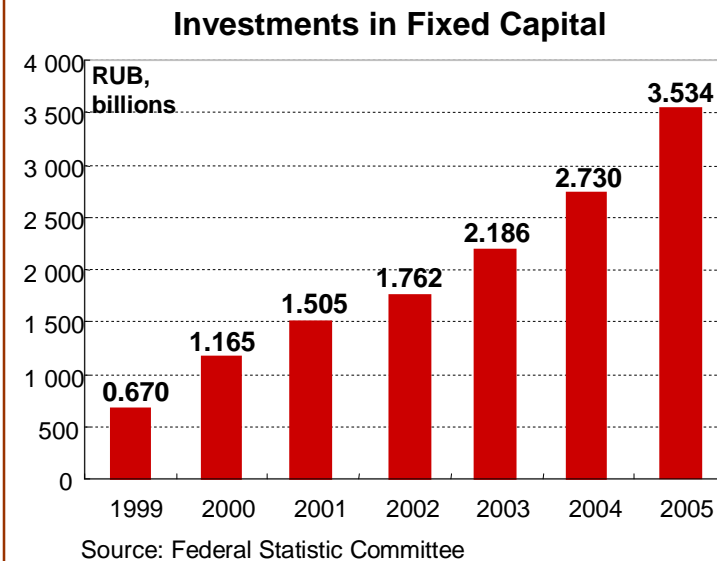
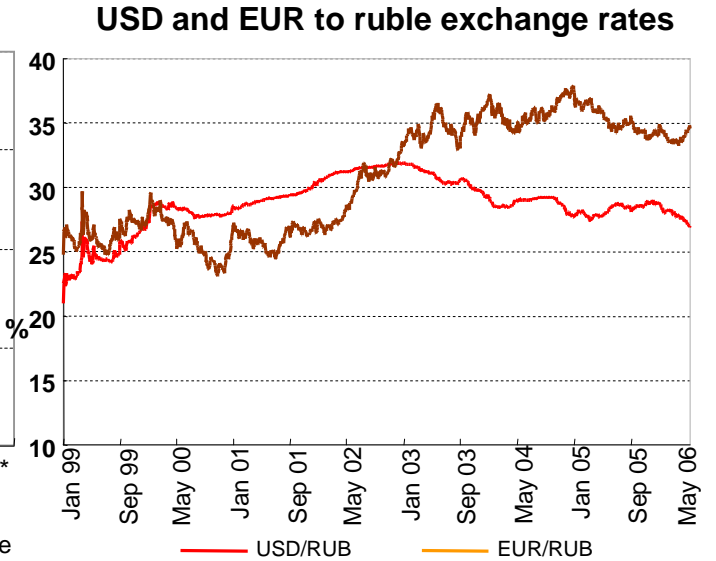
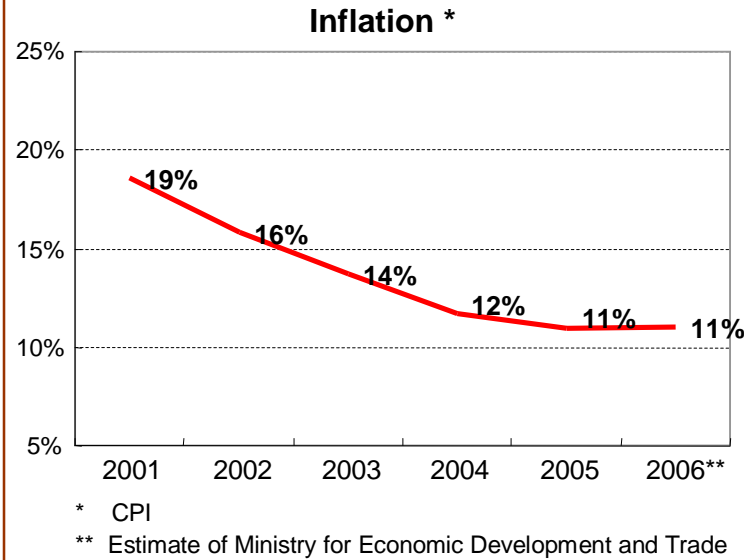




Growing Economic Stability of Russia

Well balanced economic policy implemented by Federal Government and Central Bank has enabled to reduce inflation and stabilize FX exchange rates.

Growth in Foreign Direct Investments indicates improvement of investment climate in Russia.





Part 2. City of Moscow Economy. Factors of Stability.





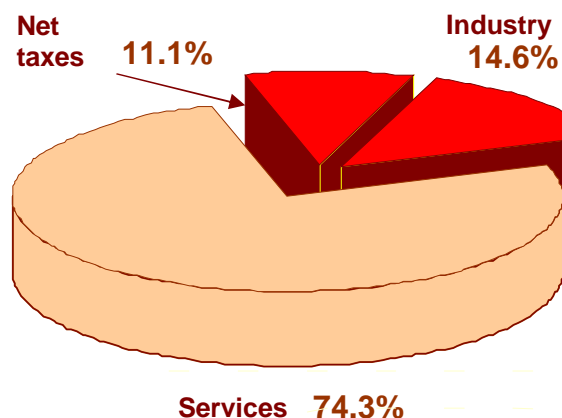
Structure of the economy of the City of Moscow and developed countries is similar

In the last years structure of Moscow economy has been changing dynamically. At present about 75% of its GCP is formed by the service sector, similar to economies of large cities and countries with developed economies.

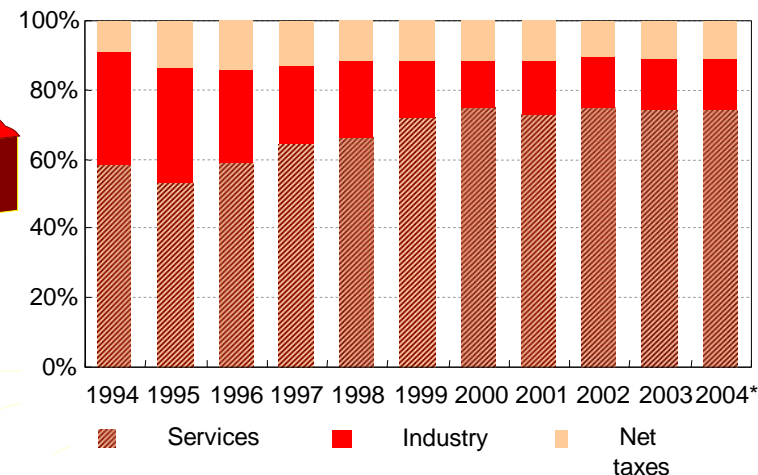
Moscow Government strategic goal for the next three years is to maintain the environment for economic growth of not less than 7-8% per annum.

Active growth of the City's economy is due to increase in internal demand, investments in real sector of economy, improvement of investment climate and various entrepreneurial activities of enterprises.

