



EDEL CAPITAL S.A.

(incorporated with limited liability in the Grand Duchy of Luxembourg)

U.S.\$250,000,000

7.70 per cent. Loan Participation Notes due 2015

issued on a limited recourse basis for the sole purpose of funding a loan in roubles to

SINEK CAPITAL S.A.

(incorporated with limited liability in the Grand Duchy of Luxembourg and a wholly-owned subsidiary of OAO Svyazinvestneftekhim)

such loan to be guaranteed in roubles, subject to a limit of RUR 13 billion, by

THE REPUBLIC OF TATARSTAN

and also to be guaranteed in roubles by

OAO SVYAZINVESTNEFTEKHIM

(incorporated as an open joint stock company in the Russian Federation)

Issue Price 100 per cent.

Edel Capital S.A. (the "Issuer") is issuing U.S.\$250,000,000 7.70 per cent. Loan Participation Notes due 2015 (the "Notes") for the purpose of funding a loan in roubles (the "Loan") to SINEK Capital S.A. ("SINEK Capital" or the "Borrower"), a subsidiary of OAO Svyazinvestneftekhim ("SINEK" or the "Company") (which is to fund a subsequent loan in roubles to the Company) pursuant to a loan agreement to be dated on or around 3 August 2005 (the "Loan Agreement") between the Issuer as lender and SINEK Capital as borrower. The Republic of Tatarstan (the "Republic") will issue a guarantee, payable in roubles and limited to a maximum amount of RUR 13 billion, to be dated on or around 3 August 2005 (the "Republic Guarantee") in favour of the Issuer in respect of all amounts that may from time to time be due under the Loan Agreement, whether at stated maturity, upon acceleration or otherwise, to the Issuer. SINEK will issue a guarantee payable in roubles to be dated on or around 3 August 2005 (the "SINEK Guarantee") in favour of the Issuer in respect of all amounts that may from time to time be due under the Loan Agreement, whether at stated maturity, upon acceleration or otherwise, to the Issuer. The Republic Guarantee and the SINEK Guarantee are effective to guarantee the principal and interest due to the Issuer under the Loan Agreement subject to the above-mentioned limit in the case of the Republic Guarantee (see, more fully, "The Loan Agreement", "The Republic Guarantee", "The SINEK Guarantee" and "Risk Factors"). The Notes will be issued on or around 3 August 2005 and constituted by a trust deed to be dated on or around 3 August 2005 (the "Trust Deed") between the Issuer and J.P. Morgan Corporate Trustee Services Limited, as trustee (the "Trustee").

The Issuer will enter into a contract (the "FX Contract") with Dresdner Bank ZAO as counterparty (the "Conversion Bank") pursuant to which the Conversion Bank may agree to enter into certain foreign exchange transactions with the Issuer. Amounts in roubles received by the Issuer and/or the Trustee under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (other than amounts payable in respect of certain reserved rights) may be exchanged into U.S. dollars under the FX Contract for the purpose of funding payments under the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS".

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal and interest are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal and interest are stated to be payable in respect of the Notes, for the U.S. dollar proceeds realised by the Issuer by converting into U.S. dollars under the FX Contract all rouble amounts (if any) actually received by or for the account of the Issuer and/or the Trustee pursuant to the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (other than amounts payable in respect of certain reserved rights). The Issuer will have no other financial obligation under the Notes.

Noteholders must rely solely on sums derived by the Issuer and/or the Trustee from the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract as the source of payment on the Notes.

Interest will accrue on the outstanding principal amount of the Notes from 3 August 2005 and will be payable semi-annually in arrear on 3 February and 3 August in each year, commencing on 3 February 2006 as described under "Terms and Conditions of the Notes — Interest". The Notes will bear interest at a rate of 7.70 per cent. per annum.

This Prospectus comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003.

Dresdner Kleinwort Wasserstein

The date of this Prospectus is 28 July 2005

SINEK accepts responsibility for all information contained in this Prospectus other than information related to the Russian Federation, the Republic and the Issuer, in respect of which SINEK only takes responsibility for the correct extraction of the information related to the Russian Federation from the relevant sources. The Republic accepts responsibility for all information in this Prospectus other than information related to the Russian Federation, in respect of which the Republic only takes responsibility for the accurate extraction of such information from the relevant sources. The Issuer accepts responsibility for all information with respect to itself. To the best of the knowledge and belief of SINEK and the Republic (who have taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of Dresdner Bank AG London Branch (the “Lead Manager”), the Trustee and, except as specifically stated otherwise herein, the Issuer, SINEK and the Republic makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on the Lead Manager, the Trustee or, except as specifically stated otherwise herein, the Issuer, SINEK or the Republic or any person affiliated with the Lead Manager, the Trustee, the Issuer, SINEK or the Republic in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigations and analysis of the creditworthiness of SINEK or the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

No person is authorised to provide any information or to make any representation not contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by SINEK, the Republic, the Issuer, the Trustee or the Lead Manager.

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

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

Application will be made to the Irish Financial Services Regulatory Authority (“IFSRA”) for the Notes to be admitted to trading on the Irish Stock Exchange’s (“ISE”) regulated market and to be admitted to the Official List of the ISE subject to the ISE Listing Rules and the IFSRA Rules. The ISE’s regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

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

The Notes will be issued in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000. The Notes will be represented by a global registered certificate (the “Global Certificate”), registered in the name of the nominee for, and deposited with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or about 3 August 2005 (the “Closing Date”). Definitive registered certificates (“Definitive Certificates”) evidencing holdings of Notes will only be available in limited circumstances. See “Summary of the Provisions Relating to the Notes in Global Form”.

In connection with this issue, the Lead Manager or any person acting for it may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Lead Manager or any person acting on its behalf will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made, and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of allotment of the Notes.

All references in this document to the “Republic” are to the Republic of Tatarstan, to “Government” are to the President of the Republic, the Cabinet of Ministers of the Republic, together with the ministries and state committees and other executive bodies of the Republic, to the “State Council” are to the State Council of the Republic, to “CIS” are to the Commonwealth of Independent States, to “Russia” and the “Federation” are to the Russian Federation, to “RUR” and “rouble” are to the currency of Russia, to “U.S. dollars”, “dollars” and “U.S.\$” are to the currency of the United States of America and “euros”, “euro” and “€” are to the currency of the European Union (the “EU”). On 26 July 2005, the official exchange rate of the Central Bank of the Russian Federation (the “Central Bank”) was U.S.\$1.00 = RUR 28.69. Figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, reflecting such rounding, and figures which are totals may not be the arithmetical aggregate of their components.

This Prospectus contains conversions of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. No representation is made that the rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

Statistical data appearing under the heading “The Republic of Tatarstan” in this Prospectus has, unless otherwise stated, been obtained from the Republic’s Ministry of Finance, the State Committee of Statistics (as defined herein) and other relevant departments of the Republic. Statistics are maintained by these sources in roubles, U.S. dollars or euros, as applicable. Statistics that are not set out in U.S. dollars in the Prospectus have been converted at the rates indicated. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Although every effort has been made to include herein the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Prospectus do not relate strictly to historical or current facts. As such, they are considered “forward-looking statements” that provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as “anticipate”, “believe”, “estimate”, “intend”, “may”, “could”, “possible”, “plan”, “project”, “will”, “forecast”, and similar words or expressions. These forward-looking statements should be considered with the understanding that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement is guaranteed and actual outcomes or results may vary materially.

Many factors could cause actual outcomes or results to differ materially from SINEK and the Republic’s forward-looking statements. These factors include, but are not limited to: (1) general economic, political and business conditions in the Republic and Russia; (2) management’s expectations and estimates concerning SINEK’s future financial performance and financing plans and programmes; (3) existing and future governmental regulations of Russia and the Republic applicable to the oil, petrochemical, chemical and other industries in which SINEK has ownership interests; (4) inflation and depreciation of the rouble; (5) changes in market prices (particularly oil prices), customer demand and preferences and competitive conditions; (6) the amount of dividends received by SINEK from its portfolio companies (as defined herein); and (7) the ability of SINEK’s portfolio companies to successfully implement their strategies.

SINEK and the Republic undertake no obligation to update forward-looking statements. It is not possible to foresee or identify all factors that could cause actual outcomes or results to differ from expected or historic outcomes or results. Therefore, investors should not consider the foregoing factors to be an exhaustive statement of all risks, uncertainties or factors that could potentially cause actual results to differ.

PRESENTATION OF FINANCIAL, BUDGETARY, ECONOMIC AND OTHER INFORMATION

Financial information of SINEK

Unless otherwise indicated, the financial information of SINEK set out herein has been derived from the audited unconsolidated financial statements of SINEK as at and for the period from its incorporation (11 April 2003) to 31 December 2003, as at and for the nine month period ended 30 September 2004 and as at and for the year ended 31 December 2004 (together, the “Unconsolidated Financial Statements”) that are set out on pages F-1 to F-29 of this Prospectus. The Unconsolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). SINEK follows investment specialised accounting principles contained in the American Institute of Certified Public Accountants Audit and Accounting Guide – Audits of Investment Companies (the “Guide”) and is not required to prepare consolidated financial statements because the Guide requires investment companies to account for their majority-owned investments at fair value, as opposed to using consolidation or equity methods.

KPMG Limited (“KPMG”), independent auditors, having their registered address at 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, have audited the Unconsolidated Financial Statements of SINEK for the aforementioned periods included in this Prospectus and have expressed an unqualified opinion on the Unconsolidated Financial Statements, as stated in their independent auditor’s report appearing herein.

The Company’s functional currency is the Russian rouble, and its reporting currency is the U.S. dollar.

Investments owned by SINEK for which market quotations are readily available are valued at the closing price on the relevant balance sheet date. Investments which are not publicly traded and for which no quotations are readily available are valued at their fair value as determined in good faith by the board of directors of SINEK. In making such good faith determination, the fair value of such investments is adjusted when transactions or developments indicate that a change in the carrying value of such investments is appropriate. Reductions to the carrying value of such investments are made when SINEK’s estimate of their respective net realisable value has declined below their respective carrying value.

Because of the inherent uncertainty of valuation, fair values determined by the board of directors of SINEK may differ significantly from the values that would have been used had a ready market for the investments existed, and such differences could be material.

Financial information of SINEK’s portfolio companies

This Prospectus includes certain financial information in respect of certain of the 19 Russian companies in which SINEK has shareholdings which represent a significant component of the value of SINEK’s investment portfolio. Such information has been prepared in accordance with accounting principles generally accepted in Russia (“Russian GAAP”). All Russian companies are required to prepare financial statements in accordance with Russian GAAP, which is used by Russian companies for calculation of taxes and for calculation of retained earnings which is, in turn, used to determine the ability of such companies to pay dividends and to calculate the amount of such dividends.

There are significant differences between Russian GAAP, International Financial Reporting Standards (“IFRS”) and U.S. GAAP, and financial statements prepared according to each respective accounting standard should not be regarded as being comparable. Russian GAAP continues to develop and has been subject to change on a regular basis. Interpretation of Russian GAAP varies and the reported financial results of similar entities within an industry may be materially different as a result of such interpretation.

A summary of significant differences between Russian GAAP and IFRS has been included in Appendix B to this Prospectus. The differences reflect pronouncements which had become effective for financial reporting periods ended 31 December 2004 and do not reflect the recent revisions of IFRS standards which became effective for accounting periods beginning on or after 1 January 2005. The accounting treatments and disclosures required under the revised IFRS standards have in some instances materially changed. The summary is not intended to be inclusive of all potential significant differences which may exist.

OAO Tatneft (“Tatneft”) prepares its financial statements in accordance with Russian GAAP and U.S. GAAP, although Tatneft’s U.S. GAAP financial statements for the year ended 31 December 2004

have not been published as at the date hereof and, accordingly, U.S. GAAP financial information of Tatneft has not been included in this Prospectus. OAO Nizhnekamskneftekhim (“NKNK”) prepares its financial statements in accordance with Russian GAAP and also in accordance with IFRS, although NKNK’s IFRS financial statements for the year ended 31 December 2004 have not been published as at the date hereof and, accordingly, IFRS financial information of NKNK has not been included in this Prospectus.

The Russian GAAP financial statements of each of Tatneft, NKNK and Tatenergo as at and for the years ended 31 December 2003 and 2004 and the interim unaudited Russian GAAP financial statements of each of Tatneft, NKNK and Tatenergo as at 31 March 2005 and for the three month periods ended 31 March 2004 and 2005 have been included in Appendix A to this Prospectus (See “Risk Factors — Risk factors relating to SINEK — The financial and other information concerning SINEK and its portfolio companies may be unreliable” and “Appendix B: Summary of Significant Differences between Russian GAAP and IFRS”).

Budgetary and economic information of the Republic

Statistical information

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

Budget principles

The Republic maintains its books and records in roubles and prepares its budget in accordance with the Budget Code of the Republic of Tatarstan dated 29 May 2004 adopted by the State Council of the Republic (the “State Council”) (the “Republic Budget Code”), and pursuant to the Budget Code of the Russian Federation No. 145 - FZ of 31 July 1998, as amended as at 9 May 2005 (the “Budget Code”), and other laws, by-laws and accounting principles, including some internal directives, which are not necessarily published, adopted by the Federation and the Republic. The main feature of these budgetary principles is that revenues are recognised in the period in which they are collected by the Republic and expenditures are accounted for when paid by the Republic. There is no system of accrual of revenues or expenditures.

The Republic’s budget (the “Unconsolidated Budget”) is unconsolidated and, as such, does not include the revenues and expenditures of the Republic’s municipal authorities. It only includes revenues and expenditures (including transfers from the Russian Federation’s budget) of the Republic. A separate budget is produced by each of the Republic’s municipalities (currently comprising 43 districts and two cities), based on their own revenues and expenditures (including transfers from the Republic’s budget). An aggregate budget (the “Consolidated Budget”) aggregating the Unconsolidated Budget and all municipal budgets in the Republic is also produced. The Consolidated Budget is prepared purely for administrative and reporting purposes.

The budgetary and economic information presented in this Prospectus is derived from the Republic’s records maintained by each of the relevant Republic departments and compiled by the Ministry of Finance of the Republic in conjunction with the Ministry of Economy and Industry of the Republic. The Audit Chamber of the Republic (the “Audit Chamber”) monitors various Republic departments, committees and other executive bodies and agencies of the Republic. Although the Audit Chamber does not audit the Republic’s accounts as such, the Audit Chamber does carry out regular but unscheduled checks on the Republic’s executive bodies, including in relation to compliance with budgetary legislation.

Results of the implementation of the annual budget are ordinarily approved initially by the Government and subsequently by the State Council in the form of a law on the implementation of the budget in the year following that budget year. The annual budget results are subject to technical adjustment during the budget year and the year following that budget year and the final figures reflecting the results of the implementation of an annual budget are therefore not normally available until the final approval of the implementation of the annual budget by the State Council.

The budgetary principles applicable to the Republic continue to evolve, with an increasing emphasis being placed on preparing and implementing more detailed budgets, focusing on the administration of budgetary relationships with the Republic’s municipalities and controlling the flow and use of budget funds.

Budget information for 2002, 2003 and 2004

The Unconsolidated Budget information as set forth in this Prospectus with respect to the Republic's budget for the years ended 31 December 2002, 2003 and 2004 is based upon figures which have been approved by the State Council in accordance with the Law of the Republic "On Budgeting Composition and Budgeting Process in the Republic of Tatarstan" dated 26 December 1991 No. 1366-XII (as amended) and the Republic Budget Code in the form of the Law of the Republic "On Implementation of the Budget of the Republic of Tatarstan for the Year 2002" No. 22 - ZRT dated 29 July 2003, the Law of the Republic "On Implementation of the Budget of the Republic of Tatarstan for the Year 2003" No. 40 - ZRT dated 22 July 2004 and the Law of the Republic "On Implementation of the Budget of the Republic of Tatarstan for the Year 2004" No. 90 - ZRT dated 20 July 2005, respectively. See "The Republic budget and financial accounts — The Republic budget — Budget procedure".

Budget information for 2005

The Unconsolidated Budget information set forth in this Prospectus with respect to the Republic's budget for 2005 (the "2005 Republic Budget") is derived from the Law of the Republic "On Budget of the Republic of Tatarstan for the Year 2005" No. 60 - ZRT dated 4 December 2004 (as amended as of 23 December 2004 and 18 June 2005). The calculation of revenue and expenditure items in the 2005 Republic Budget was based on an assumed average annual rate of inflation of 9.4 per cent., an assumed growth in Gross Republic Product of 6 per cent. and an assumed growth in industrial production of 5.5 per cent., amongst other assumptions.

Reclassification of budgetary items

The Republic's revenue and expenditure items have been reclassified several times between 2002 and 2005. The latest reclassification took place prior to adoption of the 2005 Republic Budget pursuant to the "Order of the Ministry of Finance of the Russian Federation No. 72n of 27 August 2004" as the Federation sought to identify a consistent and accurate classification of budgetary items. The 2005 Republic Budget is, as a result, not directly comparable with the 2002, 2003 and 2004 Republic budgets.

Inflation

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

The following table sets out the average annual percentage change in the consumer price index for the Republic and the Federation for each of the years ended 31 December 2002, 2003 and 2004 (expressed as a percentage increase over the previous year).

	<u>2002</u>		<u>2003</u>		<u>2004</u>	
	<u>Republic</u>	<u>Federation</u>	<u>Republic</u>	<u>Federation</u>	<u>Republic</u>	<u>Federation</u>
Consumer Price Index	16.4	15.1	12.4	12.0	12.7	11.7

Source: The Federal Service for State Statistics ("Goskomstat").

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

Country information

Some of the information contained in this document has been derived from official data published by the Government of the Federation. Official statistics and other data published by Russian federal, regional and local governments are substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries.

Rounding adjustments

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

Exchange rates

The following table sets forth, for the periods indicated, the high, low and period-end official rates published by the Central Bank, in each case for the purchase of roubles, U.S. dollars or euros, respectively, all expressed in roubles per U.S. dollar or roubles per euro. These translations should not be construed as representations that rouble amounts actually represent such U.S. dollar or euro amounts or could be converted into U.S. dollars or euros at the rate indicated as at any of the dates mentioned in this Prospectus or at all.

	<u>Roubles per euro</u>			<u>Roubles per U.S. dollar</u>		
	<u>High</u>	<u>Low</u>	<u>As at 31 December</u>	<u>High</u>	<u>Low</u>	<u>As at 31 December</u>
1999.....	28.17	24.09	27.23	27.00	20.65	27.00
2000.....	29.85	23.07	26.14	28.87	26.90	28.16
2001.....	27.32	24.39	26.49	30.30	28.16	30.14
2002.....	33.11	26.30	33.11	31.86	30.14	31.78
2003.....	36.82	32.95	36.82	31.88	29.25	29.45
2004.....	37.85	34.12	37.68	29.45	27.75	27.75

Source: Central Bank.

The following table sets out the high, low and month-end exchange rates of the rouble to the U.S. dollar and euro for each of the first five months of 2005.

	<u>Roubles per euro</u>			<u>Roubles per U.S. dollar</u>		
	<u>High</u>	<u>Low</u>	<u>As at month end</u>	<u>High</u>	<u>Low</u>	<u>As at month end</u>
2005						
January.....	37.68	36.22	36.53	28.16	27.75	28.09
February.....	36.75	35.97	36.73	28.19	27.75	27.77
March.....	36.96	35.83	36.21	27.83	27.46	27.83
April.....	36.32	35.70	35.86	27.94	27.71	27.77
May.....	36.00	34.87	34.87	28.08	27.77	28.08
June.....	34.95	34.34	34.64	28.68	28.19	28.67

Source: Central Bank.

On 26 July 2005, the official exchange rate of the Central Bank was U.S.\$1.00 = RUR 28.69.

OVERVIEW

This overview highlights information contained elsewhere in this Prospectus. This overview does not contain all of the information that prospective investors should consider before investing in the Notes. Prospective investors should read the entire Prospectus carefully, especially the risks of investing in the Notes discussed in the “Risk Factors” section set out in this Prospectus.

SINEK

General

SINEK is an investment company wholly-owned by the Republic of Tatarstan. It was established to hold the Republic's investments in various key strategic commercial enterprises within the Republic. SINEK currently holds shares in 19 companies (the “portfolio companies”) whose businesses include, among others, oil and gas, energy and petrochemicals, telecommunications and financial services.

SINEK's portfolio companies

SINEK has equity holdings in a number of the Republic's strategically significant companies, the most significant being Tatneft, NKNK and Tatenergo.

SINEK currently has a 33.6 per cent. ownership interest in Tatneft, which is the sixth largest oil company in Russia and is engaged in the exploration, production, refining, processing and sale of oil.

SINEK currently has a 25.2 per cent. ownership interest in NKNK, which is one of the largest petrochemical manufacturers in Eastern Europe and has a substantial share in Russia's total production of certain key petrochemical products.

SINEK currently has a 51 per cent. ownership interest in Tatenergo, which is engaged in the generation, distribution and sale of electricity and heat in the Republic.

The Republic maintains a degree of control over certain of the portfolio companies (including Tatneft, NKNK and Tatenergo) through its right (the “golden share”) to veto certain major decisions of shareholders such as resolutions relating to the winding-up or reorganisation of the relevant company and to changes to the relevant company's charter or its authorised capital. Certain other types of transactions can also be vetoed by the Republic (such as certain related party transactions). See “SINEK — SINEK's portfolio companies”.

THE REPUBLIC OF TATARSTAN

The Republic is, by virtue of the Constitution of the Russian Federation, a “subject” of the Russian Federation, which currently consists of 89 subjects comprising 21 republics (including the Republic), six provinces, 49 regions, one autonomous region, 10 autonomous districts and two cities of federal significance (Moscow and St. Petersburg). The Republic is self-governed and has its own budget. It is divided into “municipalities” (43 districts and 2 cities), all of which have their own budgets for the provision of certain public services and the undertaking of certain activities (for example, education is funded principally from the municipal budgets). State authority is exercised by the President, the State Council and the Cabinet of Ministers.

The Republic is one of the most economically developed regions of Russia. In 2004, of the 89 subjects of the Federation, the Republic had the eighth largest Gross Regional Product (“GRP”) representing 2.3 per cent. of total GDP of the Federation.

The economy of the Republic is dominated by three major industrial sectors: the fuel industry (which represented 36.5 per cent. of the Republic's industrial production in 2004), heavy machinery (which represented 24.8 per cent. of the Republic's industrial production in 2004) and petrochemicals (which represented 18 per cent. of the Republic's industrial production in 2004).

The Republic's primary functions are to exercise regional governance and administration and to provide basic services to residents of the Republic. In 2004, approximately 43 per cent. of total expenditure (approximately RUR 27 billion) of the Unconsolidated Budget was spent on the following primary activities: industry, energy and construction; social welfare; health and sport; agriculture and fishery; housing and utilities; state and local administration; and law enforcement. Certain other significant expenditures of the Republic are made through the Republic's municipalities and are reflected in the Consolidated Budget.

The Offering

Issuer of the Notes	Edel Capital S.A.
Borrower	SINEK Capital S.A.
Company	OAO Svyazinvestneftekhim.
Republic	The Republic of Tatarstan, represented by the Ministry of Finance of the Republic.
Lead Manager	Dresdner Bank AG London Branch.
Issue Amount	U.S.\$250,000,000 7.70 per cent. Loan Participation Notes (the “Notes”).
Issue Price	100 per cent. of the principal amount of the Notes.
Maturity Date	3 August 2015.
Trustee	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent	JPMorgan Chase Bank, N.A.
Interest	The Notes will bear interest from 3 August 2005 at a rate of 7.70 per cent. per annum payable semi-annually in arrear on 3 February and 3 August of each year commencing on 3 February 2006.
Limited Recourse/Status of the Notes	<p>The Notes will constitute limited recourse secured obligations of the Issuer to apply an amount equal to the proceeds of the issue of the Notes solely for the purpose of funding the Loan to the Borrower pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders, on each date upon which amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, for the U.S. dollar proceeds realised through the conversion into U.S. dollars pursuant to the FX Contract of all rouble amounts (if any) actually received by or for the account of the Issuer or the Trustee pursuant to the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (other than certain amounts payable under the Loan Agreement in respect of reserved rights). See “Terms and Conditions of the Notes — Status”. The sole obligation of the Issuer in this respect will be to pay to the Noteholders the U.S. dollar proceeds realised by the Issuer through the conversion into U.S. dollars pursuant to the FX Contract of all such rouble amounts (if any) actually received from the Borrower, the Company or the Republic.</p> <p>The Notes constitute limited recourse secured obligations of the Issuer which shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may arise by mandatory operation of law, at all times rank at least equally with all other present and future secured obligations of the Issuer.</p>

SINEK Guarantee

SINEK will issue an irrevocable and unconditional guarantee to be dated on or around 3 August 2005 in respect of all amounts payable in roubles by the Borrower that may from time to time be due, whether at stated maturity, upon acceleration or otherwise to the Issuer under the Loan Agreement (see “The SINEK Guarantee”).

Republic Guarantee

The Republic will issue an irrevocable and unconditional guarantee to be dated on or around 3 August 2005 in respect of all amounts payable in roubles by the Borrower that may from time to time be due, whether at stated maturity, upon acceleration or otherwise to the Issuer under the Loan Agreement, subject to the maximum limit of the Republic Guarantee being an amount of RUR 13 billion (see “The Republic Guarantee” and “Risk Factors”).

Security

Subject as provided in the Trust Deed, the Notes will be secured by way of an assignment by the Issuer of its rights under the Loan Agreement, the SINEK Guarantee, the Republic Guarantee and the FX Contract to the Trustee on behalf of the holders of the Notes (the “Noteholders”), which will provide the Trustee with direct enforcement rights against the Borrower, the Company, the Republic and the Conversion Bank, all as more fully described under “Description of the Transaction and the Security”.

FX Contract

Pursuant to the FX Contract, the Conversion Bank has granted the Issuer and SINEK an uncommitted spot foreign exchange facility under which the Conversion Bank may, but shall not be obliged to, enter into foreign exchange transactions with SINEK and the Issuer. The FX Contract provides that SINEK may, by requesting that the Conversion Bank enters into a foreign exchange transaction to convert into roubles amounts in U.S. dollars standing to the credit of SINEK’s U.S.\$ account with the Conversion Bank (the “SINEK \$ Account”), trigger an equivalent foreign exchange transaction between the Conversion Bank and the Issuer converting into U.S. dollars (at the same rate as utilised in the initial transaction) to enable the Issuer to make payments on the Notes (see “The FX Contract”).