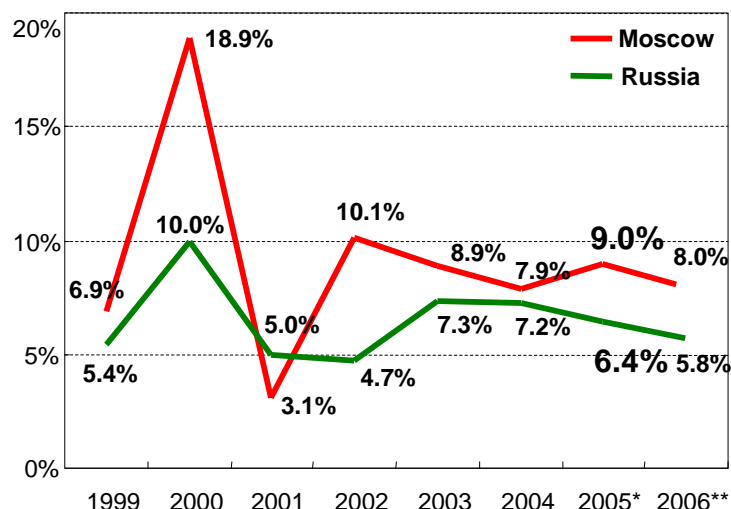
GCP structure in 2004



GCP dynamics



GDP of Russia and GCP of Moscow in 1999-2006



- In 2005 Moscow's GCP was estimated at RUB 3, 628.1 bln. (US\$ 128.5 bln. equivalent)
- In 1999-2005 GCP grew in real terms by 64.8% or 9.3% per annum
- In 2006-2009 GCP is expected to grow by 7-9% per annum

Notes: * Preliminary, ** Budget

Source: Department of Economic Policy and Development of Moscow



Moscow's Key Role in the economy of the Russian Federation in Terms of Foreign Direct Investments and Investments in Fixed Capital

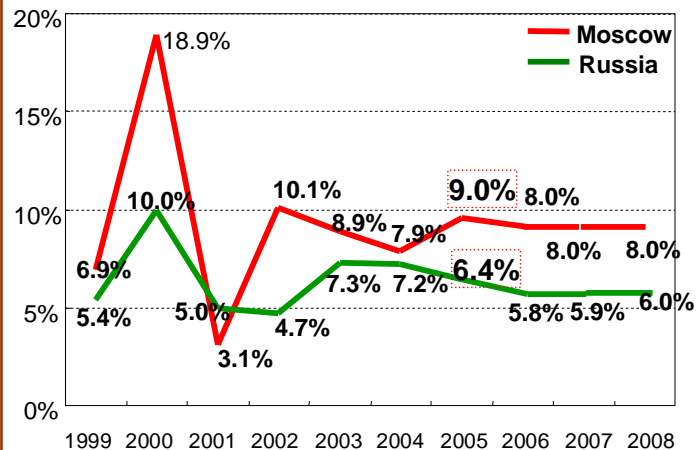
In 2005 Moscow's economy accounted for 19% of Russia's GDP. In the last 4 years City enjoyed annual real GCP growth of 9%.

GCP per capita in Moscow is 2.5 times higher than in Russia.

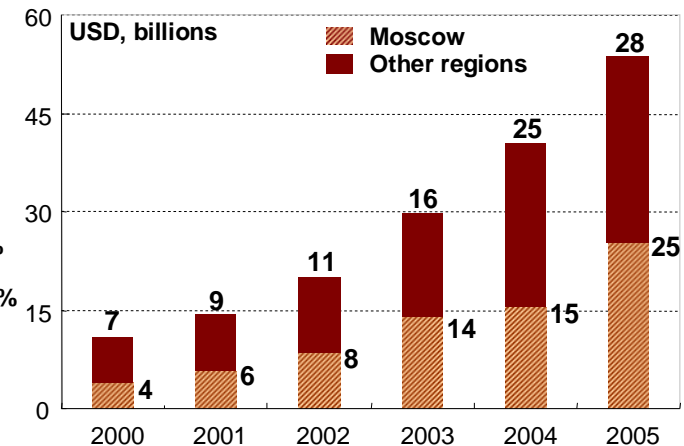
In 2005 Moscow received more than \$25 bln. (47%) of all Foreign Direct Investments made in Russia.

Investments in Fixed Capital are 1.8 times higher in Moscow than in Russia.

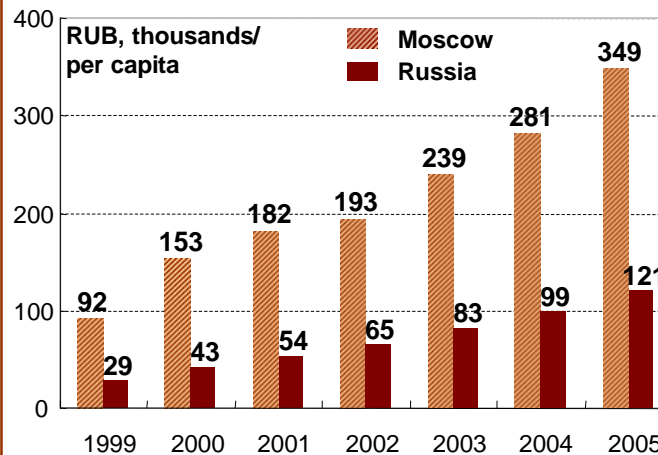
GCP Growth: Russia vs Moscow



Foreign Investments



GDP and GCP per capita: Russia vs Moscow



Investments in Fixed Capital per capita



* Preliminary

Source: Federal Statistic Committee, Moscow Statistic Committee, Ministry for Economic Development and Trade



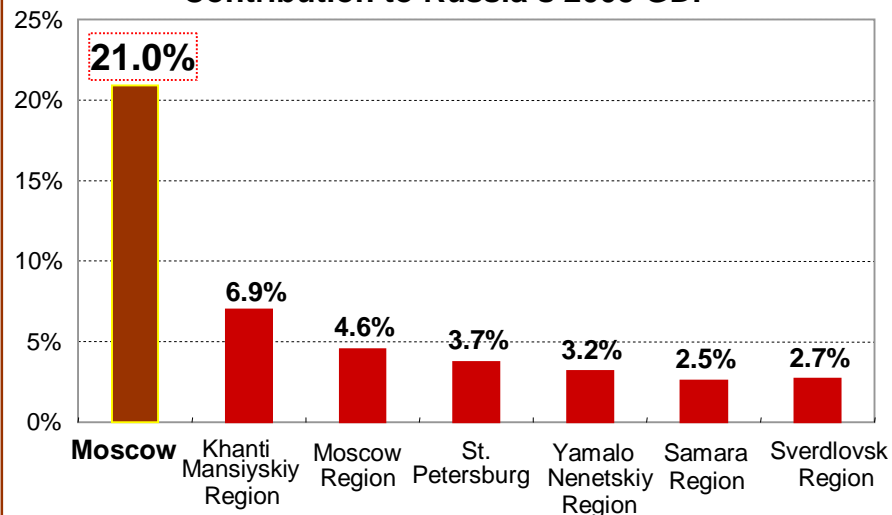


Moscow – the Strongest Russian Region

Key Economic Highlights:

- Large and well-diversified economy and budget revenues;
- Large population and highest living standards in Russia;
- Developed financial sector;
- Independence from Federal subventions and subsidies.

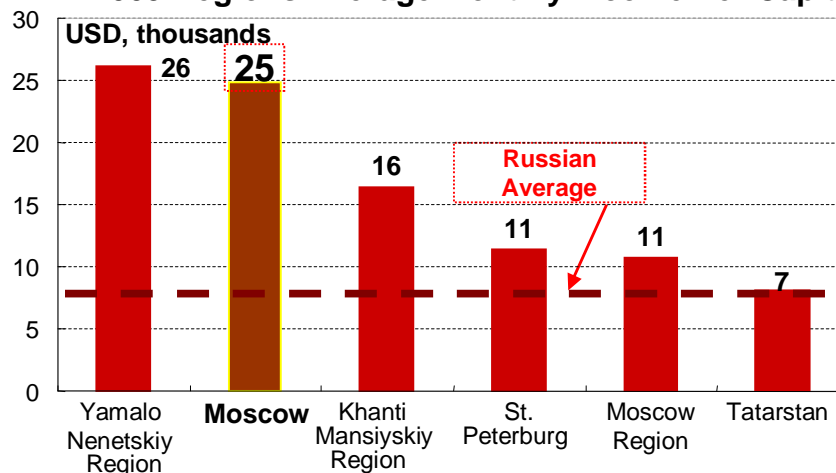
Contribution to Russia's 2005 GDP



Single most important contributor to GDP among Russian regions 21%.

Diversified economy oriented on services. Since 1999 the services sector has represented more than 70% of GCP.

2005 Regions Average Monthly Income Per Capita



Moscow – place with highest standards of living in Russia.

Accounts for largest share of Russia's FDI.

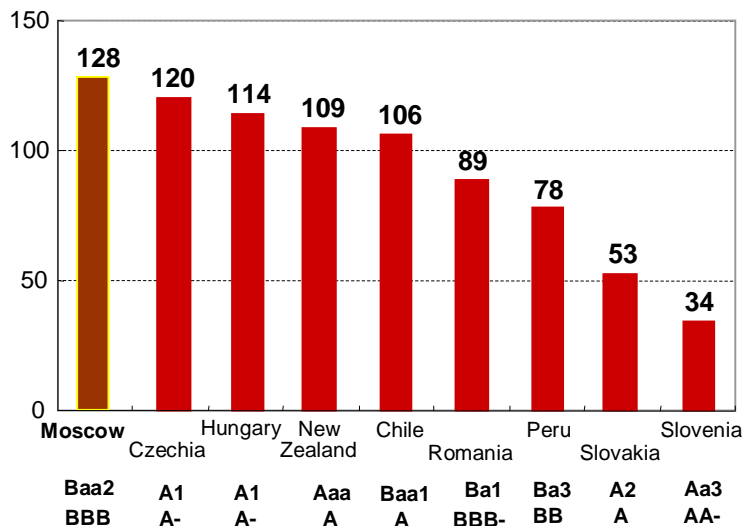
Source: statistic data from public sources



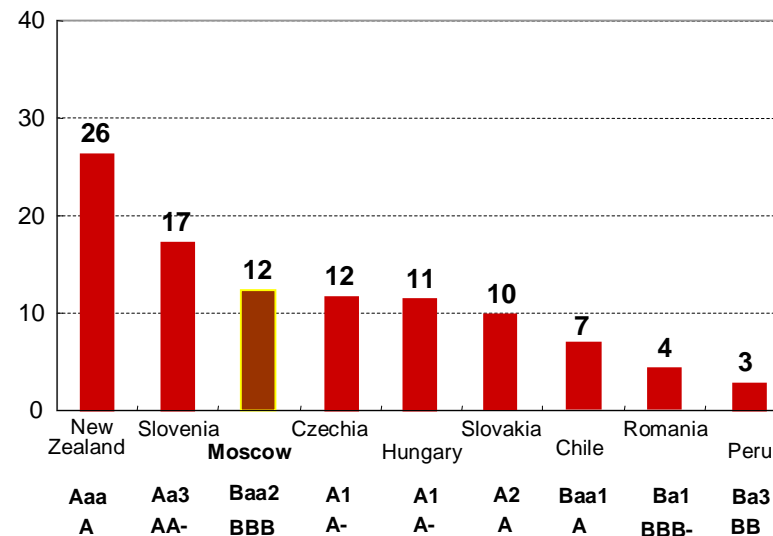


Moscow's Economy is on a Par With Higher Rated Economies

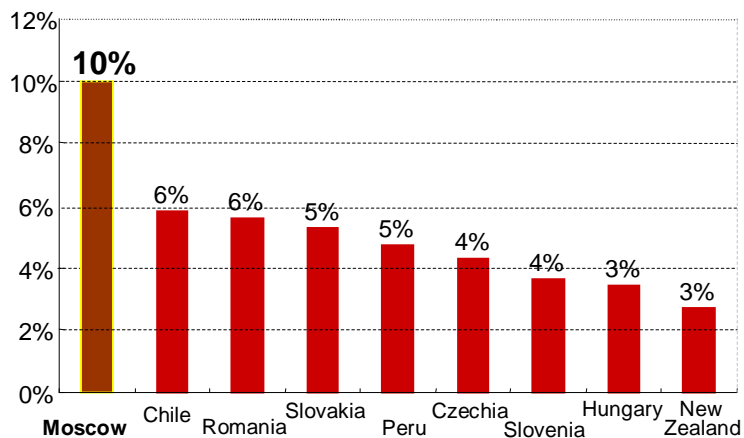
GDP/GCP, USD billions *



GDP/GCP per capita, USD thousands *



GDP/GCP real growth *, %



Moscow's economy is on a par with higher rated economies in absolute terms and in terms of upgrowth.