If the Issuer is unable to convert rouble payments under the Loan Agreement into U.S. dollars within 10 Business Days of their due date (in the case of interest) or five Business Days of their due date (in the case of other sums), this shall constitute an Event of Default under the Loan Agreement, the SINEK Guarantee or the Republic Guarantee. It shall be a further Event of Default under the Loan Agreement if, at any time from the date falling five Business Days from the date on which the advance is made under the Loan Agreement, the minimum balance standing to the credit of the SINEK \$ Account falls below an amount equal to the amount of interest payable on an Interest Payment Date in relation to the Notes (see “The Loan Agreement”).

Form

The Notes will be issued in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000. The Notes will be represented by a Global Certificate which will only be exchangeable for Notes in definitive form in the limited circumstances described under

“Summary of the Provisions Relating to the Notes in Global Form”.

Early Redemption on 3 August 2012

The Issuer shall, at the option of the holder of a Note, redeem such Note at a price equal to its outstanding principal amount plus accrued interest on 3 August 2012.

Purchase Offer on a Put Event

The Issuer shall give notice to the Noteholders of an offer by it to purchase all or any of the Notes at a price equal to their outstanding principal amount plus accrued interest, upon the occurrence of a Put Event. A “Put Event” shall occur if:

- (a) SINEK shall dispose of any interest in the share capital of OAO Tatneft (“Tatneft”) or OAO Nizhnekamskneftekhim (“NKNK”) and such disposal shall result in an Ownership Change; or
- (b) any other event shall occur which results in an Ownership Change and, on the date of such Ownership Change, after giving pro forma effect to such Ownership Change, as determined in good faith by SINEK, as if it had occurred at the beginning of the two most recent financial half years of SINEK for which SINEK has prepared financial statements, the ratio of (a) the total Cash Flow (as defined in the Conditions) of SINEK and the Borrower for such period to (b) the total Interest Expense (as defined in the Conditions) of SINEK and the Borrower for such period would be no less than 1.20:1.

An “Ownership Change” means SINEK ceasing to be the owner (directly or indirectly) of in excess of 25 per cent. of the issued and paid-up share capital and voting rights in Tatneft or NKNK.

Early Redemption in the Event of Exchange Rate Fluctuations

If, for a period of 20 consecutive Business Days, the Rouble Equivalent of the aggregate outstanding principal amount of the Notes exceeds the Threshold Amount (as defined in the Conditions), the Borrower shall, within 15 Business Days of the expiry of such period of 20 consecutive Business Days, prepay the Loan in such amount as will, following its conversion into U.S. dollars under the FX Contract and application in prepayment of the Notes, result in the Rouble Equivalent of the aggregate outstanding principal amount of the Notes falling below the Reset Amount (as defined in the Conditions), save that no prepayment shall be required if the Republic has given the Lender a Notice of Increase (as defined in the Conditions) within five Business Days of the expiry of such period of 20 consecutive Business Days.

Unless by no later than the date (the “Required Delivery Date”) falling on the earlier of:

- (a) 30 Business Days from the date on which the Republic gives a Notice of Increase (or, if the State Council of the Republic is not in session at the time such notice is given, within 30 Business Days from the date on which the State Council of the Republic is convened for its next session); and
- (b) the date falling 90 days from the date on which the Republic gives such Notice of Increase,

the Lender has received, *inter alia*, a deed in form and manner satisfactory to the Lender, executed by the Republic providing for an increase in the maximum liability (actual or contingent) of the Republic under the Republic Guarantee such that 80 per cent. of such increased maximum liability (actual or contingent) of the Republic under the Republic Guarantee exceeds the Rouble Equivalent of the aggregate outstanding principal amount of the Notes, the Borrower shall, within 15 Business Days after the Required Delivery Date, prepay the Loan in such amount as will, following its conversion into US dollars under the FX Contract and application in prepayment of the Notes, result in the Rouble Equivalent of the aggregate outstanding principal amount of the Notes falling below the Reset Amount (as defined in the Conditions).

If the Loan becomes repayable in the circumstances specified under “Early Redemption in the Event of Exchange Rate Fluctuations”, the Issuer shall redeem the Notes in the proportion that the aggregate principal amount of the Loan that becomes so repayable bears to the amount of the Loan immediately before such repayment is made.

Amendment and Waiver

As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee (as more particularly set out in the Trust Deed), agree to or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, the SINEK Guarantee, the Republic Guarantee or the FX Contract.

Events of Default/Relevant Events

If an Event of Default (as defined in Clause 11 of the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) occurs, the Trustee may, subject as provided in the Trust Deed, (i) require the Issuer (a) to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable, and/or (b) to exercise its rights (to the extent the same have arisen) to require performance by SINEK of its obligations under the SINEK Guarantee or by the Republic of its obligations under the Republic Guarantee and/or (c) to exercise its rights to require performance by the Conversion Bank of its obligations under the FX Contract, and/or (ii) exercise any rights under the Security Interests created in the Trust Deed in favour of the Noteholders.

Upon repayment of the Loan following an Event of Default, the Notes shall be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon the Notes shall cease to be outstanding.

Withholding Tax

All payments of principal, interest and additional amounts (if any) under the Loan Agreement, the Republic Guarantee and the SINEK Guarantee and in respect of the Notes will be made free and clear of all taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Luxembourg (in the case of payments under the Loan Agreement or in respect of the Notes) or the Russian Federation (in the case of payments

under the Republic Guarantee or the SINEK Guarantee) or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is imposed by law. If any taxes, duties, assessments or governmental charges are payable in the above jurisdictions in respect of payments under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee, the sum payable by the Borrower under the Loan Agreement (or, as the case may be, the Republic under the Republic Guarantee or SINEK under the SINEK Guarantee) will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives a net sum which it would have received had no such deduction or withholding been made or required to be made. See “The Loan Agreement” and “Terms and Conditions of the Notes”.

Use of Proceeds

See “Use of Proceeds”.

Notes Ratings

The Notes have been rated “Ba1” by Moody’s Investors Service, Inc. and “BB” by Fitch Ratings Ltd.

Republic Ratings

The Republic has a long-term issuer rating of “Ba1” (outlook stable) by Moody’s Investors Service, Inc., a long term foreign currency rating of “BB” (outlook stable) by Fitch Ratings Ltd. and a foreign currency rating of “B” (outlook stable) by Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc.

Listing

Application has been made for the Notes to be admitted to the Official List of and to trading on the Irish Stock Exchange.

Governing Law

The Notes, the Trust Deed, the Agency Agreement (as defined herein), the Loan Agreement, the SINEK Guarantee, the Republic Guarantee and the FX Contract will be governed by English law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.

ISIN Code

XS0225785962.

Common Code

022578596.

SUMMARY FINANCIAL AND BUDGETARY INFORMATION

Summary financial information of SINEK

The summary financial information of SINEK set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the audited unconsolidated financial statements of SINEK prepared in accordance with U.S. GAAP included in this Prospectus. SINEK does not prepare consolidated financial statements.

The summary financial information set forth below (a) as at and for the period from SINEK's incorporation to 31 December 2003 and (b) as at and for the 12 months ended 31 December 2004, unless indicated otherwise, has been extracted without material adjustment from the audited unconsolidated financial statements for SINEK (the "Unconsolidated Financial Statements"), which are included in this Prospectus.

The Unconsolidated Financial Statements were audited by KPMG.

	As at 31 December 2003	As at 31 December 2004
	<i>(U.S.\$ thousands)</i>	
Total assets ⁽¹⁾	1,480,343	2,395,082
Total liabilities	47,808	433,340
Total net assets	1,432,535	1,961,742
Total liabilities and net assets	1,480,343	2,395,082
	11 April 2003 to 31 December 2003	1 January 2004 to 31 December 2004
	<i>(U.S.\$ thousands)</i>	
Net investment income/(loss) ⁽²⁾	(100)	30,567
Net increase in net assets resulting from operations	205,706	440,958

Notes:

- (1) Total assets include the aggregate fair value of SINEK's investment portfolio comprising U.S.\$1,473,257 thousand as at 31 December 2003 and U.S.\$2,104,774 thousand as at 31 December 2004.
- (2) The calculation of net investment income/(loss) includes dividends received from SINEK's portfolio companies (net of withholding taxes) which comprised nil for the relevant period ending 31 December 2003 and U.S.\$30,830 thousand for the year ended 31 December 2004.

Summary budgetary information of the Republic

The following table sets out certain selected budgetary information of the Republic for the periods indicated. The data is extracted from the Unconsolidated Budget. See "The Republic of Tatarstan — The Republic budget and financial accounts".

	Year ended 31 December		
	2002	2003	2004
Revenue	<i>(RUR thousands)</i>		
Tax revenue	15,920,542	22,749,743	35,153,922
Non-tax revenue	3,210,893	3,870,341	6,130,836
Revenues of Designated Purpose Funds	4,037,669	7,381,639	7,647,362
Uncompensated receipts from budgets of other levels	14,176,281	10,044,563	12,051,554
Total revenue	<u>37,345,385</u>	<u>44,046,286</u>	<u>60,983,674</u>
Expenditure			
Total expenditure	<u>37,733,982</u>	<u>44,451,522</u>	<u>63,034,690</u>
Budget surplus (deficit)⁽¹⁾	<u>(388,597)</u>	<u>(405,236)</u>	<u>(2,051,016)</u>

Source: Ministry of Finance of the Republic of Tatarstan.

Notes:

- (1) See "The Republic of Tatarstan — Budget deficit".

DESCRIPTION OF THE TRANSACTION AND THE SECURITY

The transaction will be structured such that the net proceeds of the issue of the Notes will be converted by the Issuer into roubles and used to fund a loan in roubles to SINEK Capital pursuant to the Loan Agreement. The obligations of SINEK Capital under the Loan Agreement will be guaranteed by the Republic pursuant to the Republic Guarantee, subject to a limit of RUR 13 billion, and by SINEK pursuant to the SINEK Guarantee. SINEK Capital will, in turn, lend the proceeds of the Loan to SINEK in roubles.

The Notes are limited recourse secured obligations of the Issuer and are being issued for the purpose of funding the Loan to SINEK Capital pursuant to the Loan Agreement. The Republic Guarantee and the SINEK Guarantee are effective to guarantee the principal and interest due to the Issuer under the Loan Agreement. The Republic Guarantee is subject to a maximum amount of RUR 13 billion (see, more fully, “The Loan Agreement”, “The Republic Guarantee”, “The SINEK Guarantee” and “Risk Factors — Risk factors relating to an investment in the Notes — Republic Guarantee”). The Notes will be issued on or around 3 August 2005 and constituted by the Trust Deed between the Issuer and the Trustee. The Issuer will, subject as provided in the Trust Deed, secure the Notes by way of an assignment of its rights under the Loan Agreement, the SINEK Guarantee, the Republic Guarantee and the FX Contract to the Trustee on behalf of the Noteholders, which will provide the Trustee with direct enforcement rights against SINEK Capital, SINEK, the Republic and the Conversion Bank. In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

The FX Contract to be entered into between SINEK, the Issuer and the Conversion Bank contains foreign exchange arrangements pursuant to which SINEK and the Issuer have agreed with the Conversion Bank the terms on which they make certain foreign exchange transactions with the Conversion Bank, primarily to exchange the rouble proceeds under the Loan for U.S. dollars to allow the Issuer to make payments on the Notes (see, more fully, “The FX Contract” and “Risk Factors relating to an investment in the Notes — FX Contract”).

Payments under the Loan Agreement are indexed to RUR/U.S.\$ exchange rates in order to ensure that, following the conversion of such payments into U.S. dollars, they shall be sufficient to fund payments on the Notes.

SINEK Capital will be obliged to make payments in roubles under the Loan Agreement to the Issuer's RUR account with the Conversion Bank in accordance with the terms of the Loan Agreement. The Conversion Bank will be obliged to make payments in U.S. dollars under the FX Contract to the Issuer's U.S. dollar account with JPMorgan Chase Bank, N.A. as principal paying agent in respect of the Notes (the “Principal Paying Agent”) in accordance with the terms of the FX Contract. Such receipt of U.S. dollars will be used to fund payments by the Issuer under the Notes. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, the Republic Guarantee, the SINEK Guarantee or the FX Contract unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee with respect to the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (Notices) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to SINEK Capital (in respect of the Loan Agreement), the Republic (in respect of the Republic Guarantee), SINEK (in respect of the SINEK Guarantee), the Conversion Bank (in respect of the FX Contract) and the Principal Paying Agent (in respect of the Issuer's account with the Principal Paying Agent) who will be required to acknowledge the same.

In each case where amounts of principal and interest are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) realised by or for the account of the Issuer or the Trustee following the conversion into U.S. dollars (by the Conversion Bank) of all RUR amounts actually received by or for the account of the Issuer pursuant to the Loan Agreement, the Republic Guarantee and the SINEK Guarantee (other than certain amounts payable under the Loan Agreement in respect of the Reserved Rights (as defined in the Trust Deed)) . See “Terms and Conditions of the Notes — Status”. The Issuer will have no other financial obligation under the Notes.

Application will also be made to IFSRA for the Notes to be admitted to trading on the ISE's regulated market and to be admitted to the Official List of the ISE subject to the ISE Listing Rules and the IFSRA Rules. The ISE's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider, in particular, the following risk factors, together with the other information contained in this Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below (which do not purport to be in any way exhaustive) could, individually or in the aggregate, have a material adverse effect on SINEK's business, financial condition or results of operations, on the trading price of the Notes, on SINEK Capital's ability to meet its obligations in respect of the Loan, on SINEK's ability to meet its obligations in respect of the SINEK Guarantee or on the Republic's ability to meet its obligations in respect of the Republic Guarantee, respectively, which are the only sources of funds from which payments will be made in respect of the Notes.

Risk factors relating to Russia

Political risks

Since late 1991, Russia has been transforming from a socialist state with a centrally planned economy to a democracy with a market economy. Political conditions in Russia were highly volatile in the 1990s, which negatively impacted Russia's business and investment climate. However, Russia's current President, Vladimir Putin, was inaugurated for his second four year term of office on 7 May 2004 following his re-election as President on 14 March 2004. State Duma elections held in December 2003 resulted in an increase in the percentage of the aggregate vote received by the United Russia party and other members of the parliament allied with the President. In late February 2004, President Putin dismissed Mikhail Kasyanov, the Prime Minister for most of Mr Putin's presidency, and appointed Mikhail Fradkov as Prime Minister. Shortly after the appointment of Mr Fradkov as Prime Minister, a Presidential decree significantly reduced the number of federal ministries, redistributed certain functions among various federal government agencies and outlined a major overhaul of the federal administrative system. Future changes in the federal government, major policy shifts or lack of consensus between President Putin, the federal government, the parliament of the Russian Federation (the "Federal Assembly") and powerful economic groups could disrupt or reverse economic and regulatory reforms. While the Government of the Russian Federation has maintained political stability and even accelerated the reform process in some sectors of the economy, a different approach may be adopted over time. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on the Republic.

The Russian Federation currently consists of 89 "subjects", some of which (including, in particular, the Republic) exercise relative autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. Lack of consensus between local and regional authorities and the federal government often results in enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus and the on-going efforts of the federal authorities to restrict the autonomy of the subjects may hinder the Republic's budget planning and performance and create uncertainties in the functioning of the Republic's economy. Further, the Federal Assembly has recently enacted significant legislative changes regarding the appointment of heads of executive authorities of the subjects of the Federation, including the Republic, where the legislatures of the subjects may appoint the heads of executive authorities only after they are nominated by the President of Russia (instead of by direct election by the population). The Republic's operations could be harmed if there is political instability or if reform policies slow down or become ineffective. Such instability could lead to a deterioration of Russia's investment climate, which could adversely affect the Republic.

Ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russia's military, police and security forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. In addition, certain groups have committed various acts of terrorism in population centres within Russia (including Moscow), resulting in significant loss of life, injury and damage to property.

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

Economic risks

Economic transition of Russia

Since the dissolution of the former Soviet Union in the early 1990s, Russia's economy has been undergoing a rapid transformation from a centrally planned system to a market-oriented economy. This transformation has been marked by periods of significant economic instability which Russia's economy has experienced at various times:

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

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

Although economic conditions in Russia began to improve in 2001, no assurance can be given that economic reform policies will continue to be implemented or that, if implemented, they will be successful, that Russia will remain receptive to foreign trade and investment, or that the economy in Russia will continue to improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of the Republic.

Fluctuations in the global or Russia's economy

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

Recent international terrorist activity and armed conflicts in the Middle East region have had a significant effect on international finance and commodity prices. Any future acts of terrorism or armed conflicts could have an adverse effect on the international financial and commodities markets, the global economy and world crude oil prices. Because Russian companies produce and export large amounts of crude oil and natural gas, any of these developments could affect their business and reduce the amount

of taxes payable by them to respective budgets, including the budget of the Republic, which in turn could adversely affect the Republic's financial condition.

Exchange rates, exchange controls and inflation

There was significant instability in the rouble exchange rate following the financial crisis of August 1998, although the rouble appreciated against the U.S. dollar in real terms during 2001, 2002, 2003 and 2004. The ability of the federal government and the Central Bank to control volatility in the rouble will depend on many political and economic factors, including the availability of foreign currency.

Since 1999, Russia has had an increasing budget surplus, which exceeded 4.4 per cent. of GDP as of 31 December 2004. Russia became the world's fifth largest holder of international reserves, which exceeded U.S.\$146.5 billion or 34.3 per cent. of its GDP as of 20 June 2005, and a net external creditor. External debt of Russia as of 31 March 2005 was approximately U.S.\$99.2 billion, or 23 per cent. of its GDP. In 2003, the federal government created a stabilisation fund, which accumulates additional budget revenues when the Urals crude oil price exceeds U.S.\$20/bbl. This fund is designated to support the federal government's budget during downturns in commodity prices. At the end of April 2005, the stabilisation fund equalled RUR 858 billion (U.S.\$30.9 billion) and exceeded 7.2 per cent. of GDP.

Inflation in Russia declined from over 20 per cent. per annum in 2000 to 11.7 per cent. in 2004. Although the rate of inflation in Russia has been declining, any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer buying power and erosion of consumer confidence. Any one of these events could have a material adverse effect on the ability of the Republic to comply with its obligations under the Republic Guarantee and the ability of SINEK to comply with its obligations under the SINEK Guarantee.

The rouble is generally not convertible outside Russia. A market does, however, exist within Russia for the conversion of roubles into other currencies, but is limited in size and is subject to rules limiting such conversion. Currently, Russian exporters are required to convert 10 per cent. of foreign currency revenues from export sales into roubles. The relative stability of the exchange rate of the rouble against the U.S. dollar since 1999 has mitigated risks associated with forced conversion. There can be no assurance that a relatively stable market will continue indefinitely.

The Federal Law on Currency Regulation and Currency Control No. 173 - FZ published on 17 December 2003 (the "Currency Control Law") permits the imposition of only a limited number of limitations and restrictions in respect of foreign currency operations (such as, for instance, mandatory reserve requirements or requirements to effect relevant operations through special bank accounts). However, the Currency Control Law authorises the Central Bank and the federal government to develop various regulations on the implementation of this law. Those regulations which have already been adopted by the Central Bank do not restrict the ability of the Republic to make payments under the Republic Guarantee. Should future regulations adopted by the Central Bank impose additional restrictions on currency operations, the regulations may have negative effects on the operations and business of the Republic (including the ability of the Republic to perform its obligations under the Republic Guarantee). See "Risk factors relating to an investment in the Notes — Impact of currency control regulations on payments under the FX Contract".

Banking transactions

The Republic holds a significant amount of its monetary funds in the Republic's Treasury which in turn has bank accounts opened with AK BARS Bank (of which SINEK owns 6.7 per cent.). The Republic is therefore dependent on the general condition of Russia's banking and other financial systems. Such systems are not well-developed or regulated and legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. A serious banking crisis or the bankruptcy of a number of banks to which the Republic transfers funds could adversely affect the Republic's operations and its ability to complete banking transactions in Russia.

Lack of reliable official data

Official statistics and other data published by the Central Bank, federal, regional and local Governments, and federal agencies are substantially less complete or transparent than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases from those used in Western countries. Any discussion of matters relating to Russia or the

Republic herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Changes in the Russian tax system

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, amongst others, corporate income tax (tax on profit of organisations), value added tax, unified social tax and corporate property tax.

Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase revenues. Although the quality of tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the business of SINEK's portfolio companies. Because tax legislation is subject to frequent change and some of the sections and laws of the Tax Code related to the aforementioned taxes are comparatively new, implementation of these regulations is often unclear or nonexistent. Taxpayers and the Russian tax authorities often interpret the tax laws differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. There is no established precedent or consistent court practice in respect of these questions. See “— Risk Factors relating to the Republic — Taxation and collection of taxes”.

Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

Such changing conditions complicate tax planning and related business decisions. In addition, it is expected that Russian tax legislation will become more sophisticated, resulting in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of these measures may affect the overall tax efficiency of SINEK's portfolio companies and may result in significant additional taxes becoming payable. SINEK cannot provide prospective investors any assurance that additional tax exposures will not arise for it or its portfolio companies while the Notes are outstanding. Additional tax exposures could have a material adverse effect on SINEK's financial condition and results of operations. See “— Legal and regulatory risks — State action”.

Physical infrastructure

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

Social risks

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

Social instability in Russia, coupled with difficult economic conditions, the failure of Russia and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased

nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could affect the Republic and lead to losses for the Republic's budget.

Legal and regulatory risks

General

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

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

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

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

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

Compliance with applicable laws, decrees and regulations

No assurance can be given that regulators, judicial authorities or third parties will not challenge the Republic's compliance with applicable laws, decrees and regulations. Russian authorities have the right to,

and do, conduct periodic inspections of the Republic's activities throughout the year. Such future inspections may find that the Republic has violated laws, decrees or regulations, and the Republic may not be able to cure such violations within any grace periods permitted by such authorities. Such findings could result in the imposition of fines or penalties or more severe sanctions, any of which could increase estimated costs and adversely affect the Republic's activities.

State action

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

Pursuant to recent reform of the sub-federal election system, the heads of the executive authorities of the subjects of the Federation will be nominated by the President of the Federation and confirmed by the legislatures of the subjects (instead of by direct election by the electorate of the relevant subject). The political and economic autonomy of the Republic may be affected by these amendments, although such effects cannot be determined at this time. In particular, the amendments may have the effect of strengthening the control of the federal authorities over the subjects and correspondingly reduce the autonomy of the subjects. See “— Political risks” above and “The Republic of Tatarstan — Background — Introduction and history”.

Risk factors relating to the Republic

Political risks

The Republic's sovereignty

The Republic declared its sovereignty from the Soviet Union in August 1990. In 1992, the Republic adopted its first constitution which was replaced by a new Constitution of the Republic (the “Republic Constitution”) on 10 May 2002 in order to make it consistent with the Constitution of Russia adopted on 12 December 1993 (the “Federal Constitution”). The Republic is, as a result, recognised by the Federation as one of the 89 currently existing subjects of Russia. In 1994 the Republic signed a treaty with Russia (the “Russia-Tatarstan Treaty” or the “Treaty”), pursuant to which the Republic gained substantial autonomy in political and economic areas. Since 2001, the Russia-Tatarstan Treaty has reflected changes in relations between the federal government and its subjects, and those provisions of the Treaty that made the Republic different from other subjects are *de-facto* no longer valid. The Republic's economy is fully integrated into that of the Federation. Such integration within Russia exposes the Republic to the variety of political, economic, social and other risks which generally exist in Russia.

Relations between the Republic and Russia may deteriorate

After the dissolution of the Soviet Union in 1991, certain politicians in the Republic, which has a significant non-Russian ethnic (Tatar) population, and which is predominantly Muslim, called for the independence of the Republic. Since the Russia-Tatarstan Treaty was signed, the Republic has existed peacefully within the Federation. No assurance can be given that Tatar nationalism or other political, economic or religious tensions will not cause the relationship between the Republic and Russia to deteriorate, which would likely have a negative impact on SINEK. For example, because the Republic is entirely surrounded by other regions of Russia and SINEK's portfolio companies have markets located outside of the Republic in Russia, Europe and elsewhere, SINEK's portfolio companies therefore rely on the co-operation of Russian authorities and the maintenance of good relations between the Republic and Russia.

Economic risks

Concentration of the Republic economy

The economy of the Republic is dominated by three major industrial sectors: the fuel industry (which represented 36.5 per cent. of the Republic's industrial production in 2004), heavy machinery (which

represented 24.8 per cent. of the Republic's industrial production in 2004) and petrochemicals (which represented 18 per cent. of the Republic's industrial production in 2004).

The reliance of the Republic's economy on three major industrial sectors could adversely affect the Republic if one or more of such sectors undergoes a decline in financial performance.

In 2004 the fuel industry contributed approximately 30 per cent. of the Republic's tax revenue, a large proportion of which is attributable to Tatneft. There are, however, many uncertainties inherent in this industry, including estimating proven oil reserves and in projecting future rates of production, and in the timing of future development expenditure. Estimating oil reserves is a subjective process and estimates made by different engineers may vary significantly. Accordingly, oil reserves' estimates may be materially different from the quantities of crude oil that are ultimately recovered and, if recovered, the reserves could be less than, and the costs related thereto could be greater than, estimated numbers. In addition, fluctuations in international oil prices could adversely affect the level of the Republic's tax revenues and the Republic's economy.

Government role in business

The Government has played, and continues to play, a significant role in the management and development of key industries and enterprises in the Republic. It has a number of means available to it in playing this role, including use of the golden share (which gives the Government the power to veto certain major decisions relating to privatised companies operating in the Republic) and control over suppliers and contractors. In particular, by retaining interests in strategic companies in the Republic and applying the regulatory powers available to the Government, the Republic has the ability to direct those companies to take steps that may not be in their best interests, and which may adversely affect their profitability. There can be no assurance that the Republic will not exercise this considerable influence over those companies to their detriment, and therefore there can be no assurance that those companies will be profitable or continue to contribute to tax revenues at the same rate.

Legal and regulatory risks

During the period from 1991 until February 1994, when the Treaty between Russia and the Republic was signed, the Republic issued privatisation and other legislation that was inconsistent with Russian legislation. The Treaty gave Republican law precedence over Russian legislation on certain matters. In recent years, the Republic has adopted a number of legislative acts intended to bring the Republic's law generally into conformity with Russian legislation. However, there is continuing uncertainty about the application of Russian and Republican law in the Republic in circumstances where there was in the past or currently remains a conflict between Russian and Republican law. For example, the privatisation of certain of SINEK's portfolio companies was conducted primarily in accordance with the Republic law, even though there was conflicting Russian legislation under which they conceivably should have been privatised. SINEK is not aware of any challenges to the privatisation of its portfolio companies but, if challenged, the privatisations of certain of SINEK's portfolio companies might not be deemed valid under Russian law. Federal legislation on golden shares is also in several respects inconsistent with pre-existing Republican legislation. The Republic's legislation attaches broader powers to golden shares than the federal legislation. In addition, there can be no assurance that SINEK, its portfolio companies or the Republic will not become subject to, or adversely affected by, inconsistent legislation or regulatory demands in the future.

Taxation and the collection of taxes

The division of tax revenue between the budgets of Russia and of the Republic is governed by federal laws. In recent years, Russia's share of tax revenue generated by the Republic has increased and the Republic's share has decreased. This trend may continue with the further reform of federal tax and budgetary legislation. The Republic's discretionary tax powers are limited because, like other subjects of the Federation, the Republic has no authority to set federal tax rates or to alter the rates on regional and local taxes above the limits set by federal legislation (otherwise than through its representation in the Federation Council, being the upper chamber of the Federal Assembly). The abolition of regional or local taxes or the reduction in rates by which the regions share in federal taxes has been in some instances accompanied by revenue compensation measures, though such measures historically have not always been sufficient to make up for lost tax revenue. The increasing share taken by the Federation of the tax revenue collected in the Republic may reduce the Republic's capacity to meet its spending commitments and may adversely affect the ability of the Republic to comply with its obligations under the Republic Guarantee. See "— Risk Factors relating to Russia — Changes in the Russian tax system".

Accuracy of Republic financial and other information

The budget accounts of the Republic are not subject to an audit by an independent external auditor and therefore may not accurately reveal the Republic's financial condition.

The budgets and other accounts and records of the Republic have been prepared in accordance with Russian budgetary principles and procedures, which differ significantly from internationally accepted budgetary principles and procedures. The budget information relating to the Republic set out in this Prospectus has not been adjusted to reflect such differences. Accordingly, potential investors should not rely on budgeted accounts or any trends indicated in the financial information of the Republic as being necessarily indicative of actual or future results.

The budget information in this Prospectus relating to the Republic has not been adjusted for the effects of inflation, and is presented on the basis of RUR values applying at the time of receipt or expenditure. Potential investors should be aware that the effects of inflation might significantly impair the ability to make period-for-period comparisons.

The compilation and analysis of statistical, economic and budget information in the Republic and Russia generally is not yet as highly developed as that of Western countries. Accordingly, the information presented in this Prospectus may contain a significant margin of error and may be insufficient or incomplete. Statistical, economic and financial information contained herein has been derived from publicly available information provided by a number of state agencies, including the Republic's Ministry of Finance and Ministry of Economy and Industry, Goskomstat and other relevant departments of the Republic.

Risk factors relating to SINEK

Reliance on portfolio companies and dividend flows

As a holding company, SINEK depends upon the receipt of dividends from its portfolio companies in order to make payments with respect to its obligations. The ability of the portfolio companies of SINEK to pay dividends to their shareholders (including SINEK) is subject to the financial position of such subsidiaries and affiliates and to the approval of the shareholders of such companies. Also, being a minority shareholder in most of its portfolio companies, SINEK has a limited control over their dividend policy. No assurance can be given that SINEK will have sufficient cash flow from dividends to fund interest and principal payments under the Loan Agreement to SINEK Capital and thereby permit the Issuer to make payments under the Notes.

The profitability of SINEK's portfolio companies depends, in part, upon the international and domestic markets in which they operate. In particular, SINEK depends heavily upon the performance of Tatneft, which is one of the largest oil producers in Russia. Fluctuations in the oil industry can therefore materially affect the performance of Tatneft, NKNK and certain other of SINEK's portfolio companies whose businesses are involved in the oil industry. See "— SINEK's portfolio companies are subject to international price movements for crude oil and refined oil products".

Restrictions as a result of being a state-owned enterprise

SINEK is wholly-owned by the Republic. Its board of directors consists of seven members, three of whom are representatives of various Government ministries and agencies and another three of whom are directors of certain portfolio companies. The Republic also has a golden share in nine of SINEK's portfolio companies (see "SINEK — SINEK'S portfolio companies"), which means the Government can veto certain major corporate steps which could be taken by those companies. Therefore, there can be no assurance that SINEK will be permitted to initiate corporate actions, irrespective of whether such corporate action is in its best interests, nor can there be any assurance that the Republic will not require that SINEK takes particular corporate steps and action which may be adverse to its best interests.

The financial and other information concerning SINEK and its portfolio companies may be unreliable

As a general matter, there may be less or different publicly available information about companies in Russia than in countries with more highly developed capital markets.

SINEK's assets include investments valued in the aggregate at approximately U.S.\$2.1 billion (88 per cent. of total assets) at 31 December 2004 and approximately U.S.\$1.5 billion (99.5 per cent. of total

assets) at 31 December 2003. Of these respective amounts, U.S.\$1,020 million of asset values as of 31 December 2004 and U.S.\$663 million of assets values as of 31 December 2003 were estimated by SINEK's board of directors in the absence of readily acceptable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

SINEK is a holding company of entities which, in periods prior to the 1990s, were not operated as commercial enterprises. Those companies are still in the process of implementing certain financial controls and internal reporting standards which would be conventional for businesses in Western economies. The financial information of the portfolio companies contained in this Prospectus has been prepared in accordance with the requirements of Russian law under Russian GAAP. Such information differs significantly from financial statements of companies that are more experienced in the preparation and presentation of information in the context of capital markets transactions or that are located in jurisdictions with more developed commercial and accounting practices and infrastructures. Accordingly, investors are cautioned against undue reliance on the financial statements and other financial information that are included in this Prospectus.

In particular, prospective investors should not rely on the financial information on SINEK's portfolio companies prepared in accordance with Russian GAAP and included in this Prospectus when considering whether to invest in the Notes. Accounting and reporting regulations in Russia are not comparable to those in Western countries and Russian GAAP financial statements have historically been prepared largely to comply with tax requirements rather than to reflect fairly the financial condition of a company or its results of operations. There are significant differences between Russian GAAP, and IFRS and U.S. GAAP, and financial statements prepared according to each respective standard should not be regarded as being comparable. Russian accounting legislation is in its early stages of development and has been subject to change on a regular basis in recent years. Interpretation of Russian GAAP varies and the reported financial results of similar entities within an industry may be materially different as a result of such interpretation. See Appendix B "Summary of Significant Differences between Russian GAAP and IFRS". See also "Presentation of Financial, Budgetary, Economic and Other Information — Financial information of SINEK's portfolio companies".

SINEK's portfolio companies are subject to international price movements for crude oil and refined oil products

Since Tatneft, which is expected to account for approximately 67 per cent. of the dividends SINEK receives in respect of 2004 and whose value accounts for 42 per cent. of SINEK's total assets as of 31 December 2004, is one of the largest oil producers in the Federation, SINEK's asset value and cash flow are significantly influenced by the market prices for crude oil and refined oil products, which are subject to international supply and demand and numerous other factors beyond SINEK's (or Tatneft's) control. The market and prices for refined oil products may be influenced by the level of demand (which fluctuates with changes in the economy, seasons and weather patterns), the level of domestic production, the price and availability of imports, the price and availability of substitute fuels and the extent and nature of governmental regulation and taxation. Price increases could result in decreases in demand for Tatneft's products (and the products of SINEK's other portfolio companies). There can be no assurance that price volatility will not have an adverse effect on Tatneft's financial condition and results of operations and its ability to pay dividends to SINEK.

SINEK's portfolio companies are dependent on infrastructure that is owned and controlled by the Russian Federation

A substantial amount of the crude oil produced in Russia, including a large proportion of the crude oil produced by Tatneft, is transported through the Transneft system of trunk pipelines. Transneft is a Federation-owned oil pipeline monopoly, and Russian Government authorities regulate access to Transneft's pipeline network. Limitations on access to the export pipelines may constrain the ability of producers such as Tatneft to export crude oil, and limited port, shipping and railway facilities represent further constraints on the export of crude oil. These constraints have had, and may continue to have, a significant impact on Tatneft's cash flows and results of operations, since export prices are generally higher than domestic prices. Certain of SINEK's other portfolio companies (including NKNK and Kazanorgsintez) are similarly dependent on infrastructure that is owned and controlled by the Federation.

SINEK's portfolio companies require significant capital investments

Certain of SINEK's portfolio companies require significant capital expenditures, both for modernisation and for expansion. A significant part of the equipment and infrastructure used by such companies dates back to Soviet times and requires substantial investment. In addition, capital expenditures are needed in order to implement certain key components of the portfolio companies' strategies. The portfolio companies expect to finance a substantial portion of these capital expenditures from cash flows of their operating activities. If, for any reason, one or more of such portfolio companies is unable to generate the operating cash flow it requires for the implementation of its capital expenditure programme, these capital expenditures will have to be revised accordingly or other sources of financing may be required if projected capital expenditures are to be maintained. No assurance can be given that the portfolio companies will be able or willing to raise the financing required for their projected capital expenditures. Any reduction in capital expenditures could adversely affect a relevant portfolio company's ability to modernise and expand its business and could adversely affect its ability to maintain its operations and profitability at current levels.

Risk factors relating to an investment in the Notes

Republic Guarantee

Under Russian law, a subject of the Federation may not generally borrow in foreign currency or issue guarantees in foreign currency. Generally a conservative view may be taken that a subject of the Federation such as the Republic is prohibited from exposing itself to foreign exchange risks. Finally, the Budget Code may be interpreted as requiring a subject of the Federation to issue a rouble guarantee only in relation to an underlying obligation which is also rouble denominated.

The Republic Guarantee is a rouble guarantee, issued in relation to an underlying rouble payment obligation under the Loan Agreement and limited to a maximum amount which is expressed in roubles. However, it may be argued that the Republic Guarantee involves the Republic incurring an exposure to a financing in a currency other than roubles, as the payments under the Loan Agreement are indexed to RUR/U.S.\$ exchange rates. As a result of such interpretation and in the absence of previous U.S.\$ eurobond issues involving rouble guarantees of subjects of the Federation, there is a residual risk that the Republic Guarantee may be subject to administrative review or legal challenge on the grounds of alleged non-compliance with Russian law. However, based on professional legal advice they have received, SINEK and the Republic believe that the issuance of the Republic Guarantee, in respect of a rouble loan between SINEK Capital as borrower and the Issuer as lender, in respect of which all payments are required to be made in roubles does not violate the requirements of the Budget Code and is otherwise in compliance with applicable Russian legal requirements.

Enforceability of civil liabilities and the Republic's immunity

In the event of SINEK Capital's default under the Loan, payment of interest on and repayment of principal in respect of the Notes will be dependent upon payment by the Republic of amounts due under the Republic Guarantee and payments by SINEK of amounts due under the SINEK Guarantee. The Republic has not waived any rights to sovereign immunity it may have in any jurisdiction in connection with the Republic Guarantee. Accordingly, the Republic may be entitled to immunity from suit in any action or proceeding arising out of the Republic Guarantee and the Republic and its assets, properties and revenues may be entitled to immunity in any attachment or enforcement action (other than in actions or proceedings launched against the Republic in Russian courts). In addition, notwithstanding its agreement that any claims arising under the Republic Guarantee may be settled by arbitration, the Republic has not submitted to the jurisdiction of any court, or appointed any agent for service of process in any jurisdiction in connection with any action or proceeding arising out of the Republic Guarantee. Substantially all of the assets of the Republic and SINEK are located within Russia. Accordingly, the Issuer, the Trustee and the Noteholders may have difficulty obtaining effective legal redress in connection with the Republic's obligations under the Republic Guarantee or SINEK's obligations under the SINEK Guarantee.

In the event that the Republic Guarantee or the SINEK Guarantee is called and the Noteholders nevertheless obtain a final judgment for a sum of money rendered by a court in any jurisdiction other than Russia, enforceability in Russia of such final judgment will be recognised by a court of Russia as a basis upon which to approve enforcement of a judgment against the Republic, SINEK or their respective assets, properties or revenues in Russia provided that there exists an international treaty between Russia and the country where the foreign judgment was rendered concerning the recognition and enforcement of

judgments in civil cases and, unless such international treaty otherwise provides, provided that the relevant requirements set forth in Chapter 31 of the Arbitration Procedure Code and any other relevant law, decree or regulation of Russia are met. No international treaty exists between Russia and the United Kingdom concerning the recognition and enforcement of judgments in civil cases. Accordingly, it is unlikely that a court of Russia would recognise or enforce such a judgment without re-examination of the issues. A court of Russia may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds. Furthermore, under the Constitution and laws of Russia, certain assets of the Republic are not available to satisfy the claims of creditors, including the Noteholders. In particular, Article 126 of the Civil Code of the Russian Federation (the “Civil Code”) provides that certain assets which may only be owned by the Republic are not available to satisfy the claims of creditors and that land and natural resources owned by the Republic may be available for such purposes only to the extent provided by law. Article 126 of the Civil Code further provides that assets which have been transferred to legal entities established by the Republic and held thereby under the title of “economic management” or “operational management” are not available to satisfy claims of creditors of the Republic. The laws of the Russian Federation and the Republic generally do not restrict the Republic from transferring any of its assets to such legal entities.

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

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

Enforcement of the Republic Guarantee may require the adoption of amendments to applicable budget legislation

In the event that the Issuer or the Trustee enforces the Republic Guarantee, the State Council of the Republic may need to adopt certain amendments to applicable budget legislation of the Republic to reflect the discharge of liabilities under the Republic Guarantee in the relevant fiscal year. It is unclear whether, in practice, such amendments would need to be adopted prior to, rather than subsequent to, any performance by the Republic of its obligations under the Republic Guarantee.

Limited recourse to the Issuer

The Issuer is only obliged to make payments under the Notes to the Noteholders of sums equivalent to the U.S. dollar proceeds realised by the Issuer through the conversion into U.S. dollars pursuant to the FX Contract of all rouble sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (other than certain additional amounts payable in respect of certain reserved rights). Consequently, if SINEK Capital, the Republic or SINEK fails to fully satisfy its obligations under the Loan Agreement, the Republic Guarantee and the SINEK Guarantee the Noteholders may receive less than the scheduled amount of principal, interest and/or additional amounts (if any) on the relevant due date.

Repayment

At maturity, SINEK and/or SINEK Capital may not have the funds to repay the Loan and may not be able to arrange for additional financing. In addition, if the maturity date of the Loan occurs at a time when other contractual arrangements prohibit SINEK and SINEK Capital from repaying the Loan, they would try to obtain waivers of such prohibitions from the lenders or other parties to such arrangements, or they would attempt to refinance the borrowings that contain the restrictions. If SINEK and SINEK Capital did not have the necessary funds, were unable to obtain the waivers or refinance these borrowings, they would be unable to repay the Loan.

Impact of currency control regulations on payments under the FX Contract

Russian currency control regulations currently permit the conversion of rouble amounts into U.S. dollars pursuant to the FX Contract and the payment of amounts in U.S. dollars under the FX Contract to the Issuer's U.S.\$ account with the Principal Paying Agent. No assurance can be given that Russian currency control or other relevant regulations will not change or be interpreted in the future so that such conversion of rouble amounts into U.S. dollars and/or payment of amounts in U.S. dollars under the FX Contract to the Issuers, U.S.\$ account with the Principal Paying Agent will not be permitted under applicable regulations at the relevant time.

FX Contract

The amounts payable in roubles under the Loan Agreement are determined by reference to the exchange rate for roubles and U.S. dollars. The FX Contract requires the Conversion Bank to provide rates of exchange by reference to which the determination of such rouble payments is made. However, the Conversion Bank may not be willing to enter into a foreign exchange transaction with the Issuer to convert roubles into U.S. dollars at that rate. Should the Conversion Bank fail to enter into a foreign exchange transaction at the rate used to determine payments under the Loan Agreement and the Issuer be unable to convert roubles into U.S. dollars with any other entity at that rate the Issuer may not have sufficient funds to make payments on the Notes. It shall be an Event of Default under the Loan Agreement if the Issuer is unable to convert rouble payments under the Loan Agreement into U.S. dollars within 10 Business Days of their due date (in the case of payments of interest) or five Business Days of their due date (in the case of other sums). It shall be a further Event of Default under the Loan Agreement if, at any time after the date falling five Business Days from the date on which the Advance is made under the Loan Agreement, the minimum balance standing to the credit of SINEK's U.S.\$ account falls below an amount equal to the amount of interest payable on an Interest Payment Date in relation to the Notes (see "The Loan Agreement").

Any negative change in the Republic's own credit rating could adversely affect the market price of the Notes

At the date of this Prospectus, the Republic has a long-term issuer rating of "Ba1" (outlook stable) by Moody's Investors Service, Inc., a long-term foreign currency rating of "BB" (outlook stable) by Fitch Ratings Ltd. and a foreign currency rating of "B" (outlook stable) by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. Such ratings are not recommendations to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in the Republic's credit rating could materially adversely affect the market price of the Notes.

Lack of existing market and market volatility

Prior to their issue, there was no public market for the Notes. While application has been made to list the Notes on the ISE, there can be no assurance that an active trading market for the Notes will develop, or, if it 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, or linked to, Russian issuers is influenced by economic and market conditions in Russia and, to varying degrees, market conditions in other Eastern European countries. There can be no assurance that such economic and market conditions will not cause market volatility or that such volatility will not adversely affect the price of the Notes.

USE OF PROCEEDS

The net proceeds of the offering, which will amount to approximately U.S.\$246,250,000, will be used by the Issuer for the sole purpose of funding a loan in roubles to the Borrower. The Borrower will on-lend the gross proceeds of such loan to fund a loan in roubles to SINEK.

SINEK intends to use the net proceeds of the loan made to it by the Borrower for corporate and Republic-related purposes, including among other things making an investment in the joint venture company, Tatar-Korean Petrochemical Company (“TKNK”) (whose participants are Tatneft, NKNK, SINEK and the South Korean conglomerate, LG Group (formerly “Lucky – Goldstar Group”)), and providing funding for the development of a residential mortgage market within the Republic.

CAPITALISATION AND INDEBTEDNESS OF SINEK

The following table shows, according to U.S. GAAP, (1) SINEK's actual unconsolidated capitalisation at 31 December 2004 and (2) SINEK's capitalisation as adjusted to give effect to SINEK's borrowing under the Loan Agreement as if such borrowing were made directly by SINEK and had occurred at 31 December 2004. This information should be read in conjunction with the Unconsolidated Financial Statements.

	At 31 December 2004	
	Actual	Pro forma adjusted for offering
	<i>(U.S.\$ thousands)⁽¹⁾</i>	
Indebtedness		
Loans payable to related parties ⁽²⁾⁽³⁾	252,268	252,268
Accounts payable and accrued expenses	121	121
Deferred tax liabilities	180,951	180,951
The Loan	—	250,000
Total indebtedness	<u>433,340</u>	<u>683,340</u>
Shareholders' equity		
Share capital ⁽⁴⁾	1,206,570	1,206,570
Additional paid in capital	(54,636)	(54,636)
Accumulated other comprehensive income	165,911	165,911
Retained earnings	643,897	643,897
Total shareholders' equity	<u>1,961,742</u>	<u>1,961,742</u>
Total capitalisation⁽⁵⁾	<u>2,395,082</u>	<u>2,645,082</u>

Notes:

- (1) An exchange rate of RUR 27.75 = U.S \$1.00 has been used for translation purposes as at 31 December 2004.
- (2) Includes indebtedness which matures within one year, including bank debt.
- (3) As at 31 December 2004, SINEK had a rouble denominated loan totalling RUR 7 billion (U.S.\$252,268 thousand) at an interest rate of 0.008% from the Ministry of Finance of the Republic that was due on demand. SINEK had no assets pledged as collateral for these borrowings. Subsequent to 31 December 2004 SINEK repaid rouble denominated loans received from the Ministry of Finance of the Republic totalling RUR 6 billion (U.S.\$216,226 thousand).
- (4) As at 31 December 2004 the authorised and issued share capital of SINEK comprised 377,450 ordinary shares with each share having a par value of RUR 100,000.
- (5) Except as disclosed in this Prospectus, there has been no material change in SINEK's unconsolidated capitalisation since 31 December 2004.

SINEK

General

SINEK is an investment company which is wholly-owned by the Republic of Tatarstan. SINEK was founded and incorporated in the Republic on 11 April 2003 as an open joint stock company, OAO Svyazinvestneftekhim (registration number 1031621006042), pursuant to Resolution No. 201 of the Cabinet of Ministers of the Republic dated 11 April 2003 and Resolution No. 33-a of the Ministry of Land and Property Relations of the Republic dated 11 April 2003 with share capital of RUR 37,745 million (U.S.\$1.36 billion as of 11 April 2003). The Ministry of Land and Property Relations of the Republic acts as the sole shareholder of SINEK on behalf of the Republic.

SINEK was established to support investments in the Republic's economy in accordance with its Charter which authorises it to provide a range of management, marketing and other related services to a number of the Republic's strategic companies through a unified holding company structure. Upon the formation of SINEK, the Republic transferred its shareholdings in 18 companies (whose businesses range from financial services to telecommunications, oil and gas, energy and petrochemicals) to SINEK through a contribution to its capital. SINEK subsequently acquired interests in two further portfolio companies, TKNK and Tatenergospetsremont. Following the divestment of its shareholding in Petrokam, SINEK currently holds interests in 19 portfolio companies.

The primary objective of SINEK is to act as a development corporation within the Republic in order to bring long-term investments into the Republic's economy and to stimulate economic development.

SINEK's investment strategy is currently focused on the TKNK joint venture between LG Group, Tatneft, NKNK and SINEK, into which it will invest a significant portion of the proceeds of the issue of the Notes (see "Use of Proceeds"). This project is key to the development of the industrial district around the city of Nizhnekamsk which is one of the principal items in the economic and industrial policy of the Republic. In order to concentrate on this project, SINEK is considering divesting certain of its assets to provide additional funding for investment in the joint venture.

SINEK is also assisting in the development of a domestic mortgage market and such assistance is intended to include the provision of financing to the Republic's mortgage lending agency which will permit this agency to increase the volume of mortgage loans available to individuals in the Republic. See "The Republic of Tatarstan — Principal activities of the Republic".

As SINEK is a holding company, the business strategies of the material portfolio companies are directly relevant to a consideration of SINEK's business development. A description of the business strategy of certain of SINEK's material portfolio companies is included in the descriptions of them herein.

Management

The members of SINEK's board of directors and their positions within the Government and the portfolio companies are as follows:

<u>Name</u>	<u>Position on SINEK's board of directors</u>
Rustam N. Minnikhanov	Chairman and Director
Vladimir M. Busygin	Director
Valery P. Vasilyev	Director
Ilshat Sh. Fardiev	Director
Rafinat S. Yarullin	Director
Shafagat F. Takhautdinov	Director
Raisa A. Sakhieva	Director
Valery Yu. Sorokin.....	Director

Rustam N. Minnikhanov is Prime Minister of the Republic and Chairman of the board of directors SINEK. He has been Prime Minister since July 1998, prior to which he was Minister of Finance of the Republic since November 1996. He is also the Chairman of the board of directors of Tatneft, Tatneftekhinvest Holdings and SINEK and a member of the board of directors of AK BARS Bank.

Vladimir M. Busygin is General Director of NKNK, a position he has held since 1999, and a Deputy of the State Council of the Republic. He is also a member of the board of directors of AK BARS Bank, NKNK, Tatneftekhinvest Holding, Petrokam, TKNK and SINEK.

Valery P. Vasilyev is Minister of Land and Property Relations of the Republic, a position he has held since 2001. He is also a member of the board of directors of AK BARS Bank, Tatneft and SINEK.

Ilshat Sh. Fardiev is General Director of Tatenergo, a position he has held since 1999, and a Deputy of the State Council of the Republic. He is also a member of the board of directors of Tatenergo, JSC Kazanorgsintez and SINEK.

Rafinat S. Yarullin is General Director of Tatneftekhinvest Holding, a position he has held since 1994. He is also Chairman of the board of directors of JSC NII Neftepromkhim, and he is a member of the board of directors of NKNK, TKNK, Tatneftekhinvest Holding and SINEK.

Shafagat F. Takhautdinov is General Director of Tatneft, a position he has held since 1999, and a Deputy of the State Council of the Republic. He is also Chairman of the board of directors of JSC Nizhnekamskshina, JSC Nizhnekamsky Oil Refinery, and TKNK and he is a member of the board of directors of AK BARS Bank, Zenit Bank, Tatneftekhinvest Holding, Tatneft, JSC RITEK, Nefteconsortium and SINEK.

Raisa A. Sakhieva is Head of the State Legal Department of the President of the Republic, a position she has held since 1994. She is also a member of the board of directors of AK BARS Bank, Tatenergo and SINEK.

Valery Yu. Sorokin is General Director of SINEK, a position he has held since the incorporation of SINEK in 2003. Prior to this he was Head of the Agency for the State Debt Management of the Republic of Tatarstan since 1996. He is also a member of the board of directors of Tatneft, Tattelecom, JSC Kazan City Telephone Network, AK BARS Holding Company, JSC Tatkhimprompart and SINEK.

Except as disclosed in this Prospectus SINEK believes that there are no potential conflicts of interest between the responsibilities of SINEK's directors as set out above and other private interests and responsibilities of such directors.

Summary financial information

The following table presents certain information relating to assets, liabilities, share capital and results of operations of SINEK as at the dates and for the periods set out below. This information was extracted from the financial statements of SINEK prepared in accordance with U.S. GAAP and audited by KPMG. SINEK follows investment specialised accounting practices contained in the American Institute of Certified Public Accountants Audit and Accounting Guide—Audits of Investment Companies, which requires investment companies to account for their majority owned investments at fair value, as opposed to consolidation or equity methods.