* Sources: 2005, Department of Foreign Affairs and Trade of Australian Government.
2006, Moody's Investors Service, Standard & Poor's





Part 2. City's Finance





Positive Economic Growth and Increase in Tax Collection Compensated Losses of Moscow Budget from Federal Tax Reforms

Tax	2000		2001		2002		2003		2004		2005	
	Moscow	Russia	Moscow	Russia	Moscow	Russia	Moscow	Russia	Moscow	Russia	Moscow	Russia
Corporate tax	22.0	13.0	24.1	10.9	16.5	7.5	18.0	6.0	19.0	5.0	17.5	6.5
Income tax	Variable rate from 12% to 35%		Variable rate from 12% to 35%		13	0	13	0	13	0	13	0
VAT and Excises	3	17	0	20	0	20	0	20	0	18	0	18
Sales tax	0	0	5	0	5	0	5	0	0	0	0	0
Road users' tax	2.5	0	1	0	1	0	0	0	0	0	0	0

Losses of Moscow budget from federal tax reforms in 2001-2004 were estimated at RUB 120 – RUB 140 billion (1/3 of Moscow's current revenue base).

Nevertheless during 2001-2004 tax revenues grew by 25% per annum, far ahead of 15% inflation rate for the same period.

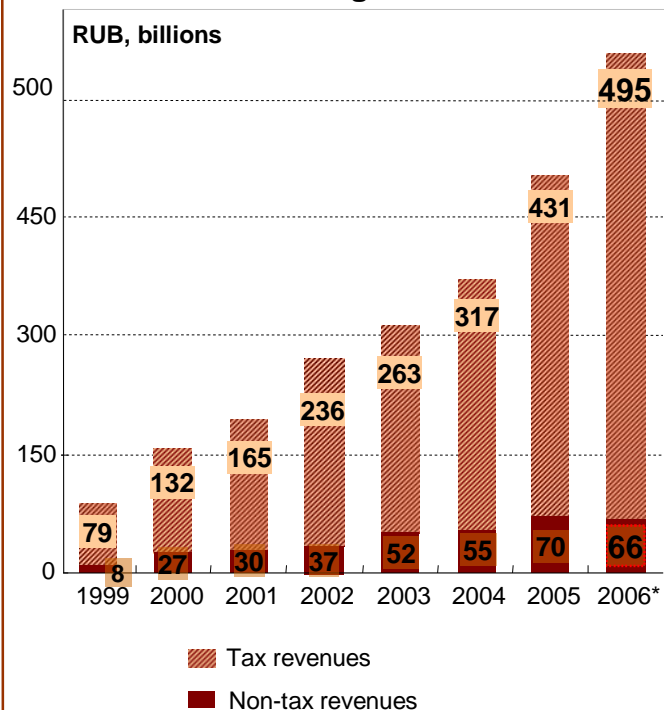
In 2005 tax revenues grew approximately by 36%.

Revenues of Moscow budget grow faster than inflation.

During 2001-2005 budget revenues grew 20% per annum, tax revenues – 25% per annum.

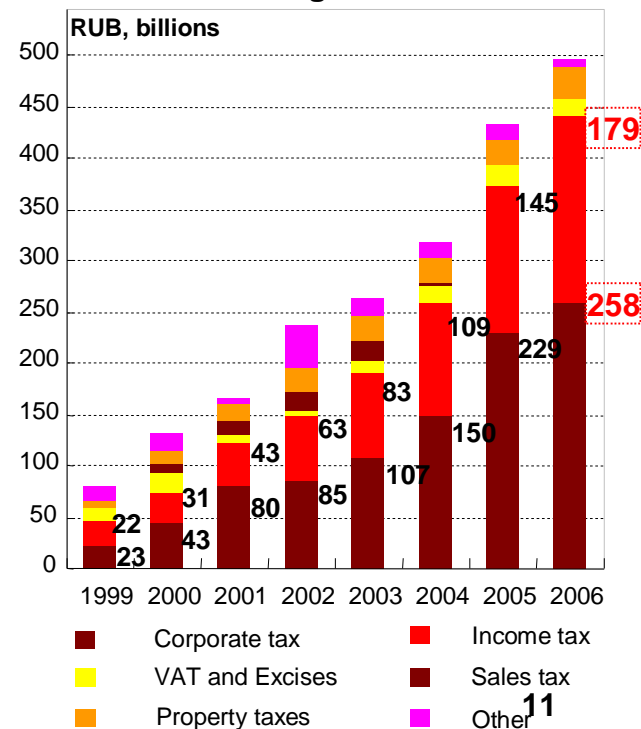
Annual average inflation rate was 15%.

Moscow Budget Revenues



Notes: * Preliminary

Moscow Budget Tax Revenues





3. Debt Management





Improvement of Debt Profile Reduces Risks and Cost of Borrowing

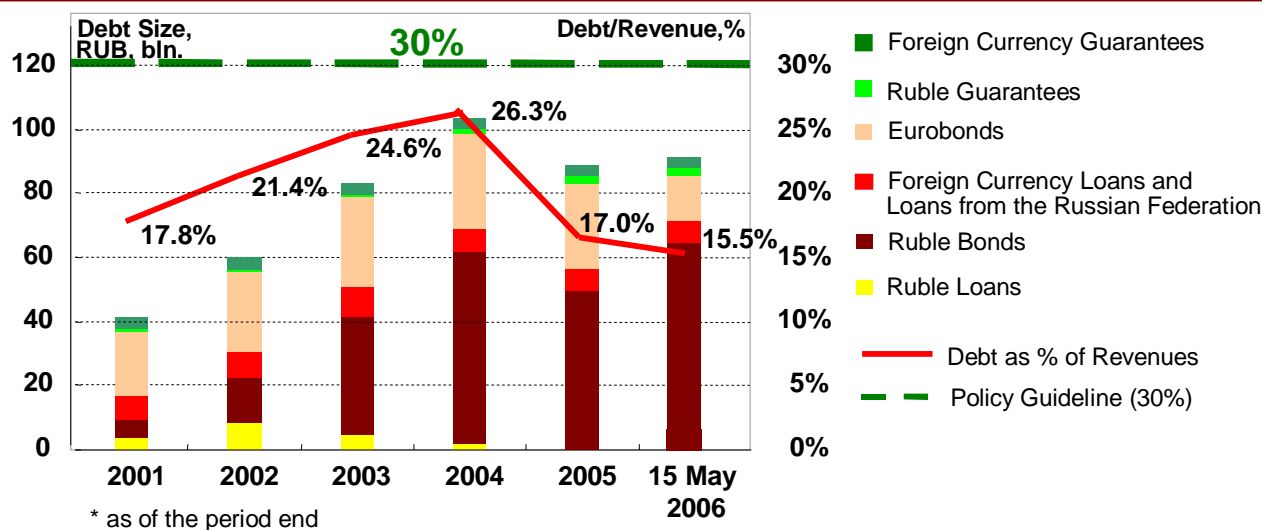
In 2005 Moscow Government further reduced the maximum of Debt/Revenue ratio from 33% to 30%.

In 2005 Debt as % of Revenue reduced from 26% to 17%. As of 15 May 2006, Debt/Revenue ratio was 15.5%.