	As at	
	31 December 2003	31 December 2004
<i>(U.S.\$ thousands)⁽¹⁾</i>		
Statements of assets and liabilities information		
Assets		
Investments, at fair value ⁽²⁾	1,473,257	2,104,774
Cash and cash equivalents	1	108,360
Loans receivable from related parties	—	90,094 ⁽³⁾
Accounts receivable from related parties	7,085	—
Accounts receivable and other assets	—	91,854
Total assets	<u>1,480,343</u>	<u>2,395,082</u>
Liabilities		
Loans payable to related parties	2	252,268 ⁽⁴⁾
Notes payable to related parties	—	—
Accounts payable and accrued expenses	100	121
Deferred tax liabilities	47,706	180,951 ⁽⁵⁾
Total liabilities	<u>47,808</u>	<u>433,340</u>
Net assets		
Share capital	1,206,570	1,206,570 ⁽⁶⁾
Additional paid in capital	(54,636)	(54,636)
Accumulated other comprehensive income	74,895	165,911
Retained earnings	205,706	643,897
Total net assets	<u>1,432,535</u>	<u>1,961,742</u>
Total liabilities and net assets	<u>1,480,343</u>	<u>2,395,082</u>
Period ended⁽⁷⁾		
	31 December 2003	31 December 2004
<i>(U.S.\$ thousands)</i>		
Statement of operations information		
Investment income	—	31,182
Total expenses	(100)	(615)
Net investment income/loss	(100)	30,567
Net unrealised gains from investments	270,765	543,714
Income tax expense	(64,959)	(133,323)
Net increase in net assets resulting from operations	<u>205,706</u>	<u>440,958</u>

Notes:

- (1) As at 31 December 2004 and 31 December 2003, exchange rates of 27.75 and 29.45 RUR to U.S.\$, respectively, have been used for translation purposes. The weighted average exchange rates used were 28.82 and 30.69 RUR to U.S.\$ for the periods ended 31 December 2004 and 2003 respectively.
- (2) Shares owned by SINEK for which market quotations are available are valued at the closing price on the relevant balance sheet date. Shares which are not publicly traded are valued at their fair value as determined in good faith by SINEK's board of directors. The financial statements include investments valued at approximately U.S.\$1,020 million at 31 December 2004 (43 per cent. of total assets) and approximately U.S.\$663 million at 31 December 2003 (45 per cent. of total assets), where values have been estimated by the board of directors in the absence of readily acceptable market values. Such estimated values may differ significantly from the values that would have been used had a ready market for such investments existed and any such difference would be material. See the Schedule of Investments, included in the Unconsolidated Financial Statements set out in the F-pages herein, which describes the components of the fair value amounts shown in the table.
- (3) RUR 2.5 billion (U.S.\$90,094 thousand) represents loans made by SINEK to Tatneft and NKNK. These loans were repaid in full in February 2005.
- (4) RUR 7 billion (U.S.\$252,268 thousand) represents an unsecured borrowing from the Ministry of Finance of the Republic, of which RUR 6 billion (U.S.\$216,226 thousand) was fully repaid in February 2005.
- (5) Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2003 and 31 December 2004 if there is a divestment of investments.
- (6) As at each of 31 December 2003 and 2004, the authorised and issued share capital of SINEK comprised 377,450 ordinary shares each having a par value of RUR 100,000 each.
- (7) The relevant periods comprise (a) the period from 11 April 2003 (date of incorporation of SINEK) to 31 December 2003, and (b) the year ended 31 December 2004.

SINEK'S portfolio companies

SINEK has equity holdings in a number of the Republic's strategically significant companies, the most significant being Tatneft, NKNK and Tatenergo. SINEK currently owns (including both direct and indirect ownership) 33.6 per cent., 25.2 per cent. and 51 per cent. of their share capital, respectively.

The Republic maintains a degree of control over the portfolio companies through its golden share in relation to each such company which allows it to veto decisions of shareholders in respect of certain major corporate actions such as resolutions relating to the winding-up or reorganisation of the company and changes to the Charter or in the company's authorised capital. Certain types of transactions can also be vetoed by the Republic.

The following table sets out certain information relating to SINEK's interests in the portfolio companies. The ownership proportions are extracted from information prepared by SINEK's management and the figures for fair value of the investments are extracted from the Unconsolidated Financial Statements.

Business description	Golden share held by the Republic	SINEK's direct ownership of ordinary share capital as at 31 December 2004	Declared dividend contribution in respect of 2003	Declared dividend contribution in respect of 2004	Fair value as at 31 December 2004 ⁽¹⁾	
		(%)	<i>(net)</i> <i>(RUR thousands)</i>		<i>(U.S.\$ thousands)</i>	
Tatneft ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Oil exploration production and refining	Yes	30.4	201,631	611,794	996,900
Tatneft (preferred shares)			—	—	—	76
NKNK ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾	Petro-chemicals, oil processing	Yes	25.2	38,025	77,871	332,000
Tatenergo ⁽³⁾⁽⁴⁾	Electricity and heat	Yes	51	—	—	269,000
Kazanorgsintez ⁽³⁾⁽⁴⁾⁽⁶⁾	Petro-chemicals	Yes	26.6	119,334	126,964	88,000
North-West Trunk Pipelines ⁽³⁾⁽⁴⁾	Oil and gas pipelines	No	36	—	—	127,700
AK BARS Bank ⁽³⁾⁽⁴⁾⁽⁶⁾	Financial services	No	6.7	—	—	13,000
AK BARS Holding Company ⁽³⁾⁽⁴⁾	Financial services	No	50.6	131	—	8,600
Investneftekhim ⁽²⁾⁽³⁾⁽⁴⁾	Holding company	No	100	6,231	—	129,024
Kazan Engine Building Plant ⁽³⁾⁽⁴⁾	Turbine manufacture	Yes	25.9	3,894	4,033	5,830
Tatneftproduct ⁽³⁾⁽⁴⁾	Oil products	No	37.9	331	1,446	2,400
Tattelecom ⁽³⁾⁽⁴⁾	Telecommunications	No	100	29,627	73,503	91,000
Tatkhimpreparati ⁽³⁾⁽⁴⁾	Pharmaceuticals	Yes	100	—	—	4,000
Kazancompressormash ⁽³⁾⁽⁴⁾	Manufacturing	Yes	50	3,194	2,806	8,000
Kazan GTS ⁽³⁾⁽⁴⁾	Telecommunications	Yes	46	6,161	5,427	10,800
NII Neftepromkhim ⁽³⁾⁽⁴⁾	Petrochemicals	No	25	152	184	82
Tatneftekhiminvest Holding ⁽³⁾⁽⁴⁾	Holding company	—	51.5	—	—	15,100
Petrokam ⁽³⁾⁽⁴⁾⁽⁷⁾	Chemicals	No	—	8,176	—	—
Nefteconsortium ⁽³⁾⁽⁴⁾	Oil and gas	No	25	3,753	4,504	651
Tatenergospetsremont ⁽³⁾⁽⁴⁾⁽⁸⁾	Energy	No	51	—	—	2,600
TKNK ⁽³⁾⁽⁴⁾⁽⁸⁾	Chemical production	No	9.1	—	—	11
Total				420,640	908,532	2,104,774

Notes:

- (1) The figures for fair value are extracted from the U.S. GAAP Unconsolidated Financial Statements as at 31 December 2004. The figures for fair value are in respect of ordinary shares unless otherwise stated.
- (2) Investneftekhim currently owns 3.36 per cent. of the share capital of Tatneft and 25 per cent. of the ordinary shares of Alnas, a machine-building enterprise. As at 31 December 2004, Investneftekhim owned the Alnas shares and a receivable for the Tatneft shares. Subsequent to 31 December 2004 formal registration was completed for the transaction in which Investneftekhim exchanged 11.36 per cent. of the ordinary shares of NKNK with a shareholder of Tatneft for 3.36 per cent. of the ordinary shares of Tatneft. As a result of this transaction, SINEK currently owns (including both direct ownership and indirect ownership via Investneftekhim) approximately 33.6 per cent. of the total share capital of Tatneft. Investneftekhim's dividends in respect of 2003 include RUR 6,231 thousand declared by Alnas and Investneftekhim's fair value as at 31 December 2004 includes a fair value of U.S.\$19,000 thousand for the shares in Alnas.
- (3) This portfolio company produces annual accounts prepared in accordance with Russian GAAP.
- (4) This portfolio company produces unaudited quarterly interim accounts prepared in accordance with Russian GAAP.
- (5) Tatneft produces audited annual accounts prepared in accordance with U.S. GAAP. See "—Tatneft — Summary Russian GAAP Financial Information" below.
- (6) This portfolio company produces audited annual consolidated accounts prepared in accordance with IFRS.
- (7) In October 2004, SINEK disposed of its interest in Petrokam.
- (8) This shareholding interest was acquired by SINEK in 2004.

Tatneft

Valuation of SINEK's investment

SINEK has an equity holding in Tatneft valued at approximately U.S.\$997 million as at 31 December 2004, representing approximately 47 per cent. of SINEK's total investments, at fair value, as of such date.

Business and operations

Tatneft was established in 1950 as a state enterprise which was incorporated as Production Association Tatneft. Its registered office address is 75 Lenin Street, Almetyevk City, Republic of Tatarstan, Russia, 423450. Tatneft's issued capital as at 31 December 2004 was RUR 2,326.2 million (which is fully paid up). Tatneft's aggregate reserves at 31 December 2004 were RUR 64,088 million. Tatneft's net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 24,626 million. SINEK's share of dividends declared by Tatneft with respect to 2004 amounted to RUR 611.8 million. As of 31 December 2004, SINEK owned 30.4 per cent. of Tatneft's share capital. SINEK currently owns 33.6 per cent. of Tatneft's share capital. The Republic retains a golden share in Tatneft.

Tatneft is a vertically integrated oil company whose core activities include the exploration, production, refining and marketing of crude oil. It also operates a chain of retail gasoline filling stations and exports crude oil and a number of its petrochemical products to former Soviet Union countries and Europe. Tatneft has several exploration and production joint ventures including TATEX, ZAO Tatoiigas and ZAO Kalmtatneft. TATEX installs Tatneft's vapour recovery system in its holding tanks and also produces small amounts of crude oil from an oil field using horizontal drilling techniques. ZAO Tatoiigas specialises in recovery of oil from sludge and operates small oil fields and gas stations in the Republic. ZAO Kalmtatneft is an exploration and development joint venture for oil fields in the Republic of Kalmykia.

Tatneft has over 51,000 employees and is the sixth largest oil company in terms of production in the Russian Federation. It controls a significant proportion of the production of crude oil in Russia. In 2004 Tatneft produced approximately 84 per cent. of the crude oil produced in the Republic. It also owns a large base of developed reserves (with approximately 6 billion barrels of proven reserves of which 94 per cent. are developed and 60 per cent. producing).

Tatneft's principal objectives are to develop its position as a vertically integrated oil company; to maintain production from its existing crude oil reserves in the Republic and expand and diversify its reserves located outside of the Republic; to expand its refining business (Tatneft has been participating together with other Tatarstan-based entities including NKNK in the construction of the Nizhnekamsk refinery in the Republic); to improve its cost-management processes; to develop its oil product retail network; and to maintain good relations with the Government in the course of pursuing its commercial objectives.

Tatneft's competitive strengths lie in its diversified range of activities, its large base of developed reserves which are expected to result in lower future expenditure needs, compared to other Russian oil companies, and its access to foreign currency revenues. Through the ownership of a 63 per cent. interest in the Nizhnekamsk refinery which is predicted to become the world's fourth and Russia's most significant heavy oil processing facility, Tatneft intends to gain access to light crude oil products of European quality. Its competitive disadvantages include the relatively high proportion of sulphur content in its crude oil, which is higher than most of the other Russian oil companies and which affects the overall quality of its crude oil.

Tatneft's American Depositary Shares (ADSs), which represent part of Tatneft's share capital, are listed on both the London Stock Exchange (under symbol "ATAD.L") and the New York Stock Exchange (under symbol "TNT").

Summary Russian GAAP financial information

On 14 July 2005 Tatneft filed its annual report on Form 20-F under the U.S. Securities Exchange Act of 1934 with the U.S. Securities Exchange Commission (the "SEC") in connection with Tatneft's ADS listing on the New York Stock Exchange in respect of the year ended 31 December 2003. As at the date of this document, Tatneft's annual report on Form 20-F in respect of the year ended 31 December 2004 has not been filed with the SEC (although Tatneft's U.S. GAAP financial statements for the six months ended 30 June 2004 were filed with the SEC on 14 July 2005). U.S. GAAP financial information of Tatneft has not been included in this Prospectus.

The following financial information of Tatneft has been extracted from the audited financial statements of Tatneft as at and for the years ended 31 December 2003 and 2004 prepared in accordance with Russian GAAP. There are significant differences between Russian GAAP and U.S. GAAP and IFRS, and financial statements prepared according to each standard should not be regarded as being comparable. This financial information is not a complete set of financial statements as it only presents selected line items. This financial information should be read in conjunction with a fuller set of financial statements of Tatneft prepared in accordance with Russian GAAP as at and for the years ended 31 December 2003 and 31 December 2004 and as at 31 March 2005 and for the three month periods ended 31 March 2004 and 2005 which are in Appendix A to this Prospectus. This information should not be relied upon as being necessarily indicative of Tatneft's results or financial position or its future results or financial position, and readers of this financial information are cautioned not to place reliance thereon.

	As at 31 December	
	2003	2004
	(audited)	(audited)
	<i>(RUR millions)</i>	
Balance sheet information		
Total current assets	45,694	64,707
Total non-current assets	<u>69,914</u>	<u>75,394</u>
Total assets	115,608	140,101
Total current liabilities	22,307	21,839
Total non-current liabilities	<u>12,056</u>	<u>12,657</u>
Total liabilities	34,363	34,496
Equity and reserves	<u>81,245</u>	<u>105,605</u>
	Year ended 31 December	
	2003	2004
	(audited)	(audited)
	<i>(RUR millions)</i>	
Profit and loss account information		
Total sales	116,632	150,793
Costs of goods, products, work services sold	<u>(87,883)</u>	<u>(98,653)</u>
Total revenue ⁽¹⁾	28,750	52,140
Gross profit from sales ⁽²⁾	19,466	41,489
Income from operations	16,495	36,214
Retained earnings of the reporting year	11,415	24,626

Notes:

- (1) Total revenue comprises sales of goods, products, work services (less value added tax, excises and other similar compulsory payments) less cost of goods, products, work and services sold.
- (2) Gross profit from sales comprises total revenue less sales expenses and general business expenses.

Nizhnekamskneftekhim

Valuation of SINEK's investment

SINEK has an equity holding in NKNK valued at approximately U.S.\$332 million as at 31 December 2004 representing approximately 16 per cent. of SINEK's total investments, at fair value, as at such date.

Business and operations

NKNK was established in 1967 as a state-owned enterprise and in 1993 was privatised through its conversion into an open joint stock company. Its registered office address is Nizhnekamsk City, Republic of Tatarstan, Russia 420574. NKNK's issued capital as at 31 December 2004 was RUR 1,830.2 million (which is fully paid up). NKNK's aggregate reserves at 31 December 2004 were RUR 8,202 million. NKNK's net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 3,327 million. SINEK's share of dividends declared by NKNK with respect to 2004 amounted to RUR 77.9 million. As of 30 September 2004 SINEK owned 35.2 per cent. of NKNK's share capital, but this percentage decreased to 25.2 per cent. as of 30 December 2004 following SINEK's exchange of 10 per cent. of NKNK's share capital for 3.15 per cent. of Tatneft's share capital. The Republic retains a golden share in NKNK.

NKNK produces petrochemicals and processes crude oil and other hydrocarbons supplied by 12 production units located in and around the city of Nizhnekamsk in the Republic. The company has over 18,000 employees and is one of the largest petrochemical manufacturers in Eastern Europe. It controls a significant proportion of the production in Russia of a number of key petrochemical products. For example, it produces 100 per cent. of Russia's polyethers, ethoxylated nonylphenols, halobutyl rubber and linear olefins and significant proportions of its butyl rubber, isoprene rubber, styrene and polystyrene. NKNK currently has an approximate 26 per cent. share in the world production of synthetic isoprene rubber and an approximate 12.8 per cent. share in the world production of ethoxylated nonylphenols. NKNK also operates a 520-kilometre ethylene pipeline network and is a processor of hydrocarbon feedstock. Of its total sales, NKNK currently exports approximately 50 per cent. of its products and sells the remainder domestically. These proportions change from year to year according to market demand.

NKNK has a business development plan in place for the period to 2010 pursuant to which it aims to position the company as an integrated producer of plastics (including polystyrene, polypropylene and polyethylene), strengthen its production of rubbers (halobutyl, butadiene and butadiene-styrene) and surfactants (LAB, AOS and fatty alcohols), optimise its consumption of power (by developing its own power resources and implementing technology which will enable it to decrease its power consumption), and redesign and increase the capacity of its ethylene plant and to expand its feedstock base (which is reflected by its participation in TKNK). NKNK has already implemented several projects to achieve these goals, including the modernisation of its ethylene plant and the increase of its production capacity of polystyrene, butadiene rubber and halobutyl rubbers.

During 2005, NKNK intends to further increase its production of polystyrene and butyl rubber and to develop the production of polypropylene in a volume of up to 180,000 tons per year. NKNK is currently upgrading its ethylene production plant. NKNK estimates that approximately U.S.\$600 million will be required for its planned capital expenditure programme. The cost of NKNK's participation in the joint venture company TKNK, which will be funded in part by investments from SINEK, is not included in such capital expenditure estimate. See "SINEK — General".

NKNK's competitive strengths are its immediate geographical proximity to the principal supplier of its raw materials (Tatneft), the flexibility afforded by its exposure to export and domestic markets and its good rail and pipeline connections to Siberia. Its disadvantages include its remoteness from its export markets, its high consumption of energy and resulting cost, and the frequent global price fluctuations which occur in relation to a number of the products it manufactures.

Summary Russian GAAP financial information

The following financial information of NKNK has been extracted from the audited financial statements of NKNK as at and for the years ended 31 December 2003 and 2004 prepared in accordance with Russian GAAP. There are significant differences between Russian GAAP and U.S. GAAP and IFRS, and financial statements prepared according to each standard should not be regarded as being comparable. This financial information is not a complete set of financial statements as it only presents selected line items. This financial information should be read in conjunction with a fuller set of financial statements of NKNK prepared in accordance with Russian GAAP as at and for the years ended 31 December 2003 and 2004 and as at 31 March 2005 and for the three month periods ended 31 March 2004 and 2005 which are included in Appendix A to this Prospectus. This information should not be relied upon as being necessarily indicative of NKNK's results or financial position or its future results or financial position, and readers of this financial information are cautioned not to place reliance thereon.

	As at 31 December	
	2003	2004
	(audited)	(audited)
	<i>(RUR millions)</i>	
Balance sheet information		
Total current assets	7,135	12,194
Total non-current assets	<u>21,499</u>	<u>23,368</u>
Total assets	28,634	35,562
Total current liabilities.	3,724	7,173
Total non-current liabilities.	<u>6,533</u>	<u>7,610</u>
Total liabilities.	10,257	14,783
Equity reserves	18,377	20,779
	Year ended 31 December	
	2003	2004
	(audited)	(audited)
	<i>(RUR millions)</i>	
Profit and loss account information		
Total sales	24,960	33,882
Costs of goods, products, work, services sold	<u>(17,179)</u>	<u>(23,975)</u>
Total revenues ⁽¹⁾	7,781	9,907
Gross profit from sales ⁽²⁾	5,211	6,592
Income from operations	3,173	4,850
Retained earnings of the reporting year	2,139	3,327

Notes:

- (1) Total revenue comprises sales of goods, products, work services (less value added tax, excises and other similar compulsory payments) less cost of goods, products, work and services sold.
- (2) Gross profit from sales comprises total revenue less sales expenses and general business expenses.

Tatenergo

Valuation of SINEK's investment

SINEK has an equity holding in Tatenergo valued at approximately U.S.\$269 million as at 31 December 2004, representing approximately 13 per cent. of SINEK's total investments, at fair value, as at such date.

Business and operations

Tatenergo was established in 1921 and was converted into an open joint stock company in 2002. Its registered office address is 1/55, Pushkina Street, Kazan City, Republic of Tatarstan, Russia 420021. Tatenergo's issued capital as at 31 December 2004 was RUR 15,052.3 million (which is fully paid up). Tatenergo's aggregate reserves as at 31 December 2004 were RUR 3,318 million. Tatenergo's net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 1,627 million. SINEK did not receive a dividend payment from Tatenergo in 2004. SINEK owns 51 per cent. of its share capital and the Republic retains a golden share in Tatenergo.

Tatenergo is a vertically integrated company engaged in the generation, transmission and sale of electricity and heat in the Republic and owns nine electricity generation plants (including one hydro generation plant) and a sales division. In accordance with reforms of the Russian power industry mandated by the federal government, Tatenergo has recently divested certain of its subsidiaries which were involved in transportation, maintenance and repair and research and engineering support, among other things. Tatenergo's operations as a participant in the energy industry are regulated by the federal government, although the Republic has some discretion to set energy tariffs (being the principal Government restriction imposed on energy producers).

Tatenergo's principal strategy in the medium term is to increase operating efficiency through the modernisation of its equipment, a large proportion of which dates back to the Soviet era. Modernisation will be effected through the purchase and lease of new equipment from foreign suppliers who can meet the equipment needs of the business. Tatenergo seeks to decrease the number of small boilers and heating plants which are currently in use in the Republic in order to increase the efficiency of electricity production. Together with Alstom, Tatenergo is building a number of new pipelines to facilitate greater efficiency in the transfer of hot water and steam to newly-developed areas of Kazan. A thermoelectric power station is also under construction in Kazan. Tatenergo is committed to decreasing losses of heat and electricity throughout its grid and enhancing the provision of electrical power through its network. Through an agreement with Nexans (a French company), a new type of cabling is to be installed for the transmission of electricity, which should improve the safety of transmission due to its lower voltage. A gas-turbine power station is also being constructed in Nizhnekamsk through a joint project with NKNK. Tatenergo intends to increase its overall generation capacity to approximately 210 megawatts during 2006-2008.

To fund these capital expenditure projects, Tatenergo has established a three-year investment programme within which it is currently expecting to make capital expenditures of approximately RUR 12 billion. Under the programme, one-third of that amount is expected to be generated internally and the balance is expected to be covered by debt raised in the international capital markets.

Summary Russian GAAP financial information

The following financial information of Tatenergo has been extracted from the audited financial statements of Tatenergo as at and for the years ended 31 December 2003 and 2004 prepared in accordance with Russian GAAP. There are significant differences between Russian GAAP and U.S. GAAP and IFRS, and financial statements prepared according to each standard should not be regarded as being comparable. This financial information is not a complete set of financial statements as it only presents selected line items. This financial information should be read in conjunction with a fuller set of financial statements of Tatenergo prepared in accordance with Russian GAAP as at and for the years ended 31 December 2003 and 2004 and as at 31 March 2005 and for the three month periods ended 31 March 2004 and 2005 which are included in Appendix A to this Prospectus. This information should not be relied upon as being necessarily indicative of Tatenergo's results or financial position or its future results or financial position, and readers of this financial information are cautioned not to place reliance thereon.

	<u>As at 31 December</u>	
	<u>2003</u> <u>(audited)</u>	<u>2004</u> <u>(audited)</u>
Balance sheet information		
	<i>(RUR millions)</i>	
Total current assets	6,363	7,890
Total non-current assets	<u>14,550</u>	<u>14,678</u>
Total assets	20,913	22,568
Total current liabilities.....	3,808	4,112
Total non-current liabilities.....	<u>73</u>	<u>71</u>
Total liabilities.....	3,881	4,183
Equity and reserves	17,032	18,385
	<u>Year ended 31 December</u>	
	<u>2003</u> <u>(audited)</u>	<u>2004</u> <u>(audited)</u>
	<i>(RUR millions)</i>	
Total sales	17,224	21,373
Cost of goods, products, work, services sold.....	<u>(16,331)</u>	<u>(19,029)</u>
Total revenues ⁽¹⁾	893	2,343
Gross profit from sales ⁽²⁾	889	2,343
Income from operations	997	2,059
Retained earnings of the reporting year	833	1,627

Notes:

- (1) Total revenue comprises sales of goods, products, work services (less value added tax, excises and other similar compulsory payments) less cost of goods, products, work and services sold.
- (2) Gross profit from sales comprises total revenue less sales expenses and general business expenses.

General information on certain of SINEK's other portfolio companies

Kazanorgsintez

Kazanorgsintez's registered office address is 101, Belomorskaya Street, Kazan City, Republic of Tatarstan, Russia, 420051. Kazanorgsintez is a diversified manufacturer of chemical products. Kazanorgsintez produces over 150 different products including polyethylene, polyethylene pipes, ethylene and propylene. Kazanorgsintez is the largest producer of polyethylene in Russia representing 36 per cent. of the country's total production in 2004. Kazanorgsintez's issued capital as at 31 December 2004 was RUR 1,904.7 million (which is fully paid up). Kazanorgsintez's aggregate reserves as at 31 December 2004 were RUR 4,019 million. Kazanorgsintez's net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 1,982 million. SINEK's share of dividends declared by Kazanorgsintez in respect of 2004 amounted to RUR 127 million.

Tattelecom

Tattelecom's registered office address is 57, Ershova Street, Kazan City, Republic of Tatarstan, Russia 420061. Tattelecom is engaged in communication services (long-distance and city telecommunications, recording communications, paging communications, Internet, IP-telephony, ISDN and telex). Tattelecom's issued capital as at 31 December 2004 was RUR 1,588.5 million (which is fully paid up). Tattelecom's aggregate reserves as at 31 December 2004 were RUR 529 million. Tattelecom's net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 323 million. SINEK's share of dividends declared by Tattelecom in respect of 2004 amounted to RUR 73.5 million.

North-West Trunk Pipelines

North-West Trunk Pipelines's registered office address is 26A, Ershova Street, Kazan City, Republic of Tatarstan, Russia 420045. North-West Trunk Pipelines is majority owned by Transneft, the Russian Government owned crude oil transportation monopoly, and is engaged in the transportation of oil through pipelines. North-West Trunk Pipelines' issued capital as at 31 December 2004 was RUR 0.7 million (which is fully paid up). Its aggregate reserves as at 31 December 2004 were RUR 10,399 million and its net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 4,822 million. SINEK did not receive a dividend payment from North-West Trunk Pipelines in 2004.

AK BARS Bank

AK BARS Bank's registered office address is 1, Dekabristov Street, Kazan City, Republic of Tatarstan, Russia, 420066. AK BARS Bank's field of activity is commercial banking. See "The Republic of Tatarstan — The Republic's economy — Banking system." AK BARS Bank's issued capital as at 31 December 2004 was RUR 8,015.4 million (which is fully paid up). Its aggregate reserves as at 31 December 2004 were RUR 1,180 million and its net profit (retained earnings of the reporting year—Russian GAAP) for the year ended 31 December 2004 was RUR 480 million. SINEK did not receive a dividend payment from AK BARS Bank in 2004.

Dividends

To date, SINEK's primary source of cash flow has been from dividends received from its portfolio companies. With the exception of Tatneft, Tatnefteproduct and Nefteconsortium, which paid interim dividends in 2004, all other portfolio companies pay dividends in the year subsequent to the relevant year's annual general meeting when such dividends were declared.

The table below presents the dividend payments paid and/or declared by SINEK's portfolio companies to their shareholders in respect of the financial years of 2002 and 2003 and estimated dividends made and/or declared in respect of 2004. Since SINEK was formed on 11 April 2003, the Company received dividends in 2004 (in respect of 2003) and did not receive any dividends in 2003 (in respect of 2002).

Total dividends paid and/or declared by SINEK's portfolio companies to their shareholders

Dividends in respect of the financial year	RUR thousands	U.S.\$ thousands⁽¹⁾	% increase compared with previous year
2002	186,490 ⁽²⁾	6,781	45.1
2003	420,641 ⁽²⁾	15,296	125.6
2004	908,532 ⁽³⁾	33,038	116

Notes:

- (1) For the purposes of this table the RUR/U.S.\$ rate has been taken for convenience as RUR 27.5 = U.S.\$1.00.
- (2) These amounts were paid by SINEK's portfolio companies to their shareholders. Since SINEK was formed on 11 April 2003, SINEK did not receive dividends in respect of 2002.
- (3) Of this amount RUR453,651 thousand was paid as an interim dividend in 2004 (of which Tatneft paid RUR 448,244 thousand, Tatneftproduct paid RUR 903.6 thousand and Nefteconsortium paid RUR 4,504 thousand).