As of 15 May 2006, the share of Ruble bonds and Eurobonds in the City's total debt amounted to 87%.

Internal and external debt represent 83.7% and 16.3% of the City's total debt respectively.

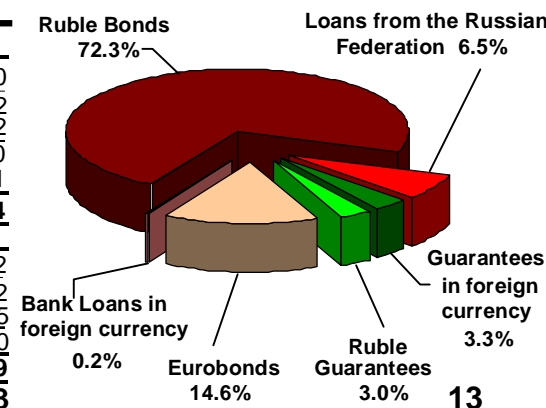
Debt Size and Structure *



City of Moscow Debt Composition as of 15.05.2006

USD/RUB=26.9431; EUR/RUB=34.6892 Billions

Liability	Currency	Debt as of 15.05.2006		
		Amount	RUB eq.	USD eq.
Internal Debt:				
Bonds	RUB	64.382	64.382	2.390
Loans from the Russian Federation	USD	0.162	4.370	0.162
	EUR	0.041	1.405	0.052
Guarantees	RUB	2.690	2.690	0.100
	USD	0.061	1.629	0.061
Total Internal Debt:		74.476	74.476	2.764
External Debt:				
Eurobonds	EUR	0.374	12.974	0.482
Loans	USD	0.002	0.065	0.002
	EUR	0.004	0.133	0.005
Guarantees	USD	0.050	1.347	0.050
Total External Debt:		14.519	14.519	0.539
Total Debt:		88.995	88.995	3.303
including Direct Debt:		83.328	83.328	3.093



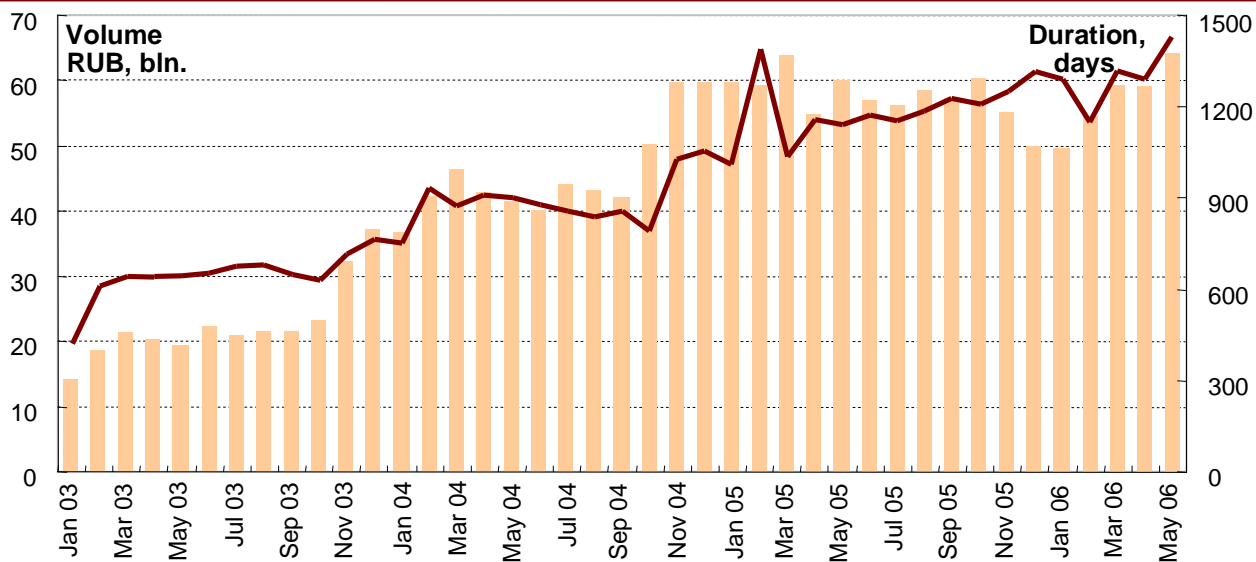


Increased Debt Duration and Even Debt Profile

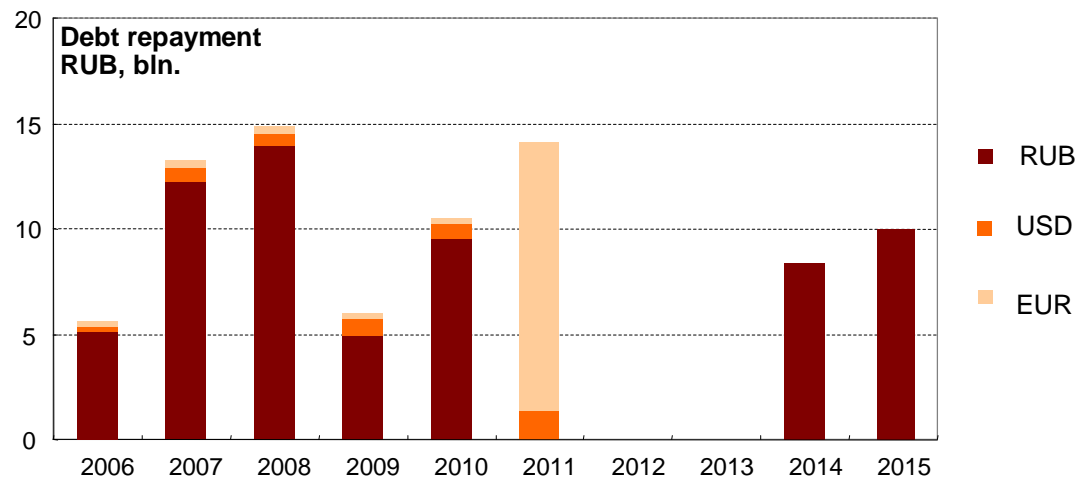
Realizing long-term debt management strategy, State Debt Committee has undertaken measures to increase debt duration. As of 01.05.2006 duration of City's bonds equaled 3.9 years.

Development of even debt profile allows to level out peak budget payments.

Debt in Circulation and Debt Duration



Schedule of Direct Debt Repayment (as of 12.05.2006)





City of Moscow Bonds vs Federal Bonds

Total bonds in circulation *

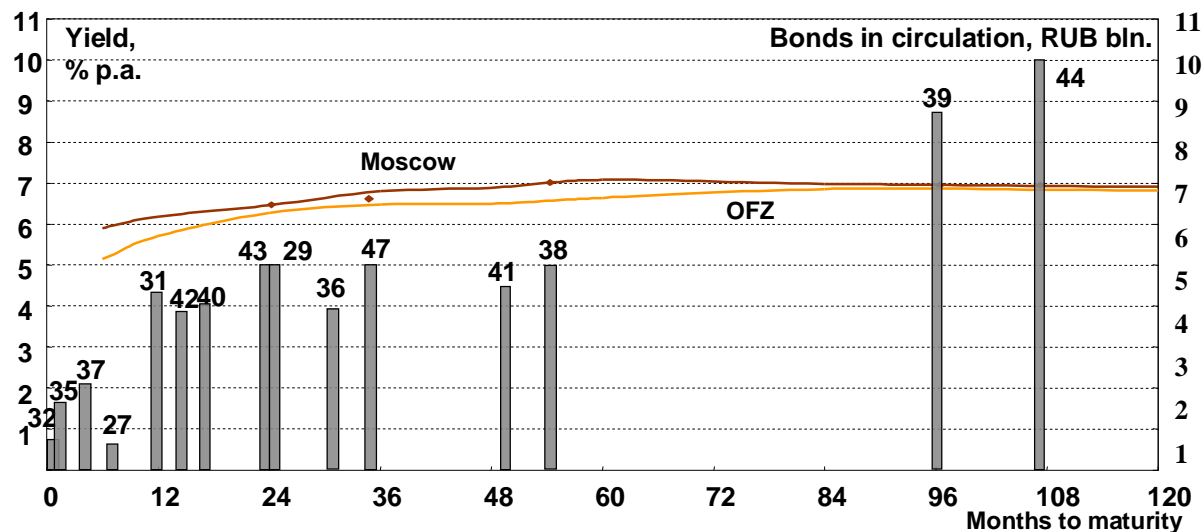
	RUB, billions
Type of bonds	15.05.06
Federal bonds	785.0
Corporate bonds	561.4
Municipal bonds	175.1
including	
City of Moscow bonds	64.4
Total	1,521.5

* Data from public sources

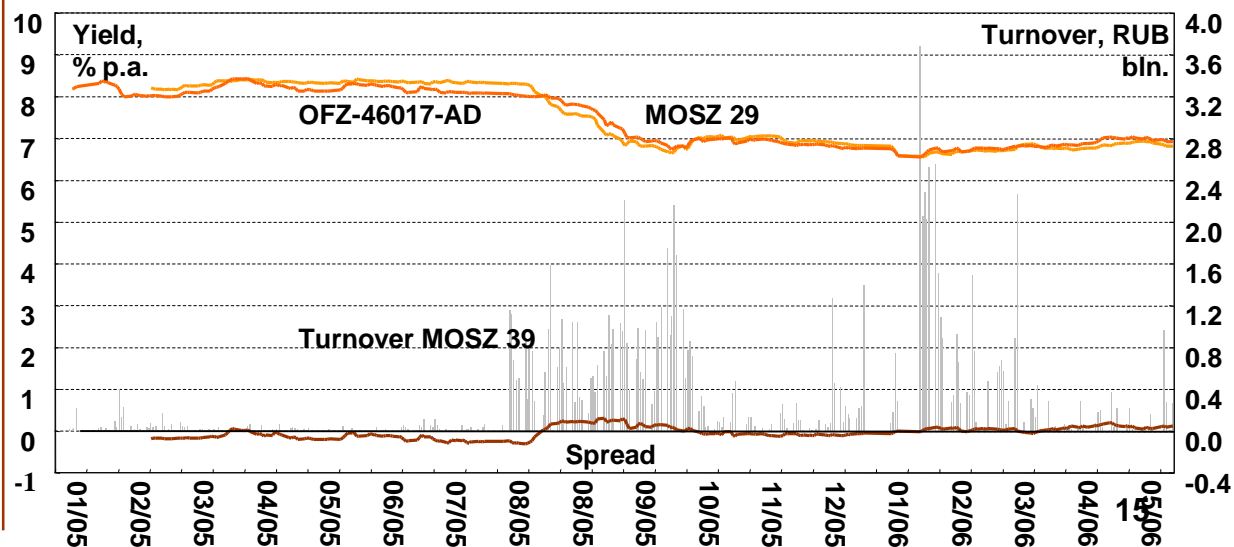
Monthly average bond turnover from Jan 2005 to May 2006

	RUB, billions
Type of bonds	15.05.06
Federal bonds	39.6
Corporate bonds	98.3
Municipal bonds	35.6
including	
City of Moscow bonds	16.9
Total	173.5