Of the aggregate dividends declared by SINEK's portfolio companies in respect of 2003 and 2004, the following three companies account for at least 85 per cent. of such aggregate dividends as indicated in the following table.

Portfolio company	Dividends paid or declared (SINEK's share)⁽¹⁾			
	2003		2004	
	Amount	% of total dividends	Amount	% of total dividends
	<i>(RUR thousands)</i>			
Tatneft.....	201,631	48	611,794	67
NKNK.....	38,025	9	77,871	9
Kazanorgsintez.....	119,334	28	126,964	14
Total	<u>358,990</u>	<u>85</u>	<u>816,629</u>	<u>90</u>

Note:

- (1) This comprises dividends which were declared by the relevant portfolio company in respect of 2003 and 2004 and which are based on SINEK's shareholding in such portfolio companies at the relevant record date. 2003 dividends were declared and paid. 2004 dividends were declared only, with the exception of RUR 448 million of Tatneft dividends, which were paid as an interim dividend.

Recent developments and outlook

In December 2004 SINEK contributed 11.36 per cent. of the ordinary shares in NKNK in exchange for additional capital in Investneftekhim. Investneftekhim exchanged such NKNK shares for 3.36 per cent. in the ordinary shares of Tatneft. This transaction completed on 25 March 2005 after the approval of the Ministry of the Russian Federation on Antimonopoly Policy and formal registration of the transaction was completed.

SINEK has acquired from existing shareholders in the Kazan Engine Building Plant ("KEBP") a further shareholding interest of 18 per cent., which increased SINEK's interest in KEBP to approximately 44 per cent. KEBP manufactures among other products spare parts for OAO Kamaz ("Kamaz") which is the largest Russian truck manufacturer and one of the major industrial conglomerates in Russia. KEBP and Kamaz are currently cooperating in the development of gas-fired turbine equipment for sale to various Gazprom-controlled companies.

SINEK is considering the sale of its shareholding interest of 26.6 per cent. in Kazanorgsintez. Kazanorgsintez is a significant contributor of dividends to SINEK with its dividend payment with respect to 2003 being RUR 119.3 million (comprising approximately 30 per cent. of the aggregate dividends received by SINEK) and a declared dividend payment with respect to 2004 of approximately RUR 127 million.

SINEK also intends to dispose of its shareholding in Alnas (held via Investneftekhim) and is currently seeking to identify a prospective purchaser for such shares.

THE REPUBLIC OF TATARSTAN

Background

Introduction and history

Under the Constitution of the Russian Federation adopted on 12 December 1993 (the “Constitution”), the Republic of Tatarstan (the “Republic”) has the status of a “subject” of the Federation. There are currently 89 subjects within Russia: 21 republics, six provinces, 49 regions, one autonomous region, 10 autonomous districts and two cities of federal significance, Moscow and St. Petersburg. The subjects are governed by their respective legislative and executive authorities and have their own budgets. From 1 December 2005, as a result of unification of two currently existing subjects of Russia to create the Perm province, the number of subjects will be reduced to 88.

The state authority in the Republic is exercised by the President of the Republic, the State Council of the Republic, Cabinet of Ministers of the Republic and the courts (which are integrated into the federal judicial system) comprising a division of authority into legislative, executive and judicial functions. The State Council (the Republic’s parliament) performs legislative functions. The President, the Cabinet of Ministers of the Republic, ministries and state committees and other executive bodies of the Republic (together, the “Government”) constitute the executive authority of the Republic.

Originally formed in 1920, the Republic was known in Soviet times as the “Tatar Autonomous Soviet Socialist Republic”. In August 1990, Mintimer S. Shaimiev, who was at that time President of the Supreme Soviet of Tatarstan, signed the “Declaration of State Sovereignty”, which proclaimed that Tatarstan had primary jurisdiction and ownership over state enterprises located on its territory and that the Tatar Constitution and the Republic’s laws prevailed. In late 1991, the Soviet Union broke up and was succeeded by the Russian Federation. In February 1992, Tatarstan changed its name to the Republic of Tatarstan. In March 1992, a referendum declared Tatarstan to be ‘a sovereign state and a subject of international law associated with the Russian Federation’.

On 12 June 1991, Mintimer S. Shaimiev was elected the first President of the Republic. The first Constitution of the Republic was adopted on 6 November 1992 in accordance with the results of the referendum on the status of the Republic that was carried out in March of the same year. The Republic consequently entered into negotiations with Russia, which resulted, in February 1994, in the signing of the treaty on the “Segregation of Responsibilities and the Mutual Delegation of Powers between the State Bodies of the Russian Federation and the Republic of Tatarstan” (the “Russia-Tatarstan Treaty” or the “Treaty”). The Treaty recognised the Republic’s sovereignty and confirmed the Republic as part of Russia. In addition, it delineated those areas which were the specific areas of responsibility of Russia and those which were the responsibility of the Republic.

One of the most significant results of the Russia-Tatarstan Treaty was that the Republic claimed complete ownership and responsibility for all enterprises, natural resources and organisations located on its territory, except for “federal property”, which consisted mainly of military installations and federal monopolies located in the Republic (e.g. railroads and pipelines). It also resulted in the Republic being able to retain control over the privatisation process, rather than being required to comply with the privatisation laws of Russia.

As a result, the Republic received and retained significant ownership in the privatised enterprises located on its territory and received a golden share in certain enterprises which were viewed as strategically important or having the potential to be profitable. The Republic’s ownership of its land also enabled it to resolve the issue of land ownership in a more transparent fashion than in certain other regions of Russia and, as a result, companies may now own the land on which they are situated and foreign-owned entities set up in the Republic are allowed to purchase land.

The Republic is “self-sustaining” and is a net “donor” to the budget of Russia.

On 10 May 2002, the original constitution of the Republic was replaced with the current Constitution of the Republic which was adopted in compliance with the Federal Constitution. The Treaty is, as a practical matter, no longer effective.

Geography and demographics

The Republic is situated about 800 kilometres south east of Moscow on the confluence of the Volga and Kama rivers on the eastern part of the east European plains and covers an area of approximately 68,000 square kilometres. It has a flat topography with an average height above sea level of 170 metres. The highest point is 381 metres above sea level. The area is seismically stable. The Republic has a moderate continental climate, which favours a wide range of agricultural products: temperatures range from an average low of approximately -14°C in January to an average high of approximately +19°C in July. Average annual rainfall is 500mm. Agriculture is highly developed and forestry accounts for only 16 per cent. of the territory.

The territory is rich in a number of natural resources, which are the mainstay of the local economy. Principal among these is oil, which has been produced commercially in the Republic since 1946. The Republic also has reserves of gas, petroleum bitumen, brown and black coal, combustible shale, copper ore, gypsum, phosphorites and aggregates.

The population of the Republic is approximately 3.8 million, of whom approximately 2.8 million or 74 per cent. comprise urban population. The population of the capital city of the Republic, Kazan, is 1.1 million making it the seventh largest city in Russia. Kazan is recognised as one of the most ancient Russian cities. In August 2005, the 1,000th anniversary of the establishment of Kazan will be celebrated. The second largest city in the Republic, with a population of 528,700, is Naberezhnye Chelny, where the Republic's largest employer OAO Kamaz is located. The average population density in the Republic is 55 people per square kilometre.

The Republic is situated in the highly industrialised Volga basin and is well served by various means of communication. A number of major highways connect the Republic with other industrial centres. The Republic is also served by several major railway lines, connecting with Moscow, Nizhniy Novgorod and Kirov. Two principal rivers, the Volga and the Kama and their major tributaries, the Vyatka and the Belaya, are all navigable except in winter, when they are frozen. The Republic has an international airport in the capital city of Kazan with regular direct flights to Germany, Turkey, Kazakhstan and Azerbaijan, amongst other places, as well as flights within Russia.

Although there are as many as 70 different ethnic groups living in the Republic, the two largest groups are Tatars (52.9 per cent.) and Russians (39.5 per cent.). These proportions are based on 2002 census figures, the last time such a census was carried out. Other groups are Chuvash, Ukrainians, Udmurts, Mordva, Mari and others. The Tatar population is predominantly Muslim and speaks Tatar, which is a Turkic language and relates closely to modern Turkish. The Republic has both Tatar and Russian as its official languages and the Constitution guarantees the equality of these two languages. The vast majority of Tatars also speak Russian, and Russian is widely used for business and administrative purposes.

The political leadership of the Republic has been careful to avoid any potential tensions between the two major ethnic groups. Representatives of both the Russian Orthodox Christian and Muslim religions are present at state ceremonies and the development of Tatar statehood has been presented as inclusive of the Republic's ethnic minorities.

The breakdown by age groups of the population of the Republic approximates to that of Russia. Approximately two-thirds of its population is economically active, with pensioners accounting for slightly over 18 per cent. of the population.

The population of the Republic is stable with a very modest increase over the past three years due to some inward migration into the Republic, much of it from the Central Asian countries. As is the case throughout much of the CIS, birth rates decreased sharply at the beginning of the 1990s and have not recovered to levels reached prior to such decrease, however, birth rates have been increasing, albeit at a low rate, over the last five years.

The proportion of the Republic's population living below the poverty threshold (i.e., earning income of less than subsistence minimum) was 24 per cent. in 2002, 19.03 per cent. in 2003 and 15.2 per cent. in 2004.

Selected budget and economic data

The following tables set out certain selected budget and economic data for the Republic and Russia, including Gross Regional Product ("GRP") and Gross Domestic Product ("GDP") data for Russia for the periods indicated. The Republic budget data is derived from budget information set out in the approved and implemented unconsolidated budget of the Republic (for the years 2002-2004) and in the current 2005 Republic Budget. See "The Republic — The Republic budget and financial accounts".

	Year ended 31 December			
	2002	2003	2004	2005 ⁽¹⁾
	<i>(RUR thousands)</i>			
Republic Unconsolidated Budget Data				
Revenue:				
Tax revenue ⁽²⁾	15,920,542	22,749,743	35,153,922	26,640,768
Non-tax revenue	3,210,893	3,870,341	6,130,836	3,299,526
Revenues of DPFs ⁽³⁾	4,037,669	7,381,639	7,647,362	2,851,832
Receipts from other budgets	14,176,281	10,044,563	12,051,554	14,771,704
Total revenue	<u>37,345,385</u>	<u>44,046,286</u>	<u>60,983,674</u>	<u>47,563,830</u>
Expenditure:				
Sector expenditure	33,600,014	37,451,658	55,023,120	46,825,385
Budget funds	4,133,968	6,999,864	8,011,570	2,851,832
Total expenditure	<u>37,733,982</u>	<u>44,451,522</u>	<u>63,034,690</u>	<u>49,677,217</u>
Surplus/(Deficit)	<u>(388,597)</u>	<u>(405,236)</u>	<u>(2,051,016)</u>	<u>(2,113,387)</u>

Source: Ministry of Finance of the Republic of Tatarstan.

Notes:

- (1) Figures reflect the Republic budget as approved by the Government and published on 4 December 2004 as well as subsequent amendments made to the Republic budget as at 23 December 2004 and as at 18 June 2005. Figures are subject to finalisation and further amendment, and final budget figures for 2005 (reflecting the implementation of the annual budget) are not expected to be published until mid-2006.
- (2) Net revenue after allocation to the Federation.
- (3) Designated Purpose Funds. See "The Republic of Tatarstan — The Republic budget and financial accounts — Designated Purpose Funds ("DPFs") and Off-Budget Funds ("OBFs")".

	Year ended 31 December		
	2002	2003	2004
	<i>(RUR millions except per capita GRP and GDP, population and inflation rates)</i>		
Republic Economic Data			
Total production of goods	157,467	182,463	224,462
Total services	93,651	117,484	137,108
Net taxes on products	<u>10,726</u>	<u>15,092</u>	<u>18,230</u>
Total GRP at nominal prices	<u>261,844</u>	<u>315,039</u>	<u>379,800</u>
Population (thousands)	3,768	3,778	3,773
GRP per capita at current prices (in roubles)	69,492	83,388	100,663
Republic average annual rate of inflation:			
Consumer Price Index (per cent.)	16.4	12.4	12.7
Russian Federation Economic Data			
GDP at current prices (in billions of roubles)	10,834.2	13,285.2	16,778.8
Population (thousands)	145,167	144,964	144,168
GDP per capita at current prices (in thousands of roubles)	74,633	91,645	116,383

Source: Ministry of Economy and Industry of the Republic of Tatarstan and Goskomstat.

Overview of legislative, executive and administrative structure

Relationship with the Russian Federation

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

Historically the heads of the executive authorities in each of the subjects such as the President of the Republic were directly elected by the population of the respective subjects as well as the deputies of the territorial legislatures without the participation of federal authorities in the nomination process. However, on 13 September 2004 the President of Russia announced a reform of the sub-federal election system which has had the effect of reducing the autonomy of the subjects. Under this reform the heads of the executive authorities in the subjects are nominated by the President of Russia and then approved by the legislatures of the respective subjects. The amendments to the earlier electoral system were provided for in the Federal Law No. 159 - FZ dated 11 December 2004 (the “Federal Law No. 159”).

Republic executive authorities

The Republic’s executive authorities comprise the President, the Cabinet of Ministers, various ministries, state committees and other Government bodies established pursuant to the Constitution of the Republic and the law of the Republic “On the State Executive Bodies of the Republic of Tatarstan” No. 64 - ZRT dated 6 April 2005.

The President of the Republic

The President of the Republic is the primary executive authority under the Constitution of the Republic (the Head of State). The President is responsible for the security and territorial integrity of the Republic. The President represents the Republic in international relations, appoints and withdraws representatives from foreign states and international organisations, and concludes treaties with foreign states. The President presents for the approval of the State Council candidates for the offices of the Prime Minister, members of the Cabinet of Ministers of the Republic and Chairman of the Investigation Committee of the Republic and submits to the State Council proposals for their dismissal. The President can initiate laws, sign laws passed by the State Council, exercise rights of veto and issue decrees.

In March 2005 the President of the Republic, Mr Mintimer S. Shaimiev, resigned prior to the expiry of his third presidential term and was nominated by the President of the Federation to govern the Republic for a further term of five years pursuant to Federal Law No. 159. The State Council appointed Mr Shaimiev the President of the Republic in March 2005 for a further term of five years.

The Cabinet of Ministers of the Republic

The Cabinet of Ministers of the Republic is the supreme executive and administrative body within the Republic subordinate to the President and headed by the Prime Minister. The President, subject to the approval of the State Council, appoints the members of the Cabinet. The Cabinet of Ministers is subordinate to and accountable to the President and the State Council. Besides the Prime Minister and his two First Deputies, the Cabinet of Ministers includes three Deputies to the Prime Minister and 18 ministers, the chairperson of the State Committees and the head of administration of the Cabinet of Ministers. The Cabinet of Ministers is authorised to decide upon all issues of state control, which in accordance with the Constitution are not in the competence of the President. The Ministries of the Republic include the following:

- Ministry of Agriculture and Foodstuffs
- Ministry of Civil Defence and Emergency Situations
- Ministry of Information and Communications

- Ministry of Construction, Architecture and Housing
- Ministry of Culture
- Ministry of Economy and Industry
- Ministry of Ecology and Natural Resources
- Ministry of Education and Science
- Ministry of Finance
- Ministry of Health Care
- Ministry of Internal Affairs
- Ministry of Justice
- Ministry of Labour and Employment
- Ministry of Land and Property Relations
- Ministry of Social Protection
- Ministry of Trade and Foreign Economic Cooperation
- Ministry of Transport and Roads
- Ministry of Youth, Sports and Tourism

The Cabinet of Ministers of the Republic has the right to revoke decrees of ministries, state committees of the Republic and other subordinate executive bodies of the Republic. The Cabinet of Ministers of the Republic co-ordinates the work of ministries, state committees and other subordinate executive bodies of the Republic.

The principal ministers performing governmental duties within the Cabinet of Ministers of the Republic currently include:

- Rustam N. Minnikhanov (Prime Minister)
- Ravil F. Muratov (First Deputy Prime Minister)
- Boris P. Pavlov (First Deputy Prime Minister – Minister of Economy and Industry)
- Zilya R. Valeyeva (Deputy Prime Minister – Minister of Culture)
- Marat G. Akhmetov (Deputy Prime Minister – Minister of Agriculture and Foodstuffs)
- Vladimir A. Shvetsov (Deputy Prime Minister – Minister of Transport and Roads)
- Radik R. Gaizatullin (Minister of Finance)

Rustam N. Minnikhanov is Prime Minister of the Republic. He graduated from Kazan Agricultural Institute as a mechanical engineer. His previous positions include Chairman of the Executive Committee of People's Deputies District Council (1990-1992) and Head of Vysokogorsky District Administration (from 1993). In 1996 he became Minister of Finance of the Republic and since July 1998 he has been Prime Minister.

Ravil F. Muratov is First Deputy Prime Minister of the Republic (having held this position since 1995). He graduated from Kazan State University with a degree in economics. His other positions have included Chairman of the board of directors of Ukrtatnafta (since 1996) and Chairman of the Republic's Commission for Economic and Social Reform and he is chairman of a number of other ad hoc committees in the Republic.

Boris P. Pavlov is First Deputy Prime Minister and the Minister of Economy and Industry of the Republic. He graduated from the Kazan Aviation Institute in 1979. His other positions have included Chairman of the Committee of Economy and Industry of the Kazan City Administration (1993 - 2005).

Zilya R. Valeyeva is Deputy Prime Minister and Minister of Culture of the Republic. She graduated from Moscow State University with a degree in journalism. Her other positions have included Vice-President of the State Council of the Republic (1995-1999) and Minister of Press, Broadcasting and Mass Media of the Republic (1999-2001).

Marat G. Akhmetov is Deputy Prime Minister and Minister of Agriculture and Foodstuffs of the Republic. He graduated from Kazan State Veterinary Institute with a veterinary degree in 1976. His other positions have included Head of Administration and Chairman of Council of People's Duties of Baltasinsky district (1991-1999).

Vladimir A. Shvetsov is Deputy Prime Minister and Minister of Transport and Roads of the Republic. He graduated from the Kazan Construction Institute with a degree in communication engineering. His other positions have included Deputy Prime Minister of the Republic and Chairman of the RT State Committee for civil defence and emergency situations (1995-1996). He has been Deputy Prime Minister of the Republic since 1996 and since 2001 he has also been Minister of Transport and Roads of the Republic.

Radik R. Gaizatullin is Minister of Finance of the Republic. He graduated from Kazan Agricultural Institute with a degree in Economics. His other positions have included Deputy Minister of Finance of the Republic (1999 - 2001) and First Deputy Minister of Finance of the Republic (2001-2002).

State Council

The State Council of the Republic (the “State Council”) is the supreme representative and legislative body of the Republic directly elected by the electorate of the Republic in accordance with the Constitution and laws of the Republic.

The State Council is a single-house parliament consisting of 100 elected deputies of whom 20 work permanently at the State Council on a full-time basis. The most recent parliamentary elections were held on 14 March 2004. For the first time those elections were conducted on the basis of single member constituencies and by party lists. Deputies are elected for a five-year term. The next elections are scheduled for 2009.

The State Council can pass laws on the basis of a majority, subject to presidential veto, which can be overcome by a two-thirds majority. In addition to its legislative responsibilities, the State Council approves the Republic’s budget, and approves or nominates candidates to the Cabinet of Ministers, the judiciary and other administrative bodies. The jurisdiction and various responsibilities and powers of the State Council include, *inter alia*, the following:

- (i) adoption of the constitution of the Republic, constitutional amendments and additions;
- (ii) adoption of laws of the Republic;
- (iii) interpretation of laws of the Republic;
- (iv) approval of the budget of the Republic and the report on its implementation;
- (v) approval of the programmes of social and economic development within the Republic;
- (vi) introduction of taxes and duties of the Republic in compliance with federal legislation;
- (vii) establishment and regulation of non-budgetary funds of the Republic and approval of reports on expenditures of these funds;
- (viii) election of the Chairman of the State Council, his deputies and the Secretary of the State Council from deputies of the State Council;
- (ix) approval of the candidate for the position of Prime Minister presented by the President of the Republic, co-ordination of appointment of the candidates proposed by the President of the Republic for positions of deputy Prime Ministers and formation and dissolution of ministries and state committees of the Republic;
- (x) voting for no-confidence in the Prime Minister of the Republic and his deputies;
- (xi) election of judges of the Constitutional Court of the Republic, appointment of the Chairman and the deputy Chairman of the Constitutional Court of the Republic proposed by judges of the Constitutional Court of the Republic; and
- (xii) election of magistrates of the Republic.

Judicial institutions

The principal judicial bodies within the Republic operate under the supervision of federal judicial authorities within the Federation and are integrated in the federal judicial system (except for the Constitutional Court of the Republic and magistrates). Russia has a unified judicial system with federal courts operating throughout Russia, including the Arbitration Court of the Republic (which is a unit of the system of federal state arbitration (i.e. economic courts)), the Higher Court of the Republic and the Municipal or District Courts (which form a part of the system of federal courts of general jurisdiction).

The Arbitration Court of the Republic generally hears “economic” (i.e. business-related) disputes between legal entities and individual entrepreneurs, organisations and citizens. The Higher Court and the Municipal or District courts of the Republic are courts of general jurisdiction and consider civil and criminal cases as courts of first instance. The Higher Court of the Republic is also the first court of appeal from the Municipal or District courts. Magistrates are competent to consider civil cases of low significance in the first instance.

Criminal and civil proceedings in the Republic as well as in Russia are governed by the relevant federal legislation, which is binding on the Republic’s courts. Judges are appointed by the President of Russia upon nomination by the Chairman of the Highest Arbitration Court of Russia (in the case of the Arbitration Court of the Republic) and the Chairman of the Supreme Court of Russia (in the case of the Higher Court and the Municipal or District courts). Supervision over judicial practice of all courts of general jurisdiction in Russia is exercised by the Supreme Court of Russia and over arbitration courts by the Highest Arbitration Court of Russia.

Pursuant to the Republic Constitution, the Constitutional Court of the Republic is the Republic’s judicial forum competent to review the compliance of the Republic legislation with the Republic Constitution and to interpret the Republic Constitution.

Municipalities

Local governing functions throughout the Republic are exercised by local administrations (the “municipalities”), which report to local councils. The heads of local administrations are either the heads of local councils or are appointed based on the results of tenders conducted by a tender commission of the relevant municipality.

Local councils are the representative municipal bodies in their particular locality. Within their competence, local councils can independently consider all local issues, including those of economic, social and cultural development, and can approve a budget and determine taxes and duties in accordance with the legislation of the Federation and the Republic.

Principal activities of the Republic

Overview

The Republic’s primary functions are to exercise regional governance and administration and to provide basic services to residents. In 2004, approximately 43 per cent. of total expenditure of the Unconsolidated Budget was spent on the following primary activities: industry, energy and construction; social welfare; health and sport; agriculture and fishery; housing and utilities; state and local administration; and law enforcement. In 2002 and 2003, 49 per cent. and 52 per cent., respectively, of the expenditure in the Unconsolidated Budget was allocated for these activities. In 2005, the Republic has budgeted approximately 50 per cent. of its Unconsolidated Budget expenditure for these activities. A significant proportion of the Republic’s funds is spent on these and other activities through municipal budgets and such expenditure is included under “Financial support to the other budgets” in the Unconsolidated Budget. A significant amount of such expenditure relates to education. In addition, the Republic undertakes significant expenditure on various activities through Designated Purpose Funds (“DPFs”) and such expenditure is partially supported by allocations to budget funds in the Unconsolidated Budget.

For a further description of the Republic budget expenditure as it relates to the Republic’s principal activities, see “The Republic and financial accounts — The Republic budget — Revenues and expenditure of the Republic’s Unconsolidated Budget”.

Industry, energy and construction

The Republic’s unconsolidated expenditure in the sectors of industry, energy and construction amounted to RUR 11.2 billion in 2004 (compared to RUR 10.5 billion in 2003). The Republic’s activities in these areas also comprise a range of actions and funding initiatives which focus on the encouragement of industry in the Republic, the support and development of utilities such as the provision of heat and electricity and the overseeing of construction and renovation programmes throughout the Republic.

The Republic’s capital expenditure on industry, energy and construction includes expenditure on construction, repair and renovation of certain buildings and housing (including schools, hospitals and government offices), repair of heat and gas facilities and investments in the real estate sector.

Social welfare

The Republic's programme in the area of welfare and social protection covers the 43 districts and two cities in the Republic. The Republic finances 169 social welfare facilities and estimates that as at 1 January 2005 approximately 410,000 persons in the Republic received some form of welfare provision or maintenance.

The Republic's welfare sphere employs approximately 13,500 social workers, including 560 welfare professionals and administrators working in the ministry itself. The principal expenditure items comprise funding for social support facilities, homes for the elderly, child allowances, support to the homeless, welfare subsidies to low-income families and allowances made to families for utility payments.

The Republic intends to eliminate subsidies over time and to transfer costs relating to real estate and utility services to the account of residents in the Republic.

An important development in the Republic's social welfare activity is the so-called "monetisation" of social benefits for certain parts of the population and the phasing out of cross-subsidies. Such monetisation allows for improved budget planning and implementation and the proper supervision of the award of benefits.

The Republic is working towards a more reliable method of evaluating the means of residents by improving the methods of recording the asset ownership of potential welfare recipients.

Health and sport

The provision of medical care is regulated and overseen by the Republic in accordance with its healthcare programme. The Republic has over 500 healthcare facilities of varying sizes and sophistication. The number of hospital beds available for patients throughout the Republic has declined by approximately 24 per cent. over seven years. The Republic is seeking to increase efficiency in the provision of hospital and clinic services.

State-guaranteed medical care for the Republic's residents is financed from the Republic's budget. In 2004, the Republic's budget contributed to the funding and support of 410 medical institutions, including 202 hospitals and 155 outpatient and poly-clinics. Approximately 70 per cent. of expenditures are sourced from the mandatory public medical insurance fund of the Republic, which is a DPF in the Unconsolidated Budget.

The Republic's capital expenditure applied to the healthcare sector includes expenditure on procurement and modernisation of equipment as well as other investments in healthcare infrastructure.

Education

The Republic has approximately 2,500 secondary schools, 106 vocational training institutions, 19 colleges and five higher education institutions. In 2004, education expenditure amounted to approximately RUR 13 billion (which is recorded in the Republic's Consolidated Budget), a significant portion of which was spent through the municipal budgets. The Republic is planning to rejuvenate its education system in the coming years to ensure that it is appropriately matched to the Republic's needs. The Republic is also involved in a nationwide reform programme which is aimed at ensuring that the Federation's education system is of an international standard.