Yield Curve and Size of Bond Issues Placed



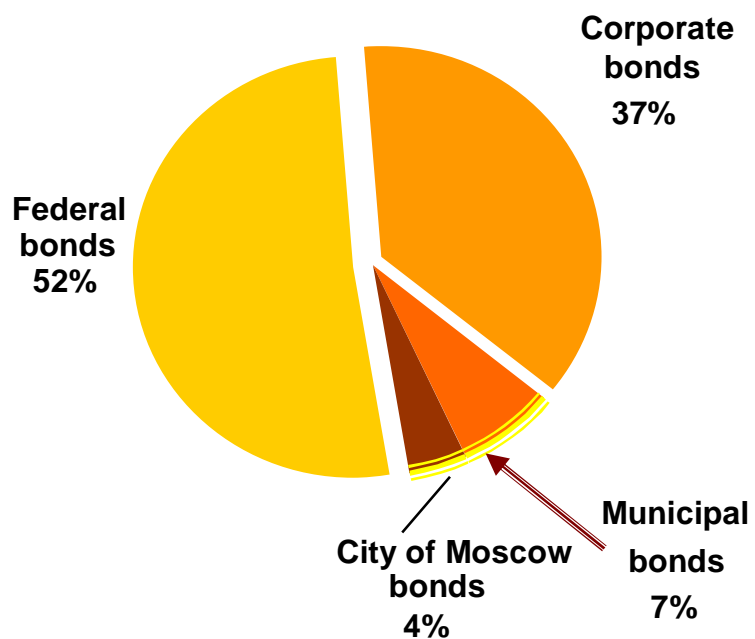
MOSZ 39 vs OFZ



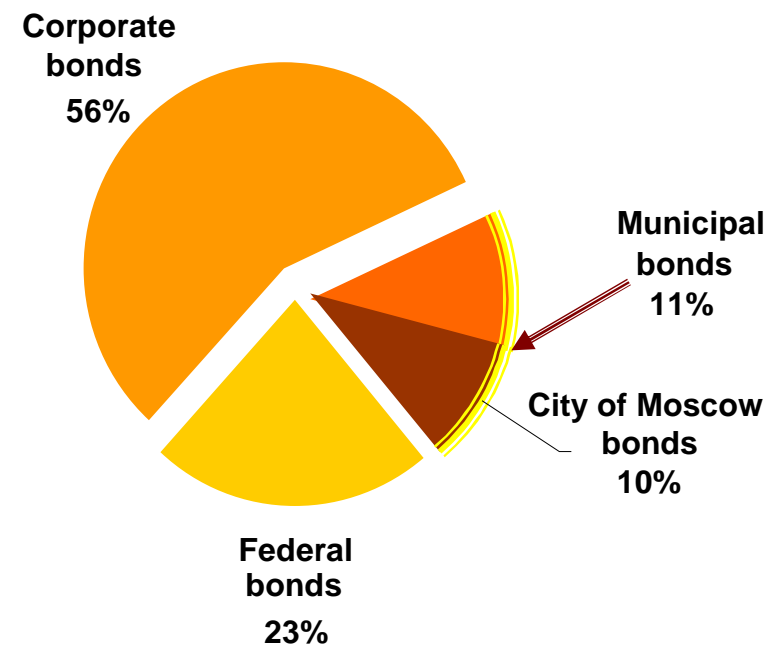


Russian Ruble Bond Market

Total bonds in circulation *



Monthly average bond turnover
in 2005-2006



* Data from public sources as of 15.05.2006

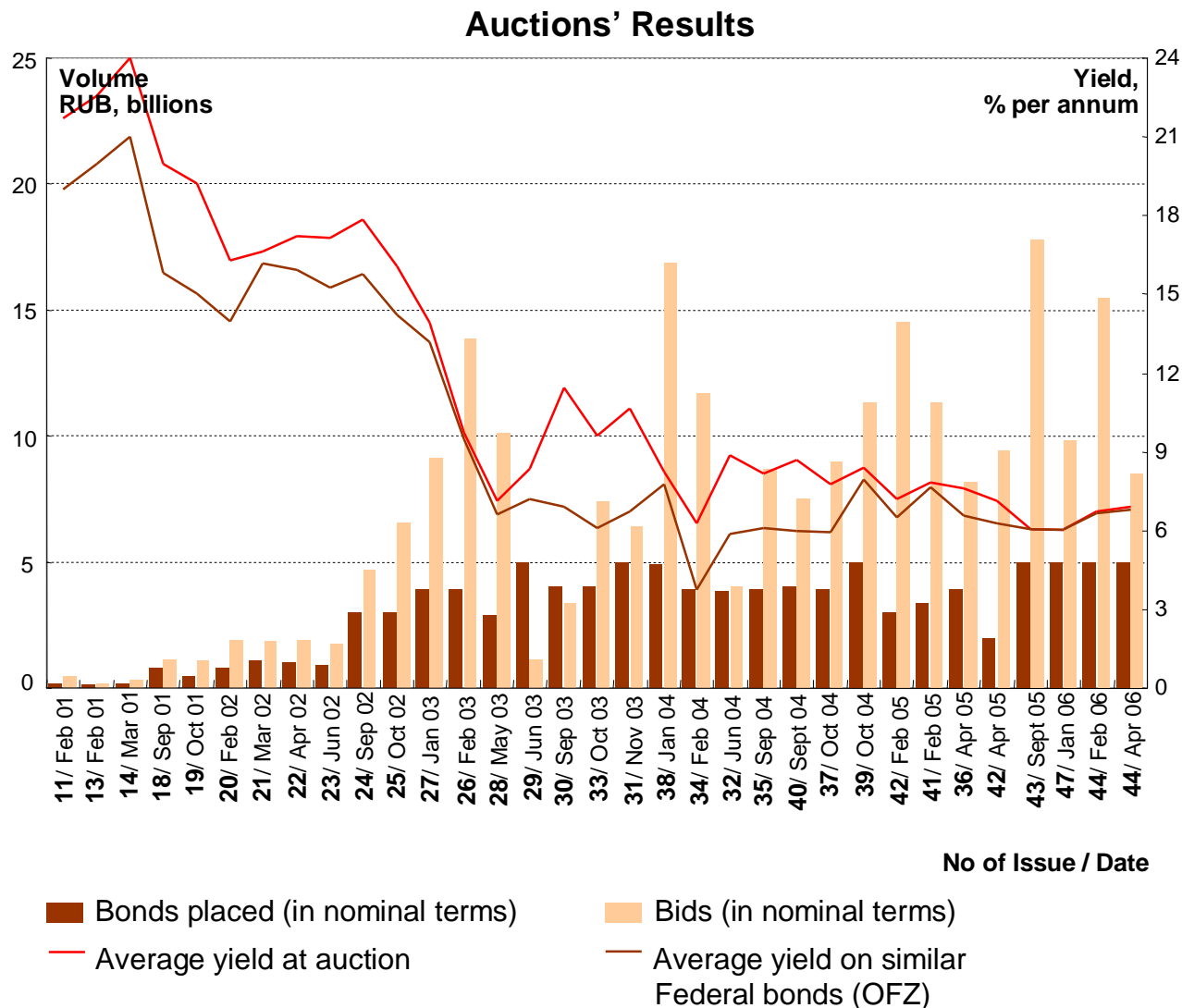




Internal Borrowings of the City of Moscow

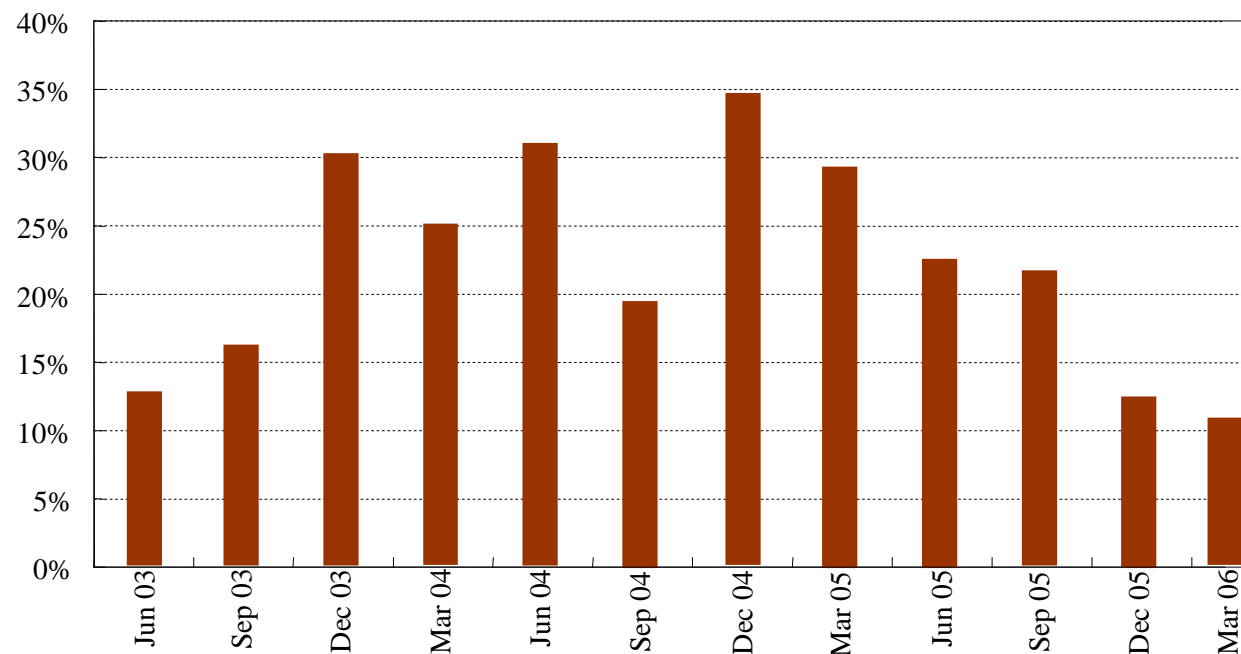
In 2005-2006 City placed bonds for RUB 36.2 bln. in nominal terms, including RUB 32.3 bln. raised in 8 auctions.