State and local administration

The expenditure on state and local administration in the Republic's Unconsolidated Budget reflects the financing of the Republic's administrative bodies. The local administration of municipalities is financed through municipal budgets. Expenditure amounted to RUR 1.6 billion in 2003 and RUR 1.9 billion in 2004. Expenditure provided for in the 2005 Republic Budget exceeds RUR 2.1 billion.

Law enforcement

Law enforcement and emergency services in the Republic are administered by the Ministry of Internal Affairs and the Ministry of Justice. The Ministry of Justice is responsible for the maintenance of justice in the Republic and supports the activities of magistrates. The Ministry of Internal Affairs is responsible for the organisation and performance of the local police force.

Housing and utilities

Public housing and utilities services are provided in the Republic through Republic-controlled entities. The Government subsidises the costs of housing and utilities (including building maintenance and provision for heat, electricity and water) for low-income families (RUR 1.6 billion was allocated for such subsidies in the Unconsolidated Budget in 2004). The procedures for the provision of such services in the Republic are consistent with the procedures adopted throughout the Federation, and the Republic has maintained low rental charges and tariffs by comparison with other subjects in the Volga region. The Government intends to complete the process of privatising the entities which provide housing and utilities by the end of 2005.

Roads

Construction, maintenance, renovation and repair of the road system in the Republic depends on the status of a particular road and whether it is designated a federal, Republic or municipal road. The Republic will maintain and repair those roads which are designated as being Republic roads and will contribute, through funding support to the municipal budgets, to the cost of maintenance and repair of those roads which are designated as being those of the municipalities. Federal-designated roads are funded from the federal budget.

Development of the mortgage market

There is currently demand in the Republic (particularly in Kazan and Naberezhnye Chelny) for standard-design small- and medium-sized apartments in newly constructed apartment buildings. A significant number of residents in the Republic are ready to participate in a mortgage lending programme. However, the growth of the mortgage market is limited by the shortage of such residential real estate properties and the small number of mortgage loans advanced by local banks.

The Republic's mortgage lending agency (the "Agency"), in operation since 2003, works in co-operation with local banks with the objective of providing mortgage loans to the population. The Agency also operates as the Republic's branch of the federal mortgage agency, receiving in this capacity the Republic's quota of funds allocated for mortgage lending support from the federal budget. Since its inception the Agency has provided more than 3,500 mortgage loans.

SINEK will apply a portion of the net proceeds of the Notes to provide a loan to the Agency to finance the construction of apartments and to acquire existing mortgage loans from local banks in order to expand the mortgage lending capacity of those banks. A primary objective of the Government, as the founder of SINEK, is to facilitate mortgage lending in the Republic.

The Republic's economy

Overview

The Republic is one of the most economically developed regions of Russia. In 2004, of the 89 subjects of the Federation, the Republic had the eighth largest GRP, representing 2.3 per cent. of the total GDP of the Federation.

Gross Regional Product (GRP)

According to the Ministry of Economy and Industry of the Republic and Goskomstat, the growth of GRP of the Republic in real terms was approximately 6.7 per cent. in 2003 and approximately 6 per cent. in 2004. In 2003 and 2004, the nominal GRP of the Republic increased by 20.3 per cent. and 20.6 per cent. respectively, compared with 2002 and 2003, respectively.

The following table provides annual data for the GRP of the Republic at nominal prices for the years indicated.

	Year ended 31 December		
	2002	2003	2004
		(RUR millions)	
Total production of goods:	157,467	182,463	224,462
Total services:	93,651	117,484	137,108
Total Gross Added Value (GAV)	<u>251,118</u>	<u>299,947</u>	<u>361,570</u>
Net taxes on products:	10,726	15,092	18,230
Total GRP	<u>261,844</u>	<u>315,039</u>	<u>379,800</u>

Source: Ministry of Economy and Industry of the Republic of Tatarstan and Goskomstat.

The industrial sector in 2004 represented 43.3 per cent. of the GRP of the Republic, while domestic trade, construction, agriculture and transport represented 12.7 per cent., 10.2 per cent., 8.5 per cent. and 7.5 per cent., respectively.

Industrial production

The Republic's industrial production in 2004 represented 3 per cent. of total industrial production of the Federation. The Republic is the second largest amongst the 15 subjects located in the Volga Federal District (ranking behind Samara province) in terms of industrial production (being measured in volume of production and the price of goods). The volume of industrial production in the Republic in 2004 reached RUR 348,409 million (an increase of 23.6 per cent. at nominal prices compared with the previous year).

The Republic currently produces approximately 30 million tonnes of oil annually, or 7 per cent. of total Russian production, 29,000 trucks (14.4 per cent. of Russian annual domestic production), 41,000 cars (3.6 per cent. of Russian domestic production), over 310,700 tons of synthetic rubber (28 per cent. of Russian domestic production), 417,300 tons of polyethylene (39 per cent. of Russian domestic production) and 11.2 million tyres (28.6 per cent. of Russian domestic production).

The Republic's key industries are fuel, machine building and metalworking, and the chemical and petrochemical industries. The industrial sector of the Republic is dominated by the 10 largest entities (six of which are SINEK's portfolio companies), which collectively employ approximately 50 per cent. of the industrial workers in the Republic, or over 11 per cent. of the working population. These entities are Tatneft (oil and gas), OAO Kamaz ("Kamaz") (trucks and cars), OAO Nizhnekamskshina ("Nizhnekamskshina") (tyres and chemicals), NKNK (petrochemicals and chemicals), Kazanorgsintez (petrochemicals), Tatenergo (energy generation), Kazan Engine Building Plant (machine building), OAO Kazan Helicopter Factory ("Kazan Helicopters") (civil and military helicopters of different types), KAPO (aircraft) and Zelenodol Plant named after A.M. Gorky (a state-owned shipbuilding enterprise).

The composition of industrial production of the Republic is presented below at nominal prices for the years indicated:

	Year ended 31 December					
	2002		2003		2004	
	RUR⁽¹⁾ million	Proportion of total (per cent.)	RUR⁽¹⁾ million	Proportion of total (per cent.)	RUR⁽¹⁾ million	Proportion of total (per cent.)
Fuel industry	88,983	37.7	107,494	38.1	127,095	36.5
Machine building and metal working .	54,601	23.1	66,176	23.5	86,350	24.8
Chemical and petrochemical	41,075	17.4	49,451	17.5	62,785	18
Food industry	21,416	9.1	24,341	8.7	26,308	7.5
Electrical energy	16,222	6.9	18,906	6.7	23,605	6.8
Building materials	3,994	1.7	4,815	1.7	5,345	1.5
Timber, woodworking, pulp and paper industry	3,550	1.5	3,942	1.4	5,896	1.7
Light industry	2,038	0.9	2,029	0.7	2,297	0.7
Other	3,976	1.7	4,693	1.7	8,728	2.5
Total industrial production	235,855	100	281,847	100	348,409	100

Source: Committee for State Statistics of the Republic of Tatarstan.

Note:

(1) The RUR amounts shown herein are based on the nominal prices (unadjusted for inflation) for relevant product of the various production sectors.

Fuel industry

The Republic is the third-largest oil producing region in Russia (after the Khanty-Mansi and Yamalo-Nenets autonomous districts) with production levels of 29.2 million tons in 2003 and 29.9 million tons in 2004, representing approximately 7 per cent. of total oil production in Russia in 2004. The up-stream oil sector accounts for 96 per cent. of the Republic's fuel industry. Oil production commenced in the Republic in the early 1940s. The main oil company operating in the Republic is Tatneft, which is the sixth largest oil company in Russia (in terms of output) and which accounted for over 6 per cent. of oil production in Russia and approximately 84 per cent. of oil production in the Republic in 2004. In 2004, Tatneft produced 25.4 million tons of crude oil, or 2 per cent. more than in 2003. As of 1 January 2004 the proven recoverable oil reserves of Tatneft were 837 million tons (5,959 million barrels), of which proven developed reserves account for 94 per cent. At current production levels, the existing reserves are expected to last for 30 years.

According to the Ministry of Economy and Industry of the Republic and Goskomstat the growth of the oil industry in real terms in the Republic was 4 per cent. in 2004 compared to 2003, including a 13.2 per cent. increase of production in the oil processing industry. Upstream oil production in the Republic increased by 2.5 per cent.

Machine building and metal working

In the machine-building and metalworking industry, production volume increased by 30.5 per cent. at nominal prices in 2004 compared to 2003, which was mainly due to the increase of production in the electrical device industry (an increase of 16.2 per cent.), the instrument-making industry (an increase of 16.2 per cent.), the chemical engineering and oil-extracting equipment industry (an increase of 13.2 per cent.) and the automobile industry (an increase of 16.7 per cent.).

Chemicals and petrochemicals

Petrochemical production is the most significant sector in the Republic's chemical and petrochemical industry. The principal products are synthetic rubbers, polyethylene and tyres and other important chemical products include plastics, synthetic rubbers, gums and photographic materials. The aggregate output of the Republic's petrochemical and chemical companies was over RUR 62 billion in 2004. As a

proportion of total production in Russia, NKNK currently produces 26 per cent. of all synthetic rubber, 20.3 per cent. of all propylene, 59.2 per cent. of all styrene and 13.3 per cent. of all polystyrene. NKNK and Kazanorgsintez produce (in aggregate) 35.8 per cent. of all ethylene produced in Russia (20.9 per cent. and 14.9 per cent. respectively). Nizhnekamskshina manufactures approximately 30 per cent. of all tyres produced in Russia and Kazanorgsintez produces 36 per cent. of all polyethylene produced in Russia.

Production in the chemical and petrochemical industry increased by 27.0 per cent. at nominal prices in 2004 compared to 2003. The output of ethylene, propylene, butyl rubber, thermoplastic pipes and pipe connections, polyethylene, synthetic rubber, technical carbon and tyres for cars, trucks and agricultural machines contributed to the overall growth of this sector.

Other industries

The Republic's automotive industry is represented by such companies as Kamaz and OAO Compact Car Plant (ZMA). Kamaz is the largest employer in the Republic (employing approximately 52,000 people) and the leading Russian truck manufacturer. In 2004, Kamaz produced over 29,000 trucks and 41,000 cars, which was 20.7 per cent. and 2.8 per cent. more than in 2003, respectively.

Kazan Helicopters is one of the leading exporters in the Republic, supplying 93 per cent. of its helicopter production to foreign purchasers. The company manufactures helicopters for passengers, cargo, "flying hospitals", executive, military, and other modifications equipped with rescue, fire extinguishing, ambulance, and parachute jump facilities.

Passenger and cargo aircraft are manufactured at Kazan Aircraft Production Association n.a. Gorbunov ("KAPO"). In 2000, KAPO received a licence to manufacture the Tupolev-214 aircraft. In 2003, two such aeroplanes produced by KAPO were leased to one of the top Russian aviation companies (Dalavia).

The growth of production in 2004 in the timber, wood processing, woodworking, pulp and paper industry was 49.6 per cent. at nominal prices resulting from the increase in the production volume of plywood (8.9 per cent.), cartons (10.3 per cent.) and paper (4.3 per cent.).

The production volume in the food industry in 2004 when compared to 2003 increased by 8.1 per cent. at nominal prices.

The production of building materials in 2004 increased by 11.0 per cent. at nominal prices compared to 2003 resulting from the increase of the production of pre-fabricated concrete by 28.3 per cent. and cement solution by 20.1 per cent. (which was in turn driven by growing demand in the Republic and generally in Russia).

The production level of light industry in 2004 increased by 13.2 per cent. at nominal prices compared to 2003, principally because of an increase in production in the textile industry (which increased in 2004 by 33 per cent.).

Agriculture

The total area of the Republic is 6.8 million hectares, of which 4.7 million hectares are agricultural lands. Approximately 3 million hectares are arable land. The Republic's agricultural sector satisfies the basic needs of the population in terms of food supplies. The Republic is one of the top three regions of Russia in the production of grain, meat, milk and other agricultural products. In the last three years, the Republic harvested between 4 and 5 million tons of grain crops. The Republic produces approximately 5 per cent. of Russia's total grain crop.

Agriculture in the Republic is diversified. Plant cultivation is represented by grain, potato, vegetable, sugar and beet production as well as seed farming and associations for grain, perennial herbs, potato, sugar beet and mangel.

Total grain crop in the Republic in 2004 was approximately 3.9 million tons, which was approximately 16 per cent. less than in 2003. This decline was caused by a fall in grain productivity from 3.15 tons per hectare in 2003 to 2.51 tons per hectare in 2004. Despite the decrease in the production of grain, the Republic remains the largest producer of grain in the Volga Federal District (which consists of 15 of the Federation's subjects) and the second largest in Russia.

The growth of the agricultural industry in 2004 was due principally to a significant increase in sugar beet production (by 63 per cent.) and potato production (by 22 per cent.) compared to 2003.

Meat production increased by 4.1 per cent. and reached approximately 310 thousand tons in 2004. The production of milk grew by 0.1 per cent. to approximately 1.5 million tons in 2004 and that of eggs increased by 2.1 per cent. to 980.3 million pieces. In 2004, the share of the Republic in total Russian production of cereals was 5 per cent., of sugar beet 8 per cent., of potatoes 4.5 per cent., of vegetables 2.2 per cent., of milk 4.7 per cent. and of eggs 2.7 per cent.

Construction

There are approximately 10,000 construction enterprises in the Republic, employing over 8 per cent. of the working population and contributing 10 per cent. of the Republic's GRP. In 2004, the volume of revenues by construction companies of the Republic (including small businesses and "grey market" construction companies) was estimated at approximately RUR 47.5 billion, representing an increase of 8.9 per cent. as compared to 2003. In 2004, newly constructed housing space in the Republic increased by 1,750,000 square metres, or 12.1 per cent., compared to 2003.

Transport

The Republic's road, rail and river lines network is one of the most developed in Russia and provides easy access to a wide range of areas of Russia, including the Urals, Siberia, the Far East and the European part of Russia.

In 2004, approximately 8.6 million tons of cargo were transported on a commercial basis by the Republic's companies (including small businesses and individual businessmen engaged in commercial freight transportation), representing an increase of 9 per cent. compared with 2003. The turnover of goods was approximately 1.2 billion tons per kilometre, which was approximately 38 per cent. higher than in 2003.

Road transport

The Republic's road network includes 20,122 kilometres of roads, of which 18,564 are hard covered roads, and 1,038 kilometres form part of the federal road system. There are approximately 475,000 cars and 79,916 trucks in the Republic. The total cargo transported by trucks and cars in 2004 was approximately 120.2 million tons, which was approximately 19 per cent. higher than in 2003.

Rail transport

The Republic is served by major railway lines connected to Moscow, Nizhniy Novgorod, Kirov, Chelyabinsk and Ekaterinburg. In 2004 total cargo volume was approximately 40.4 million tons, which was approximately 10 per cent. higher than in 2003.

River transport

There are four navigable rivers in the Republic: the Volga, the Kama, the Vyatka and the Belaya (which collectively comprise 933 kilometres of waterways). The Volga and Kama rivers form a united deep water traffic system in European Russia. In 2004, approximately 1.1 million passengers were transported through the Republic's river network, which was approximately 10 per cent. higher than in 2003. In 2004 the cargo shipped through the Republic's river network increased to approximately 6.5 million tons, which was approximately 12 per cent. higher than in 2003.

Air transport

The Republic's cities have air connections to numerous locations within Russia. The Republic's capital city of Kazan has international air connections to Turkey, Germany, Kazakhstan and Azerbaijan. One of the leading international airlines, Lufthansa, operates four weekly flights to Kazan from Frankfurt. In 2004, air traffic volume was 373,000 passengers, as compared to 100,000 passengers in 2003.

Pipeline transport

There are approximately 5,880 kilometres of pipelines in the Republic which facilitate the transportation of oil to a number of CIS and European countries and to other regions of Russia. In addition, the "Druzhba" or "Friendship oil pipeline" connecting with a number of Eastern European countries starts in the Republic. In 2004, the total volume of oil and oil products transported through the Republic's pipeline system was 28.6 million tons, representing a decrease of approximately 14 per cent. compared to 2003 (33.2 million tons).

Communications

The Republic's telecommunications sector comprises 217 telecommunications operators employing over 24,000 people. They generated approximately RUR 9 billion in gross revenue in 2004 and RUR 6.8 billion in 2003 with nominal annual growth of 35 per cent. The telecommunications sector contributed taxes of RUR 2 billion in 2004 and over RUR 1.4 billion in 2003 to the Republic budget. The main contributors to gross revenue in 2004 were cellular operators (42.3 per cent.), city telecommunications (18.3 per cent.), long distance telecommunications (17.6 per cent.), postal communications (8.4 per cent.) and new information technology services (e.g., internet and IP communications) (6.6 per cent.).

In order to improve the information transport network and to meet growing demand for telecommunications services in 2004, more than 900 kilometres of optical fibre cable lines have been constructed and became operative in the Republic, including 415.5 kilometres in new areas.

In 2004, the installed capacity for telephone numbers increased by 1.1 million which is double the 2003 capacity. Of that figure, 204,000 are wirelines and 896,000 are cellular lines. As a result of these increases, the total installed capacity of telephone numbers in 2004 reached 2.8 million, including 1.8 million numbers for cellular networks and one million numbers for wireline networks.

The level of telephone coverage in villages in the Republic is 98.5 per cent., which is high in comparison with other regions of Russia. There are digital transit automatic telephone exchanges operating in 41 cities, towns and district centres in the Republic. The payphone network in the Republic has also been updated. This modernisation has allowed the Republic to become one of the first regions to eliminate the use of post counters to make telephone calls and expand the spectrum of telephone services. It is possible to make international calls from payphones in many cities and towns of the Republic.

To finance the development of the communications programme in the Republic, special domestic "telephone bonds" were issued by the Republic's Ministry of Communication and placed with those private holders who wanted to have home telephones. Some additional financing was also raised through loans to communication operators.

Banking system

The Republic has a developed banking sector consisting of 27 financial institutions headquartered in the Republic which have 55 branches located in the Republic. These financial institutions also have 16 branches operating outside the Republic, of which five are in Moscow. In addition, there are 47 additional branches of banks with headquarters outside the Republic operating in the Republic (the majority of which are branches of Sberbank). The Russian Government-owned Vneshtorgbank (Bank for Foreign Trade), as well as private banks, Alfa Bank and Zenit Bank, also have established branch networks in the Republic. According to the journal "Expert", one of the leading business journals in Russia, as of January 2005, among the 200 largest Russian banks by assets, six banks are headquartered in the Republic.

As of 1 January 2005, total assets in the Republic of all banking institutions operating in the Republic exceeded RUR 130 billion. The total paid-in capital and shareholders' funds of all banks in the Republic reached RUR 21.3 billion compared to RUR 13.3 billion in 2004. The largest financial institution headquartered in the Republic is AK BARS Bank, which accounts for approximately 43.5 per cent. of total local bank assets and approximately 44 per cent. of the capital of all banks registered in the Republic. The Treasury of the Republic of Tatarstan holds its bank accounts with AK BARS Bank.

Regulation and supervision of banks in the Republic is the responsibility of the National Bank of the Republic (the "National Bank"), which is a division of the Central Bank.

Employment and wages

The structure of employment by sectors of the economy is shown below:

	Year ended 31 December				
	2001	2002	2003	2004⁽¹⁾	
		<i>(thousands of people)</i>			
Industry	435.9	433.2	434.2	435.2	
Agriculture	242.1	222.8	222.2	221.6	
Transport and communication	109.2	110.8	111.8	112.8	
Construction	139.1	140.3	140.1	139.9	
Trading and catering	215.8	239.6	240.4	241.1	
Others (including state administration, housing and utilities and education)	556.3	569.9	571.3	574.4	
Total working population in the economy.....	1,698.4	1,716.6	1,720.0	1,725.0	

Source: Ministry of Labour and Employment of the Republic of Tatarstan.

Note:

(1) Preliminary data. Expected to be finalised by the Ministry of Labour and Employment of the Republic of Tatarstan in September 2005.

Of the Republic's total working population, approximately 20 per cent. are currently employed by the Republic. The average wage of employees working in enterprises and organisations in the Republic in November 2004, including both the public and the private sectors, was RUR 5,691 per month (18.4 per cent. more than in November 2003). The average wage of employees paid from the Republic's budget has increased by 270 per cent. during the last three years. The average wages of the Republic's employees paid from the budget increased by 33 per cent. in 2004 and by 20 per cent. in January 2005.

The salaries of Republic employees are calculated on the basis of a so-called "Unified Tariff System" provided for by federal law. In the private sector, companies generally determine and establish in bilateral or collective contracts the level of salary, type and system of payment of labour, tariff rates, bonuses and other incentive payments.

In 2004, unemployment in the Republic increased by 3,225 people compared to 2003 and reached 27,725 people. This level of unemployment accounted for 1.6 per cent. of the total recorded working population of the economy. The official unemployment rate only reflects unemployed persons who have formally registered as such, and actual unemployment may be higher than figures indicate. In 2003, the resolution "On measures to increase the effective development of the economy and employment in 2003-2004" was approved, pursuant to which the Ministry of Labour and the Ministry of Economy and Industry signed framework agreements with the 10 largest companies in the Republic on co-operation in the area of employment. The Government encourages local producers to increase levels of production in order to create new jobs. The Government also facilitates the development of small businesses as part of the drive to create new jobs.

Foreign trade and foreign investment

The goal of the Republic's foreign trade policy is to facilitate such trade and increase the level of international co-operation by assisting export-orientated producers, identifying new customers and markets and encouraging new production capacity for competitive, higher value-added export-oriented products. The tariff structure and the restrictions on imports are regulated by the federal government.

The Republic has the authority to conduct negotiations and execute economic relationships with foreign countries but is not permitted to have any sovereign international arrangements. All of the Republic's trade agreements and agreements on international economic co-operation with foreign countries are classified as mutual declarations, good-will gestures or letters of intent. Although not legally binding, these agreements do facilitate economic co-operation between foreign companies and local producers in the Republic. At present the Republic has 28 such agreements with CIS and non-CIS countries, including 12 agreements with regions of foreign states, and 64 agreements with other regions of Russia.

The Republic provides support and assistance to local export-oriented companies. The major task of the Government in the area of foreign trade is to create favourable conditions for the development of a broad-based, diversified export sector.

The main contributors to export growth are the oil and gas and chemical and petrochemical industries. The main export items are crude oil, oil products, trucks, and certain types of manufacturing equipment and spare parts. The Republic's strategy is to direct revenues generated by exports in such a way that enables the local economy to attract investments and move towards increasing the share of high value-added products and services (such as refining, producing sophisticated petrochemicals and technically advanced engineering), as well as to upgrade the Republic's heavy industry and agricultural sectors.

The key export components of the Republic's economy for 2003 and 2004 are shown in the following table:

	Year ended 31 December					
	2003			2004		
	<u>Quantity</u>	<u>Amount</u>	<u>Proportion</u>	<u>Quantity</u>	<u>Amount</u>	<u>Proportion</u>
		(U.S.\$ millions)	(per cent.)		(U.S.\$ millions)	(per cent.)
Crude oil (thousands of tons)	16,808.4	2,773.1	65.7	16,963.6	3,821.2	65.1
Oil products (thousands of tons)	2,177.5	350.9	8.3	2,619.6	625.5	10.7
Cycle carbohydrates (thousands of tons)	228.4	143.0	3.4	177.4	165.4	2.8
Rubber (thousands of tons)	139.5	179.5	4.3	190.2	267.6	4.5
Tyres, items (thousands of tons)	2,201.4	86.0	2.0	2,233.5	98.7	1.7
Machinery, equipment, instruments, ⁽¹⁾ transport (including automobiles and trucks)	—	338.1	8.0	—	434.4	7.4
Other goods ⁽¹⁾	—	349.8	8.3	—	458.9	7.8
Total		<u>4,220.4</u>	<u>100</u>		<u>5,871.7</u>	<u>100</u>

Source: Committee for State Statistics of the Republic of Tatarstan.

Note:

(1) The presentation of unit information for this item is not practicable.

The key import components of the Republic economy for 2003 and 2004 are shown in the following table:

	Year ended 31 December					
	2003			2004		
	<u>Quantity</u>	<u>Amount</u>	<u>Proportion</u>	<u>Quantity</u>	<u>Amount</u>	<u>Proportion</u>
	(U.S.\$ millions)	(per cent.)		(U.S.\$ millions)	(per cent.)	
Ferrous metal pipes (thousands of tons)	0.9	0.9	0.2	0.1	0.2	0.0
Machine, equipment ⁽¹⁾ transport items	—	287.2	58.7	—	265.4	65.6
including:						
Automobile, items (thousands of tons)	1,052	7.1	1.5	1,832	8.9	2.2
Truck, items (thousands of tons)	50	0.3	0.1	39	0.3	0.1
Spare parts of ⁽¹⁾ transport items	—	35.1	7.2	—	25.8	6.4
Mechanical equipment ⁽¹⁾	—	196.4	40.0	—	178.5	44.1
Electrical equipment ⁽¹⁾	—	17.3	3.5	—	18	4.4
Other goods of this kind ⁽¹⁾	—	31	6.4	—	33.9	8.4
Drinks (alcoholic ⁽¹⁾ and non-alcoholic)	—	0.8	0.2	—	0.6	0.2
Other goods ⁽¹⁾	—	200.6	40.9	—	138.4	34.2
Total		489.5	100		404.6	100

Source: Committee for State Statistics of the Republic of Tatarstan.

Note:

(1) The presentation of unit information for this item is not practicable.

In 2004, foreign trade turnover increased by 33.3 per cent. compared to 2003. This resulted from a growth in exports of 39.1 per cent. in 2004 compared to 2003. In 2004 imports decreased by 17.3 per cent. compared to 2003. Export growth was dominated by crude oil in 2004, which accounted for 63.5 per cent. of total growth, mainly due to the increase of oil prices. The decrease in imports in 2004 was caused by a decline in the import of cars, equipment and spare parts, although the share of these items in total imports of the Republic is still approximately 65 per cent. The Republic also imports ferrous metals and pipes, medicines, soft drinks and alcohol, plastics and plastic products.

Principal trading partners

Major foreign trade partners of the Republic are Great Britain, Germany, Turkey, the Netherlands, Finland and Italy (among non-CIS countries), and Azerbaijan, Belarus, Kazakhstan and Ukraine (among CIS countries). Trade with Uzbekistan has also increased in recent years. The Republic's exports to these countries consist mostly of crude oil, petroleum products and petrochemical products.

The trade partners of the Republic in 2003 and 2004 are shown in the following table:

	2003			2004		
	Foreign trade turnover	Exports	Imports	Foreign trade turnover	Exports	Imports
	<i>(U.S.\$ millions)</i>					
Netherlands.....	530.2	515.5	14.6	1,011.7	999.6	12.1
Turkey.....	159.6	156.5	3.1	841.6	835.6	6.0
Finland.....	308.2	305.8	2.4	441.1	437.9	3.2
Italy.....	64.6	46.0	18.6	274.6	252.4	22.2
Ireland.....	106.7	106.7	0.0	251.9	251.7	0.2
Great Britain.....	102.1	93.7	8.4	243.8	233.6	10.2
Poland.....	195.8	194.0	1.8	222.3	215.6	6.7
Sweden.....	10.8	4.3	6.5	183.8	155.7	28.1
USA.....	37.5	20.2	17.3	154.6	123.8	30.8
France.....	24.2	13.1	11.1	144.6	119.7	24.9
Chechnya.....	340.3	333.5	6.8	143.1	134.9	8.2
China.....	132.7	125.3	7.4	103.4	99.2	4.2
Belgium.....	39.1	35.6	3.5	72.4	64.8	7.6
Bulgaria.....	7.5	6.4	1.1	51.0	46.2	4.8
Switzerland.....	1,206.6	1,195.6	11.0	41.5	36.2	5.3
Others.....	537.7	354.9	182.8	854.1	707.7	146.4
Total Non-CIS countries.....	3,803.6	3,507.2	296.4	5,035.5	4,714.6	320.9
Ukraine.....	584.0	526.5	57.6	928.8	887.1	41.7
Kazakhstan.....	126.7	109.4	17.3	201.4	174.3	27.1
Uzbekistan.....	21.5	15.3	6.2	24.0	14.7	9.3
Others.....	174.1	62.0	112.1	86.6	81.0	5.6
Total CIS countries.....	906.3	713.2	193.1	1,240.8	1,157.1	83.7
TOTAL.....	4,709.9	4,220.4	489.5	6,276.3	5,871.7	404.6

Source: Committee for State Statistics of the Republic of Tatarstan.

Foreign investments

Due to the Russian monetary and economic crisis of 1998, the volume of foreign investment in the economy of the Republic declined significantly in 1999. Investments from abroad in 1999 were 3.4 per cent. of the level achieved in 1998. In 2000, foreign investors became more active in Russia in general and in the Republic in particular, which resulted in the Republic becoming one of the top 20 destinations for foreign investment among Russian regions. In 2000, foreign capital investment in the Republic increased over six times compared to 1999 reaching U.S.\$142.9 million. Of this amount, U.S.\$53.6 million were direct investments, while portfolio investments and foreign bank and commercial loans accounted for U.S.\$89.3 million.

The favourable trends in the area of foreign investment and the increase of the amounts of foreign capital flowing into the Republic continued in subsequent years. In 2001, the inflow of foreign capital into the Republic's economy amounted to U.S.\$651 million (a 455 per cent. increase compared to the previous year). U.S.\$8.5 million represented direct investments, U.S.\$91.9 million were portfolio investments, and the balance of U.S.\$550.71 million represented foreign debt financing and other investments.

The inflow of foreign capital to the Republic in 2002 decreased by 1.3 per cent. from that received in 2001 and amounted to U.S.\$642.5 million. Of this amount, U.S.\$639.8 million represented bank and commercial debts, with direct and portfolio investments being only U.S.\$2.5 million and U.S.\$0.2 million

respectively. In 2003 foreign investments in the Republic declined to just over U.S.\$176 million, and their structure changed compared to 2002 with the increase of direct investments to U.S.\$77 million (43.8 per cent. of the total volume of foreign investments in 2003), and the decline of foreign debt financing to U.S.\$94.2 million. In 2004 direct foreign investments increased by 2.8 per cent. Foreign portfolio investments and debt financing and other investment increased significantly in 2004 as compared to 2003. The majority of direct investments went into the food industry and agricultural sector of the Republic. Portfolio foreign investments and debt financing were concentrated in the fuel and petrochemical sectors, as well as in the communication and food industries.

Privatisation

The Ministry of Land and Property Relations of the Republic is responsible for preparing a privatisation plan and recommending properties, including enterprises, non-residential buildings and shares in various joint stock companies, for privatisation in a given year. This plan is then submitted to the Government for approval. Prior to privatisation, all assets are subject to independent market valuation. All proceeds from privatisation are directed to the Republic budget.

The total revenues from privatisation of the Republic's property amounted to RUR 1.89 billion in 2003 and RUR 1.91 billion in 2004. These revenues included the proceeds from the sale of land, which amounted to RUR 789.8 million in 2003 and RUR 352.6 million in 2004, and proceeds from the sale of shares. The proceeds from the sale of shares by the Republic in 2003 and 2004 amounted to RUR 592 million and RUR 325.3 million, respectively. During 2003 and 2004 the Republic privatised, by way of sale of shares, 153 and 129 enterprises, respectively. In 2005 the Republic intends to privatise 54 state enterprises, including Tatarstanpharmacia, Tchelnpharmacia and Tatavtorresursy.

The property of the Republic includes, *inter alia*, those assets which remain in the Republic's ownership but are operated and managed by such specific types of legal entities as "state unitary enterprises" (abbreviated in Russian as "GUPs") and "state institutions". A GUP is a commercial legal entity established by the Federation or a subject and who also provide operating assets. A state institution is a non-profitable organisation established by the Federation or a subject for performing governing, social or cultural functions and with operating assets provided to it by its founder.

The most substantial privatisation development in the Republic in 2003 was the establishment of SINEK and the transfer of the shareholdings in the portfolio companies from the Republic to SINEK (See "SINEK — SINEK's portfolio companies").

In 2004 the Republic transformed former GUPs Tatspirom, Tatflot, Tatteplokontrol and ELAZ into joint-stock companies. Currently there are 493 GUPs and 673 state institutions owned by the Republic. The Republic intends to reorganise 483 GUPs and 323 institutions and to privatise the assets currently operated by such GUPs and state institutions.

The Government is currently considering the next phase of its privatisation process. Having converted certain state unified entities into joint stock companies, the Government is now focusing on the liquidation of inefficient companies in which it holds controlling shares and on the better management of those entities in which it has an interest.

As of 1 April 2005, the Republic owned shares in 465 companies. The Republic holds equity ownership interests of less than 25 per cent. in 87 enterprises, between 25 per cent. and 50 per cent. in 93 enterprises, and 50 per cent. or more in 285 enterprises. In addition, as of 1 April 2005 the Republic held a golden share in 138 companies (including 89 companies in which the Republic does not retain an equity interest).

The Republic budget and financial accounts

Budgetary relations between Russia and its subjects

The budget legislation of Russia consists of the Budget Code and federal laws on federal budgets for each year, which are adopted in accordance with the Budget Code, as well as the budgetary laws of the subjects, including the laws on their budgets for each year, the resolutions of municipal authorities on local budgets for each year and other federal laws, laws of the regions of Russia and the regulations of municipalities. The budgetary laws or regulations of the subjects must not contradict the Budget Code, and in case of any inconsistency, the Budget Code prevails.

The Russian budgetary system has three levels: federal, regional (sub-federal) and municipal. Each level of government has the right to determine its own level of expenditure on social and economic development in line with its own revenues. Each level of government may increase the amount of its expenditure for individual items provided that its own revenues cover the increase. Both federal and regional budgets can subsidise specific items of expenditure of lower budgets through budgetary transfers. The transferee or the donor has the right to specify the type of expenditure the transfer can be used for and any unused amounts should be refunded to the donor budget at the year-end. Budgetary surpluses cannot be taken over by the federal budget and regional and municipal authorities have discretion over the use of their respective budgetary surpluses. Higher levels of regional and municipal authorities assume no responsibility for budget deficits or debts incurred by lower levels of regional or municipal authorities.

Budgets are drawn up on a cash basis for each calendar year in accordance with a number of principles stipulated by the Russian federal authorities. Budgets must use uniform standard codes for revenues and expenditures and provide detailed information on all sources of revenue and the nature of all expenditures. Each level of government (whether federal, regional or municipal) is individually responsible for the preparation, review, approval and implementation of its own budget. The budget must represent those revenues and expenditures which are reasonably expected within the reporting period.

The Republic prepares its budgets in accordance with these guidelines and on the basis of budgetary principles provided by the Government of Russia to all regions regarding the amounts of social and other spending which it intends to finance.

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

Any future changes in federal legislation affecting the division of tax revenues between Russia and the subjects, the level of federal funding for social and economic programmes in the Republic or the level of expenditure by federal non-budgetary funds in the Republic may have an adverse effect upon the financial resources of the Republic.

Introduction to the Republic budget

The main sources of revenue for the Republic are: (i) tax revenues, (ii) non-tax revenues, (iii) transfers from the federal Budget and (iv) revenues of DPFs. Non-tax revenues primarily comprise lease payments for the use of Republic property, income from the Republic’s participation in various state and private enterprises and administrative charges and fines.

The Republic budget is an itemised summary of proposed revenue and expenditure. By virtue of the Republic’s status as a sub-sovereign, the Republic performs all of the functions that fall to subjects of Russia and retains revenue assigned by federal legislation for the undertaking of such functions. The revenue base of the Republic budget is estimated by taking into account the expected tax and non-tax revenues for the current year, forecasts regarding the level of inflation and forecasts of the economic development in the Republic, such as forecasts of the employment level and the development of the taxable base and price indices within the Republic. Expenditure is estimated according to expected

revenues and planned social and economic programmes of the Republic. The Republic budget funds are spent on, *inter alia*, the Republic's administrative and law enforcement bodies, servicing and repayment of the Republic's debt, the Republic's expenditure on industry, energy and construction; social welfare; healthcare; housing and utilities; transport; agriculture and fisheries; and education. See "The Republic budget and financial accounts — Budget revenues" and "The Republic budget and financial accounts — Budget expenditure".

The Republic budget (the "Unconsolidated Budget") is unconsolidated and as such, does not include the revenues and expenditures of the Republic's municipal authorities. The Unconsolidated Budget only includes revenues and expenditures (including transfers from the federal budget) of the Republic. A separate budget is produced by each of the Republic's municipalities (currently comprising 43 districts and 2 cities), based on their own revenues and expenditures (including transfers from the Republic budget). An aggregate budget (the "Consolidated Budget") aggregating all municipal budgets in the Republic and the Unconsolidated Budget is also produced. The Consolidated Budget is prepared for administrative and reporting purposes. Each municipality has the right to set its own budget based on its own revenues and spending plans. The Government has an administrative role in relation to the municipal budgets and makes transfers from its budget to those municipalities which do not have sufficient revenues to maintain the minimum standards of public services. The requisite standards are set by various ministries of the Republic.

At the municipal level, expenditure includes the funding necessary for the maintenance of the relevant local municipal governing bodies. 53 per cent. of the Republic's municipalities are self-sufficient, while the other 47 per cent. of municipalities are subsidised from the Republic budget. Municipalities located in the Republic's territory have their own sources of revenues established in accordance with Russian legislation. Revenues of municipal budgets are mainly derived from land tax, personal property tax and a substantial share (approximately two-thirds) of personal income tax, which are paid to the budgets of municipalities. The municipalities receive various types of financial assistance from the Republic budget including grants for financing expenditure, subventions and subsidies for financing certain outlays, as well as short-term loans for financing current budget shortfalls.

Budget procedure

The Republic's budgetary process and structure are regulated and implemented according to the Budget Code, the Tax Code, the Constitution of the Republic and the Budget Code of the Republic of Tatarstan (the "Republic Budget Code") adopted by the law of the Republic of Tatarstan No. 35 - ZRT on 29 May 2004.

The budgetary process commences with the preparation of a draft budget by the Republic Ministry of Finance, which, after review by the Cabinet of Ministers, is submitted by the President of the Republic for the consideration of the State Council. The State Council organises the review of the draft budget through various of its special committees. Upon revision of the draft budget to reflect the review carried out by the State Council special committees, the draft budget is submitted by the President of the Republic to the full State Council for consideration. The draft budget must undergo three hearings by the State Council and in the course of the first two hearings the draft budget may be rejected and returned to the Cabinet of Ministers for further revision. The draft budget, as approved by the State Council, is then passed to the President for signing and, subject to the President's veto, acceptance. The President's veto may be overridden if the draft budget is further approved by the State Council by a two-thirds majority vote.

Any decision of the executive authorities or the State Council which may lead to a reduction in revenues or an increase in expenditure must be approved as an amendment to the Republic budget.

The size and composition of borrowings by the Republic are stipulated by the Republic's Borrowing Programme, which is included in the Republic budget as an appendix thereto. The decision on the amount of Republic bond issues, Republic loans or other borrowings within the limits stipulated by the Republic budget is made by the Cabinet of Ministers.

Budget implementation and control

Reports on budget implementation are produced by the Republic's Ministry of Finance on a quarterly, semi-annual and annual basis (in formats prescribed by the federal Ministry of Finance). Quarterly reports summarise actual revenues and expenditures and provide indications of budget performance on a regular basis. At the end of the fiscal year, after the report on implementation of the

budget has been approved by the Cabinet of Ministers and submitted to the federal Ministry of Finance, the Prime Minister submits it to the President of the Republic. The President of the Republic officially submits the report on implementation of the budget to the State Council. Prior to submission to the State Council the Audit Chamber approves draft law on the implementation of the Republic budget for the past financial year. Any organisation in the Republic, which receives federal, republic or municipal funding is subject to review by the federal Audit and Control Department.

Two types of control systems operate with respect to implementation of the Republic's budget. The first type includes a series of internal controls, which were developed by the administration to control the flow of funds. Within this control system, the authorisation of expenditures is linked to the actual receipt of revenues. The second type of control is external to the Government and is exercised by federal institutions such as the federal Ministry of Finance and the Audit and Control Department with respect to federal funds transferred to the Republic. On the revenue side, the State Tax Inspectorate is responsible for the assessment of taxes due and the collection of taxes through judicial means in case of their non-payment. There is no requirement in Russia for an external audit of accounts of regions or municipalities. Although any region may appoint an external auditor, the Republic has not made any such appointment.

The Republic's Ministry of Finance is responsible for the implementation of the Republic budget and the management of budgetary funds. The Republic Treasury, a division within the Republic's Ministry of Finance established in 2000 in order to improve the management of the Republic's financial resources, is responsible for monitoring the budget expenditure and ensuring that budget funds are disbursed to the appropriate recipients.

Pursuant to the Budget Code, the amount of deficit of the budget of any region of Russia approved by law of this region on the budget for the respective year must not exceed 15 per cent. of the amount of revenues of the budget of this region without taking into account any financial aid from the federal budget. The maximum limit of state debt of any region of Russia, or municipal debt of any municipality cannot exceed the amount of revenues of the respective budget less the amount of financial aid from the budgets of higher levels of the Russian budgetary system.

Revenues and expenditures of the Republic's Unconsolidated Budget

The following table shows actual revenue and expenditure items of the Unconsolidated Budget as implemented for 2002, 2003 and 2004.

	Year ended 31 December		
	2002	2003	2004 ⁽¹⁾
	(RUR thousands)		
Revenues			
<i>Tax revenues:</i>			
Tax on profit of organisations	3,371,879	6,984,091	13,963,380
Personal income tax	1,202,963	2,315,720	5,323,292
Excise taxes, licence and registration fees, other commodity and service taxes.	1,687,012	3,831,895	4,259,053
Sales tax	194,872	372,273	44,663
Taxes on total revenue	153,786	168,872	700,770
Property taxes	799,859	1,883,240	2,091,285
Payments for use of natural resources	3,960,594	4,726,182	3,665,635
Land tax	506,717	1,177,945	1,378,932
Other taxes, fees and charges	4,042,860	1,289,525	3,726,912
Total tax revenues	<u>15,920,542</u>	<u>22,749,743</u>	<u>35,153,922</u>
<i>Non-tax revenues:</i>			
Revenue from the use of property and from operations from state and municipal organisations	2,313,243	3,762,692	4,976,127
Other non-tax revenues	897,650	107,649	1,154,709
Total non-tax revenues	<u>3,210,893</u>	<u>3,870,341</u>	<u>6,130,836</u>
Revenues of DPFs ⁽¹⁾	4,037,669	7,381,639	7,647,362
<i>Uncompensated receipts from budgets of other levels:</i>			
From other budgets of budget system.	14,176,281	14,445,419	18,462,052
Resources transferred to purpose funds		(4,415,556)	(6,411,644)
Other uncompensated receipts and transfers		14,700	1,146
Total uncompensated receipts from budgets of other levels	<u>14,176,281</u>	<u>10,044,563</u>	<u>12,051,554</u>
Total revenues	<u>37,345,385</u>	<u>44,046,286</u>	<u>60,983,674</u>
Expenditures			
State and local administration.	1,361,016	1,634,533	1,893,267
Judicial authority.	36,471	43,707	57,327
Law enforcement.	903,612	1,045,977	1,138,447
Science.	79,561	105,251	132,396
Industry, energy and construction	7,628,143	10,509,506	11,177,755
Agriculture and fishery	1,780,825	931,362	2,733,868
Environment and natural resources	204,126	221,027	249,650
Transport and communications	201,164	198,043	677,046
Housing and utilities	254,978	1,770,371	1,865,458
Force-majeure	54,123	247,138	379,631
Education	803,287	791,287	980,720
Culture and arts	519,045	547,810	609,428
Mass media	273,170	317,261	370,355
Health and sport	5,123,954	5,077,685	5,438,458
Social welfare	1,561,827	2,105,422	2,831,225
State and local debt.	14,786	67,253	3,013
Financial support to other budgets	7,247,206	10,537,973	20,594,220
Roads	4,905,915	511,343	1,200,000
Other expenses	646,805	788,709	2,690,856
Budget funds ⁽¹⁾	4,133,968	6,999,864	8,011,570
Total expenditures	<u>37,733,982</u>	<u>44,451,522</u>	<u>63,034,690</u>
Surplus/(deficit)⁽²⁾	<u>(388,597)</u>	<u>(405,236)</u>	<u>(2,051,016)</u>

Source: Ministry of Finance of the Republic of Tatarstan.

Notes:

- (1) The revenues of DPFs and expenditures of budget funds for 2002, 2003 and 2004 are not comparable because the number of DPFs changes on an annual basis which accordingly affects the revenues and expenditures of DPFs; the purposes of each DPF differ depending upon the term of the budget law which establishes it and the Republic allocates a differing proportion of tax revenues to DPFs annually; and the annual funding of DPFs differs depending upon the amount of resources transferred to DPFs from the federal budget.
- (2) See "The Republic of Tatarstan—Budget deficit".

The following table shows revenue and expenditure items of the 2005 Republic Budget (unconsolidated). Final budget figures (based on the actual implementation of the budget) are not expected to be published until mid-2006. The 2005 Republic Budget is not directly comparable with the 2002, 2003 and 2004 Republic budgets due to a reclassification of expenditures in 2005 based on the "Order of the Ministry of Finance and the Russian Federal No. 72n" of 27 August 2004.

	2005
	<i>(RUR thousands)</i>
Revenues	
Tax revenues:	
Tax on profit of organisations	9,154,788
Personal income tax	10,011,810
Excise taxes	3,507,100
Taxes on total income	571,050
Property taxes	2,168,120
Payments for natural resource use	1,227,900
Total tax revenues	<u>26,640,768</u>
Non-tax revenues:	
Revenue from the use of property and from operations from state and municipal organisations	564,478
Other non-tax revenues	2,735,048
Total non-tax revenues	<u>3,299,526</u>
Revenues of DPFs	2,851,832
Uncompensated receipts from budgets of other levels	14,771,704
Total revenues	<u>47,563,830</u>
Expenditures	
General state issues ⁽¹⁾	5,309,222
National defence	12,596
National security law enforcement	1,620,534
National economy	4,950,161
Housing and utilities ⁽²⁾	4,410,785
Environment protection	240,054
Education	2,691,541
Culture, arts, and media	1,223,891
Health and sport ⁽³⁾	5,994,491
Social welfare ⁽⁴⁾	5,410,406
Intergovernmental transfers	13,111,705
Road facilities (federal policy)	1,850,000
Purpose budget funds	2,851,832
Total expenditures	<u>49,677,218</u>
Surplus/(deficit)	<u>(2,113,388)</u>

Source: Ministry of Finance of the Republic of Tatarstan.

Notes:

- (1) See "— Budget expenditure — Industry, energy and construction expenditure".
- (2) See "— Budget expenditure — Housing and utilities expenditure".
- (3) See "— Budget expenditure — Health and sport expenditure".
- (4) See "— Budget expenditure — Social welfare expenditure".

Budget revenues

Revenues set out in the 2005 Republic Budget (approximately RUR 47.6 billion) represent a decrease of 22 per cent. as compared to actual revenues received in the Republic's budget for 2004 (the "2004 Republic Budget") (approximately RUR 61 billion) but are 16 per cent. higher than the original revenues set out in the 2004 Republic Budget in December 2003 (RUR 41.1 billion). It is customary for the Republic's anticipated revenues and expenditures in a given year to be set initially at a lower amount (as compared to the previous year) which then becomes subject to amendment and resulting increase throughout the year. The anticipated amount of revenues which may be received in a given budget year will then affect the level of expenditure which may be allocated to particular areas of potential spending.

Tax revenues

The tax system in Russia has evolved in recent years as a result of market reforms. The current system replaced a tax system, common to centrally planned economies, which relied heavily on transfers of profits from state enterprises to the state budget. Under the Constitution, federal laws, as set forth in the current Tax Code, govern the principal parameters for the levy of all taxes in Russia. The Tax Code establishes taxes at three levels: (i) federal, including corporate profit tax, personal income tax, value added tax and excises on certain goods and services, state duties, custom duties and fees, natural resources utilisation tax, uniform social tax, water tax, environmental tax and tax on inherited and gifted property; (ii) regional (at the subject level), including corporate property tax, tax on gambling business and transport tax; and (iii) local (at the municipality level), including personal property tax, land tax.

The Tax Code of the Federation establishes procedures for tax collection in Russia and sets the rates at which taxes are collected. Specified percentages of revenues from certain federal taxes collected in the jurisdiction of a subject are transferred to the budget of the Federation, while the remainder is transferred to the budget of the subject. Revenues from regional taxes additionally to the federal part are transferred to the budget of the subject and certain revenues (such as corporate property tax or tax on gambling) may be distributed between the budget of the subject and municipalities, although the Tax Code defines the maximum rates which can be imposed for such taxes.

To amend existing taxes or change the allocation of tax revenues as between the federal, regional or local levels, amendments are required to be introduced to the Tax Code and the Budget Code. Such amendments can only be introduced at the federal level and would therefore require approval by the Federal Assembly and need to be signed into law by the President of Russia.

The main sources of tax revenues for the Republic budget are corporate profit taxes and personal income taxes, which represented approximately 28.7 per cent. and 40.9 per cent. of all tax revenues of the Republic in 2002 and 2003, respectively. In 2004 corporate profit taxes and personal income taxes represented approximately 54.9 per cent. of all tax revenues of the Republic. In the 2005 Republic Budget, corporate profit taxes and personal income taxes represent approximately 72 per cent. of all tax revenues of the Republic.

In 2002 and 2003, tax revenues amounted to RUR 15.9 billion and RUR 22.7 billion representing 42.6 per cent. and 51.6 per cent. of total Republic budget revenue, respectively. In 2004 tax revenues amounted to RUR 35.2 billion and represented 57.6 per cent. of the total Republic budget revenue. In the 2005 Republic Budget, tax revenue amounts to RUR 26.6 billion, which represents approximately 56 per cent. of the total Republic budget revenue.

The following table illustrates the allocation between the federal budget and the Republic budget of various taxes and excises levied on Tatarstan taxpayers in 2003, 2004 and 2005, expressed as percentages. The Republic has limited autonomy in determining the amount of revenue it derives from taxation, and current revenue allocations among the federal, subject and municipal budgets are subject to change. See “Risk factors — Risk factors relating to the Republic — Taxation and the collection of taxes”.

	Year ended 31 December					
	2003		2004		2005	
	Republic	Federation	Republic	Federation	Republic	Federation
Taxes	<i>(allocation in per cent.)</i>					
Corporate profit tax	73.4	26.6	76.5	23.5	73	27
Personal income tax	100	0	100	0	100	0
Excises	53	47	74	26	70	30
Natural resources utilisation tax	20	80	14.4	85.6	5	95

Source: Ministry of Finance of the Republic.

Corporate profit tax

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

In accordance with the Tax Code, the profit tax rate is currently set at 24 per cent. Of this percentage in 2005, 6.5 per cent. is paid to the federal budget and 17.5 per cent. is paid to the budget of a subject. Although legislative bodies of the subjects can reduce the profit tax rate due to a subject for certain categories of taxpayers, the rate of tax paid to the budget of a subject cannot be less than 13.5 per cent.

Revenues from corporate profit tax are the largest single source of the Republic’s tax revenues. Corporate profit tax receipts were RUR 3.4 billion in 2002 and 7.0 billion in 2003. In 2004 profit tax receipts amounted to RUR 14 billion. In the 2005 Republic Budget, the Republic profit tax receipts amount to RUR 9.2 billion.

Personal income tax

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

Since 1 January 2001, according to the Tax Code, the standard flat rate of tax on individual income has been set at 13 per cent., for earned income. Certain specified forms of income, such as prizes and gains (such as, for example, lottery winnings), insurance payments and interest on bank deposits in excess of a certain amount are taxed at 35 per cent. Income received by individuals who are non-residents for tax purposes is taxed at 30 per cent. Income received in the form of dividends from shareholdings is taxed at 9 per cent.

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

Revenues from personal income tax have increased steadily from RUR 1.2 billion in 2002 to RUR 2.3 billion in 2003. In 2004 revenues from personal income tax amounted to RUR 5.3 billion. In the 2005 Republic Budget, revenues from personal income tax amount to RUR 10.0 billion.

Property taxes

The principal component of revenue from property taxes is corporate property tax. The corporate property tax rate is established by the Tax Code. In 2004, the maximum rate of this tax is was 2.2 per cent. of the carrying value (comprising the initial cost less depreciation) of the fixed assets of enterprises.

The Republic’s revenues from property tax amounted to RUR 0.8 billion in 2002 and RUR 1.9 billion in 2003. In 2004 revenues from property tax amounted to RUR 2.1 billion. In the 2005 Republic Budget revenues from property taxes amount to RUR 2.2 billion.

Payments for use of natural resources

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

The Republic's revenues from natural resource payments amounted to RUR 4.0 billion in 2002 and RUR 4.7 billion in 2003. In 2004 revenues from natural resource payments amounted to RUR 3.7 billion. In the 2005 Republic Budget, the Republic estimates that revenues from natural resource payments will amount to RUR 1.2 billion due to a redistribution of such revenues in favour of the Federation.

Other taxes, duties and fees

Other taxes, duties and fees currently include transportation tax, total revenue tax, duties and licence and registration fees. In prior years, other taxes also comprised taxes on maintenance of housing and social assets, which were abolished with effect from 2001, the road tax and tax on owners of motor vehicles, each of which were abolished in 2003 and the advertisement tax, which was abolished from 2005.