In 2005 the demand for City bonds placed at auctions was 3 time over the offer (more than RUB 60 bln.) – one of the key factors narrowed the spreads between the Federal and City bonds.





Non-Resident Holders of Moscow Ruble Bonds



Share of non-resident holders of City ruble bonds has varied from 10% to 35%. In recent time due to active participation of Russian investors and declining yields and tightening spread over OFZ curve proportional share of non-resident holders has decreased.

Currently about 80% of non-resident holders are concentrated in bonds with 1-3 year maturities.





City of Moscow Key Budget and Debt Indicators

	RUB, billions			
	2003	2004	2005**	2006***
Budget Indicators				
Budget revenues	338.5	393.6	522.2	574.2
Budget expenditure	355.7	407.4	503.2	663.7
Surplus / (Deficit)	(17.2)	(13.8)	19.0	(89.6)
Capital resource	102.9	113.6	129.2	87.2
Gross City Product				
GCP	2,484.4	2,926.7	3,628.1	4,131.4
Debt Parameters				
Debt size	83.2	103.5	88.9	142.2
Debt repayment	17.3	28.9	34.1	22.2
Debt service	6.6	7.5	8.8	14.5
Debt Parameters, %				
Debt/Revenue	25%	26%	17%	25%
Debt service/Expenditure	2%	2%	2%	2%
Debt repayment/Revenue	5%	7%	7%	4%
Debt repayment/Capital resource	17%	25%	26%	26%
Debt repayment & Debt service/ Revenue	7%	9%	8%	6%
Debt/Gross City Product	3%	4%	2%	3%

Current and planned debt parameters strictly meet the requirements of Russian Budget Code and adopted by Moscow Government additional criterions of safe level of debt.

Prior to 2005 "Debt/Revenue" value was restricted to 33%. In 2005 Moscow Government has limited it further to 30%.

Meeting of all debt restrictions allows Moscow to repay its obligations without raising new debt.

City plans to maintain low debt burden and to keep debt at safe level.

* All budgetary and debt indicators as of the period end;

** Statement on execution of Moscow Budget as of 01.01.2006

*** State Debt Committee's forecast of debt size; Moscow Budget Law for 2006

and "Forecast of social and economic development of Moscow for 2006-2008" No 520 as of 29.11.2005





2006 City of Moscow Budget Indicators *

	Billions
Revenues	574.18
Expenditure	663.73
Deficit / Surplus	(89.55)
<hr/> <i>Sources of Financing the Budget Deficit</i> <hr/>	
Borrowings	52.09
Cash Balance	31.57
Proceeds from Privatisation of City's Property	5.88

2006 City Budget provides for a deficit of RUB 89.55 billion, including RUB 52.09 billion to be financed by borrowed funds.

* 2006:preliminary data





2006 Borrowing Program *

Billions		
Type of Debt	Borrowings	Repayments
RUB		
Internal Debt	58.91	6.82
Bank Loans	5.00	0.00
Loans from Russian Federation	0.63	1.13
Bonds	53.28	5.69
EUR		
External Debt	0.408	0.408
Eurobonds	0.408	0.408
Total Internal & External Debt	74.33	22.24
Total Funds for Financing Budget Deficit, RUB	52.09	

* 2006: preliminary data





City of Moscow Borrowing Policy in 2006

- Use of internal bonds as a key debt instrument
- Extension of duration
- Issuance of large “benchmark” bond issues
- Further smoothing of debt profile
- Promotion of operations with forward contracts





Extension of Duration

Maturity of bonds

will be increased up to 15 years (subject to favourable market conditions).

Average maturity

will increase to 5 years for ruble bonds and to 7 years for foreign currency bonds.

Bonds to be issued in 2006

Issue Registration Number	Maturity	Size
MOSZ 46	2009	Up to RUB 10 bln.
MOSZ 47	2009	Up to RUB 10 bln.
MOSZ 44	2015	Up to RUB 20 bln.
New issue	2021-2022	Up to RUB 15 bln.

By the end of 2006 ruble bonds will represent 70% of total City's debt.





Issuance of Large “Benchmark” Bond Issues

Moscow is launching on a campaign aimed at issuance of large “benchmark” bond issues with maturities of 3, 5, 10 and 15 years.

Every new issue with a maturity of 10 and 15 years will have a size of RUB 30 bln. and a period of placement of 2 years.

Ruble Bond Issues in 2007-2010

RUB, billions

Maturity	Issue Size	Placement
3 years	10	10
5 years	15	15
10 years	30	15
15 years	30	15

Bond Placement Schedule for 2007-2010 *

RUB, billions

Maturity	Date of placement			
	2007	2008	2009	2010
2010	10.0			
2011		10.0		
2012	10.0		10.0	
2013		10.0		10.0
2014			10.0	
2015				10.0
2016				
2017	5.0	5.0		
2018	5.0	5.0		
2019			5.0	5.0
2020			5.0	5.0
2021	5.0			
2022	5.0			
2023		5.0	5.0	
2024		5.0	5.0	
2025				5.0
2026				5.0

* Schedule is preliminary and subject to changes in budgetary policy and market conditions





Foreign Currency Regulation

At present Federal legislation allows non-residents to purchase ruble bonds only through opening special accounts. Funds lodged to these accounts are blocked for 365 days in the following proportions:

Federal bonds	7.5%
Sub-Federal, Municipal and Corporate bonds	1.0%
Shares and other securities	1.0%

The law regulating purchasing of ruble bonds by non-residents will expire 1 Jan 2007 and terminate all relevant limitations.

President Vladimir Putin in his Annual Speech to the Parliament proposed to terminate limitations to operations with foreign currency from 1 July 2006.