The Republic's revenues from other taxes amounted to RUR 4.0 billion in 2002 and to RUR 1.3 billion in 2003. In 2004 revenues from other taxes amounted to RUR 3.7 billion. In the 2005 Republic Budget, due to reclassification other taxes are included in non-tax revenues.

Non-tax revenues

Non-tax revenues primarily comprise payments for the lease of Republic property, income from the Republic's participation in various state and private enterprises and administrative charges and fines.

Non-tax revenues of the Republic amounted to RUR 3.2 billion in 2002 and RUR 3.9 billion in 2003. In 2004 revenues from non-tax revenues amounted to RUR 6.1 billion. In the 2005 Republic Budget, non-tax revenues amount to RUR 3.3 billion.

Revenues from Republic property and other activities include income from the lease of Republic property, dividends and other returns from participation in the charter capital of enterprises and rental income. The Republic's revenues from Republic property and other activities amounted to RUR 2.3 billion in 2002 and RUR 3.8 billion in 2003. In 2004, revenues from Republic property and other activities amounted to RUR 5 billion. In the 2005 Republic Budget, revenues from Republic property and other activities amount to RUR 0.6 billion.

Tax collection

The Republic's branch of the Russian Federal Tax Service, which is in charge of the full and timely collection of taxes for the Republic budget, includes 21 district tax inspectorates which oversee the local administration of the tax system and are responsible for the timely collection of taxes from taxpayers in the Republic.

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

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

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

As of 1 January 2005, the Republic had an aggregate of RUR 693.9 million of uncollected tax revenues outstanding as compared to RUR 615 million as of 1 January 2004, RUR 1.8 billion as of 1 January 2003 and RUR 1.1 billion as of 1 January 2002.

Uncompensated receipts from budgets of other levels

Uncompensated receipts from budgets of other levels principally comprise receipts from the federal budget. The Republic revenues from budgets of other levels amounted to RUR 14.2 billion in 2002 and

RUR 14.5 billion in 2003. In 2004 revenues from budgets of other levels amounted to RUR 18.5 billion, which was an increase of approximately 27.8 per cent. compared to 2003. This increase was principally due to the distribution of additional funds from the federal budget for the construction of the underground transport system in Kazan which is categorised as a federal investment programme.

In 2004 revenues from the federal programme for the Republic's social and development programme amounted to approximately RUR 9.1 billion, revenues from the federal budget for the implementation of federal purpose-orientated programmes including subsidies for road maintenance and underground construction amounted to approximately RUR 5.8 billion and revenues from the programme for the reconstruction and development of the historical centre of Kazan amounted to approximately RUR 2.2 billion.

In the 2005 Republic Budget, the Republic has initially estimated that receipts from budgets of other levels will amount to RUR 14.7 billion, which is an approximate 20 per cent. decrease as compared to 2004. The principal reason for such a decrease is that the estimated 2005 Republic Budget does not reflect anticipated funds from federal investment programmes since those funds cannot be budgeted in advance and are allocated during the year.

Budget expenditures

Introduction

Total expenditures in the Unconsolidated Budget increased from RUR 37.7 billion in 2002 to RUR 44.5 billion in 2003. In 2004 the Republic's unconsolidated expenditure increased to RUR 63 billion. In the 2005 Republic Budget, total expenditures amount to RUR 49.7 billion.

The 2005 Republic Budget is not comparable to the 2004 Republic Budget due to a reclassification of expenditure items in the 2005 Republic Budget pursuant to the requirements contained in the Order of the Ministry of Finance of the Russian Federation No. 72n of August 2004.

Industry, energy and construction expenditure

The Republic's unconsolidated expenditure on industry, energy and construction amounted to RUR 10.5 billion in 2003 and RUR 11.2 billion in 2004. The "industry, energy and construction" item in the 2004 Republic Budget principally comprises certain capital expenditures relating to construction and renovation activity within the various sectors of the Republic budget (including the housing sector, the education sector, the health sector and the energy sector). The capital expenditures included in the 2004 Republic Budget were reclassified and transferred to other relevant expenditure line items of the 2005 Republic Budget, including the line item for "general state issues" which covers state administration, judicial authority, science, debt service and other general state issues.

Health and sport expenditure

The Republic's unconsolidated expenditure on health and sport amounted to RUR 5.1 billion in 2002 and RUR 5.1 billion in 2003. In 2004 the Republic's unconsolidated expenditure on health and sport amounted to RUR 5.4 billion. In the 2005 Republic Budget, expenditure on health and sport amount to RUR 6 billion.

Social welfare expenditure

The Republic's unconsolidated expenditure on social services amounted to RUR 1.6 billion in 2002 and RUR 2.1 billion in 2003. In 2004 the Republic's unconsolidated expenditure on social services amounted to RUR 2.8 billion. In the 2005 Republic Budget, expenditure on social welfare amounts to RUR 5.4 billion. The primary reason for the increase from 2004 to 2005 was the re-allocation of housing and municipal subsidies of RUR 1.4 billion from the "Housing and utilities" line item in the 2004 Republic Budget into the "social welfare" line item in the 2005 Republic Budget.

Agriculture and fisheries expenditure

The Republic's unconsolidated expenditure on agricultural and fisheries amounted to RUR 931 million in 2003 and RUR 2.7 billion in 2004. In the 2005 Republic Budget, expenditure in this area provided for in the "National economy" line item amounts to RUR 2 billion.

State and local administration

The Republic's unconsolidated expenditure amounted to RUR 1.6 billion in 2003 and RUR 1.9 billion in 2004. Expenditure in this area provided for in general state issues in the 2005 Republic Budget exceeds RUR 2.1 billion.

Housing and utilities expenditure

In accordance with the budgetary classification of Russia and the Republic Budget Code, the line item for housing and utilities expenditure includes the costs of capital and the repair, maintenance and construction of municipal owned housing and subsidies for utility charges. The Republic's overall unconsolidated expenditure on housing and utilities amounted to RUR 255 million in 2002 and RUR 1.8 billion in 2003. In 2004 the Republic's overall unconsolidated expenditure on housing and utilities amounted to RUR 1.9 billion. In the 2005 Republic Budget, overall expenditure on housing and utilities amounts to RUR 4.4 billion. Principal reasons for the significant difference are that (i) in the 2005 Republic Budget, as a result of the ongoing "monetisation" process, the expenditures for municipal housing subsidies in an amount of RUR 1.4 billion were transferred to the social welfare budget item; and (ii) expenditures for providing homes with water meters in an amount of RUR 0.1 billion are excluded due to the completion of that project in 2004.

Roads expenditure

The Republic's unconsolidated expenditure on roads amounted to RUR 511 million in 2003 and RUR 1.2 billion in 2004. The 2005 Republic budget provides for roads expenditure of RUR 1.85 billion in that year. A substantial majority of the Republic's unconsolidated expenditure on roads is made through the Roads DPFs. See "Designated Purpose Funds ("DPFs") and Off-Budget Funds ("OBFs") — Road Fund" below.

Law enforcement and emergency services expenditure

The Republic's unconsolidated expenditure on law enforcement, including expenditure on the Ministry of Internal Affairs, amounted to RUR 1.0 billion in 2003. In 2004 the Republic's unconsolidated expenditure on law enforcement amounted to RUR 1.1 billion. In the 2005 Republic Budget, the Republic estimates that expenditure on national security law enforcement will amount to RUR 1.6 billion.

Education expenditure

The primary components of education expenditure by the Republic and its municipalities are the costs associated with supplying children with meals, support for orphans, salaries and social benefits for teachers and other members of staff, scholarships, provision of textbooks for schoolchildren and students and subsidies for central heating, water and power supply at educational institutions. The majority of such expenditure is accounted for in the budgets of the municipalities and is therefore reflected in the Consolidated Budget only.

In 2004, unconsolidated expenditure on education amounted to RUR 1 billion (RUR 13 billion is recorded in the 2004 Consolidated Budget). In the 2005 Republic Budget expenditure on education amounts to RUR 2.7 billion (RUR 14.6 billion is recorded in the 2005 Consolidated Budget). The difference between the figures in the 2004 and 2005 Unconsolidated Budgets is principally due to the fact that expenditures to maintain boarding schools, accommodation, establishments of primary, secondary, higher and professional education (approximately RUR 1.4 billion) are included in the Unconsolidated Budget for 2005, whereas they were included in the Consolidated Budget in 2004. A considerable portion of the Republic's expenditure on education is allocated to the overhaul, maintenance and reconstruction of educational institutions in the Republic and the creation of appropriate study conditions.

Transport and communications expenditure

The Republic's unconsolidated expenditure on transport and communications amounted to RUR 0.2 billion in 2003 and RUR 0.7 billion in 2004. In the 2005 Republic Budget, expenditure on transport, roads and communications amounts to RUR 0.2 billion.

Designated Purpose Funds (“DPFs”) and Off-Budget Funds (“OBFs”)

A DPF is a monetary fund established within the federal budget or a budget of a subject of the Federation and financed from specified budget revenues. The purpose of each DPF is specifically designated in the relevant budget law which establishes it. The funds allocated to a DPF are applied on the basis of a separate financial plan relating to that DPF which is included in the relevant budget.

An OBF is a monetary fund established by the federal or a subject’s authorities outside the federal or relevant sub-federal budget for the purposes of funding particular public programmes. An OBF is funded by means of (a) certain state duties and obligatory payments which are not credited into the budget as budget revenues, (b) deductions from particular tax proceeds which are generally credited into the federal or a sub-federal budget and (c) direct assignments from the federal and sub-federal budgets. The funds allocated to an OBF are applied for the purposes of public programmes for which the OBF has been established.

In the past, a number of the Republic’s funds established originally in the form of OBFs were subsequently consolidated into the budget of the Republic and transformed into DPFs. In 2004 the budget of the Republic comprised the following DPFs: (a) Medical Insurance Fund, (b) Environmental Protection Fund, (c) Research & Development Fund, (d) Traffic Safety Fund, (e) Small Business Support Fund, (f) President of the Republic’s State Housing Fund and (g) Road Fund.

The 2005 Republic Budget includes the following DPFs: (a) Road Fund, (b) Traffic Safety Fund, (c) Environmental Protection Fund and (d) President of the Republic’s State Housing Fund.

The Research & Development Fund and the Small Business Support Fund have been wound up and the Medical Insurance Fund was transformed into an OBF from 1 January 2005. There are currently two OBFs in the Republic: the Medical Insurance Fund and the Gasification Fund (although this fund is largely inactive).

The assets of the DPFs and OBFs are owned by the Government and managed by each fund through its board of trustees or its management whose members are appointed or approved by the Cabinet of Ministers of the Republic. The funds of the DPFs form part of the budget of the Republic and are required to be spent in strict accordance with each fund’s objectives. The Ministry of Finance of the Republic is authorised to exercise control over expenditure of the DPFs and OBFs.

Road Fund

The Road Fund finances works relating to maintenance, repair, construction and reconstruction of public roads on the territory of the Republic, to cover road management costs and to finance purchases of required machinery.

Since 2003, the Road Fund’s revenues have been funded by (i) transport tax on individuals and legal entities (of which 100 per cent. are revenues of the Road Fund); (ii) excises on diesel fuel, motor oil and petrol (of which 50 per cent. comprise the Road Fund’s revenues and the remaining 50 per cent. are allocated among the federal and Republic budgets in accordance with the rates set out in the Law on Budget of the Russian Federation for the relevant year); and (iii) prior to 2005, 10 per cent. of the land tax revenues collected in the Republic (from 2005, land tax is paid in full to municipal budgets).

Costs relating to federal roads in the Republic are financed by the Road Fund at the expense of amounts allocated from the federal budget.

In 2004, the Road Fund’s budget amounted to approximately RUR 4.3 billion, which included the Road Fund’s own revenues of RUR 3.1 billion and assignments from the federal budget of approximately RUR 1.2 billion.

In 2005, the Road Fund’s budget amounts to RUR 4.78 billion, which includes the Road Fund’s own revenues of RUR 1.78 billion, assignments from the federal budget of RUR 1.85 billion and assignments from the Republic budget of RUR 1.15 billion.

Traffic Safety Fund

The Traffic Safety Fund finances measures aimed at improving traffic safety, to purchase required machinery, special equipment and special facilities, to reduce accident and injury rates and to improve driving practices. The Traffic Safety Fund is managed by the Traffic Safety Commission of the Cabinet of Ministers of the Republic. Members of the Commission are appointed and approved by the Cabinet of Ministers of the Republic.

The principal sources of the Traffic Safety Fund’s revenues include fees for the mandatory technical inspection of motor vehicles registered in the territory of the Republic, fees for registration formalities,

finances for the failure to comply with the Traffic Regulations and other sources not prohibited under the applicable laws of the Russian Federation.

In 2004, the Traffic Safety Fund's budget amounted to RUR 0.54 billion, which comprised the Traffic Safety Fund's own revenues.

In 2005 the Traffic Safety Fund's budget amounts to RUR 0.30 billion, which comprises the Traffic Safety Fund's own revenues.

Environmental Protection Fund

The Environmental Protection Fund finances environmental protection in accordance with the requirements of the Ministry of Environmental Protection and Natural Resources of the Republic. Such environmental protection is carried out by the fund itself and by contractors.

The main sources of the Environmental Protection Fund's revenues include payments made by legal entities whose operations have had an adverse effect on the environment, income from consultancy and expert services rendered by the fund and other sources not prohibited under the applicable laws of the Russian Federation.

In 2004, the Environmental Protection Fund's budget amounted to RUR 0.45 billion, which comprised the Environmental Protection Fund's own revenues.

In 2005, the Environmental Protection Fund's budget amounts to RUR 0.44 billion, which comprises the Environmental Protection Fund's own revenues.

President of the Republic's State Housing Fund

The President of the Republic's State Housing Fund finances works relating to clearance of dilapidated houses and construction of new houses for the relocation of people previously resident in such houses. The principal recipients of funds are construction companies engaged in the construction of new houses and slum clearance. At present, the main sources of the President of the Republic's State Housing Fund's revenues include voluntary donations, special purpose investments and the fund's income from the sale of land plots previously occupied by slum houses. Other sources may include allocations from the budget of the Republic.

In 2004, the President of the Republic's State Housing Fund's budget amounted to RUR 4.1 billion, which included the President of the Republic's own revenues of RUR 0.6 billion and assignments from the Republic budget of RUR 3.5 billion.

"In 2005, the President of the Republic's State Housing Fund budget amounts to RUR 3 billion, which includes the State Housing Fund's own revenues of RUR 0.33 billion and assignments from the Republic budget of RUR 2.67 billion.

Medical Insurance Fund

In accordance with the Constitution of the Russian Federation citizens of the Federation are entitled to receive emergency, outpatient and institutional medical aid rendered by various healthcare organisations. The costs of such organisations are financed by the Medical Insurance Fund, subsidies from the federal budget and subsidies allocated from the federal budget and from other sources. The range of medical services financed by the Medical Insurance Fund and the Republic are determined by the regulations of the Cabinet of Ministers of the Republic adopted in accordance with the regulations of the federal government.

"The main sources of the Medical Insurance Fund's revenues include a proportion of the uniform social tax and aggregate income taxes. Before 2005, the Medical Insurance Fund's revenues and expenses were consolidated in the budget of the Republic. From 2005, the Medical Insurance Fund's budget is no longer consolidated in the Republic budget and has been approved by a separate law of the Republic.

"In 2004, the Medical Insurance Fund's budget amounted to approximately RUR 5.7 billion, which included the Medical Insurance Fund's own revenues of RUR 2.6 billion, assignments from the Republic budget of RUR 1.6 billion and assignments from the federal budget of approximately RUR 1.5 billion.

"For 2005, the Medical Insurance Fund's budget is set at RUR 5 billion, which includes the Medical Insurance Fund's own revenues of RUR 1.5 billion, assignments from the Republic budget of RUR 3 billion and assignments from the federal budget of RUR 0.5 billion.

Consolidated Budget

The following tables set out the Republic's Consolidated Budget for 2002, 2003 and 2004 and for 2005 (based on the new expenditure classification which has been introduced for the 2005 Republic Budget). The Consolidated Budget is an aggregate of the Republic's budget and all municipal budgets in the Republic. It is prepared for administrative and reporting purposes. Each municipality has the right to set its own budget based on its own revenues and spending plans. The Government has an administrative role in relation to the municipal budgets and makes transfers from its budget to those municipalities which do not have sufficient resources to maintain required minimum standards of public services.

	Year ended 31 December		
	2002	2003	2004
	<i>(RUR thousands)</i>		
Revenues			
Tax on profit of organisations	8,400,758	7,316,788	15,630,578
Personal income tax	8,236,491	9,709,893	12,373,387
Excise tax	1,687,012	3,831,895	4,249,288
Property taxes	3,601,594	3,895,374	4,224,006
Land tax	1,115,958	2,276,863	2,701,860
Revenues of purpose funds	4,038,496	7,383,027	7,682,461
Other revenues	13,996,391	12,443,134	16,336,064
<i>Uncompensated receipts</i>			
including financial support from federal budget	14,176,281	14,445,419	18,236,205
Resources transferred to purpose budget funds	—	(4,415,556)	(6,429,414)
Total revenues	<u>55,252,981</u>	<u>56,886,837</u>	<u>75,004,435</u>
Expenditures			
State and local administration	2,091,945	2,379,606	2,827,424
Judicial authority	1,154,516	1,312,568	1,465,935
Industry, energy and construction	11,094,586	14,896,691	22,940,520
Agriculture and fishery	2,243,788	1,214,398	3,010,744
Transport and communications	570,249	612,649	1,012,738
Housing and utilities	4,576,896	4,322,612	4,547,743
Education	10,411,482	11,130,114	13,020,249
Culture and arts	1,326,018	1,419,782	1,584,700
Mass media	404,723	464,275	535,350
Health and sport	7,970,519	7,852,212	8,950,375
Social welfare	2,768,681	3,186,349	4,154,517
State and local debt	63,928	170,055	205,540
Roads	4,905,915	511,343	1,200,000
Purpose budget funds	4,134,700	7,000,776	8,043,509
Other expenses	1,163,369	1,843,699	5,874,527
Total expenditures	<u>54,881,315</u>	<u>58,317,129</u>	<u>79,373,871</u>
Surplus/(deficit)	<u>371,666</u>	<u>(1,430,292)</u>	<u>(4,369,436)</u>

	<u>2005⁽¹⁾</u>
	<i>(RUR thousands)</i>
Revenues	
Tax on profit of organisations	8,008,200
Personal income tax	14,147,921
Excise taxes	3,507,100
Taxes on total revenue	1,514,895
Property taxes	6,509,236
Payments for natural resource use	1,239,523
Other tax revenues	<u>302,772</u>
Total tax revenues	<u>35,229,647</u>
Revenue from the use of property and from operations from state and municipal organisations	1,220,327
Other non-tax revenues	<u>2,913,812</u>
Total non-tax revenues	<u>4,134,139</u>
Total revenues (without purpose funds)	39,363,786
Revenues of purpose funds	2,851,832
Total revenues (without financial support)	<u>42,215,618</u>
Uncompensated receipts from budgets of other levels	<u>15,243,928</u>
including:	
From other budgets of budget system	15,242,692
Other uncompensated receipts	<u>1,236</u>
Total revenues	<u>57,459,546</u>
Expenditures	
General state issues ⁽²⁾	5,301,009
National defence	14,614
National security law enforcement	1,954,874
National economy	7,568,255
Housing and utilities ⁽³⁾	5,581,193
Environment protection	230,136
Education	14,594,107
Culture, arts, and Media	3,404,679
Health and sport ⁽⁴⁾	7,807,968
Social welfare ⁽⁵⁾	6,511,154
Inter-governmental transfers	3,014,188
Road (federal resources)	<u>1,850,000</u>
Total expenditures (without purpose funds)	<u>57,832,177</u>
Purpose budget funds	<u>2,851,832</u>
Total expenditures	<u>60,684,009</u>
Surplus/(deficit)	<u>(3,224,463)</u>

Source: Ministry of Finance of the Republic of Tatarstan.

Notes:

- (1) The Consolidated Budget for 2005, as amended on 1 June 2005. Includes all municipal budgets (which are subject to updating and amendment) and the Republic's Unconsolidated Budget (which is subject to approval by the State Council and approval as law).
- (2) See “— Budget expenditure — Industry, energy and construction expenditure”.
- (3) See “— Budget expenditure — Housing and utilities expenditure”.
- (4) See “— Budget expenditure — Health and sport expenditure”.
- (5) See “— Budget expenditure — Social welfare expenditure”.

Budget deficit

The growth in the Republic's Unconsolidated Budget deficit from 31 December 2003 to 31 December 2004 was principally due to the accounting treatment of proceeds applicable for funding the budget deficit and budgetary loans received from the federal budget. The Republic's Unconsolidated Budget deficit was financed by (i) proceeds from the sale of the Republic's property (about 40 per cent. of the deficit in 2004); (ii) budgetary loans from the federal budget (about 46.3 per cent. of the deficit in 2004) and (iii) bridge loans from credit institutions (covering the rest of the amount of deficit), which will be repaid from the transfers from the federal budget under two special-purpose federal programmes relating to (a) social and economic development of the Republic until 2006 and (b) reconstruction and development of the historical centre of the city of Kazan.

Indebtedness of the Republic

Background

Under the Budget Code, subjects of the Russian Federation are empowered to borrow money for the purposes of funding a budget deficit. The subjects are also authorised to issue guarantees in relation to third parties' obligations. The borrowings made by the subjects and the guarantees issued by them constitute their "state debt". The matters relating to the incurrence, servicing and redemption of state debt are governed in principle by the Budget Code.

The federal Ministry of Finance has historically been the federal body in charge of supervising the borrowing activities of the subjects. Since March 2004, the task of supervising and controlling budgetary matters has been entrusted to the federal Service of Finance and Budget Supervision, which is controlled by the federal Ministry of Finance. One of the functions of the federal Ministry of Finance is to register bond issues by the subjects and to ensure that all applicable legal requirements with respect to such borrowings are fulfilled, including limits on levels of internal and external debt and funds spent on debt service and debt repayment. General authorisation of the borrowings is within the jurisdiction of the legislative bodies of the respective subjects. At present the vast majority of the Republic's debt financing is raised through the Ministry of Finance of the Republic. The total debt of the Republic amounted to RUR 3.2 billion as at 1 January 2003 (including RUR 0.9 billion serviced through the Ministry of Finance of the Republic), RUR 3.9 billion as at 1 January 2004 (including RUR 0.7 billion serviced through the Ministry of Finance of the Republic), RUR 5.5 billion as at 1 January 2005 (including RUR 1.5 billion serviced through the Ministry of Finance of the Republic) and RUR 6.2 billion as of 1 May 2005 (including 1.5 billion serviced through the Ministry of Finance of the Republic).

The Cabinet of Ministers of the Republic is the executive body of the Republic that is responsible for managing its state debt. The Ministry of Finance of the Republic (which is subordinate to the Cabinet of Ministers) is authorised to make borrowings and to issue guarantees on behalf of the Republic. The Ministry of Finance of the Republic also maintains and administers the State Debt Book of the Republic.

The amount and structure of the Republic's borrowings are set out in the Republic's Borrowing Programme, which is an appendix to the Republic budget and is approved by the State Council. Within the limits stipulated by the annual Borrowing Programme the Cabinet of Ministers is authorised to make borrowings in the form of loans or bond issuances through the Ministry of Finance of the Republic.

Credit history of the Republic

The current era of debt-raising by the Republic started in 1993 at a time when the Republic required external debt finance to cover budget deficits at that time. From 1993 to 1997 the state debt of the Republic comprised of short-term RUR-denominated loans received from Russian banks and domestic short-term RUR-denominated bonds listed on the Kazan stock exchange. By August 1998 approximately RUR 600 million of such bonds were outstanding.

In June 1997 the Ministry of Finance of the Republic issued two series of bonds in an aggregate amount of RUR 700 million (approximately U.S.\$120 million at the then prevailing exchange rate) which had 18 months and two year maturities, respectively. These bonds were listed on the Moscow Interbank Currency Exchange (MICEX).

In April 1998, in anticipation of its first overseas placement of Eurobonds to be managed by ING Barings, the Republic borrowed U.S.\$100 million, as a bridge loan from ING Bank N.V. which was funded by an issue of credit-linked notes by ING. Owing to the financial crisis in Russia in August 1998, which

severely affected the Russian economy, the Republic was unable to proceed with its planned Eurobond issue and failed to repay the outstanding bridge loan. In November 1998 the Republic commenced negotiations with its creditors on the restructuring of its outstanding debt. In April 2000 the Republic's debt restructuring arrangements were finally agreed and included the restructuring of the bridge loan into a syndicated loan facility which was to mature in 2005.

In October 2000 the Republic fully prepaid the restructured syndicated loan. In March 2001 the Republic redeemed its outstanding domestic bonds. By mid 2001 the Republic repaid its outstanding bank loans. By the end of 2001 the Republic paid out in full the amount of approximately U.S.\$40 million under a number of guarantees issued between 1993 and 1995 in connection with supplies of agricultural goods to the Republic and navigation equipment for the City of Kazan airport.

Since May 1998 the Republic has not undertaken any external borrowings nor made any issues of securities. From 2000 the Republic has not had any outstanding external debt.

State debt

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

The Ministry of Finance of the Republic has guaranteed loans raised by various Republic enterprises to finance their expenditure where the Republic considers such expenditure to have strategic importance to be a priority and where the Republic has an interest in the relevant enterprise. The Republic guarantees constitute contingent liabilities of the Republic. The total amount of the Republic's guarantees (including the Republic Guarantee) as of 1 May 2005 is approximately 37 per cent. of budgeted revenues for 2005.

The following table sets out the structure of the Republic's state debt as recorded in the State Debt Book of the Republic as at the dates specified.

	As at 1 January		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<i>(RUR thousands)</i>		
Debt liabilities			
Borrowings	275,825	70,826	70,826
Bonds	—	—	—
Budgetary loans	599,570	588,531	1,484,204
Guarantees	2,325,172	3,225,591	3,991,507
Other contingent liabilities	—	—	—
Total debt liabilities	<u>3,200,567</u>	<u>3,884,948</u>	<u>5,546,537</u>

According to the Budget Code, subjects of the Federation are not allowed to incur state debt in foreign currency except for those subjects of the Federation which were specifically authorised to make external borrowings under the Federal Law No. 116 - FZ dated 5 August 2000. The Republic is not one of those subjects. See "Description of the Transaction and the Security".

Direct debt of the Republic

The Republic's direct debt equalled 2.4 per cent. of the total budget revenues in 2004. The Republic's debt structure is indicated by the following table:

Maturity structure of borrowings	As at 1 January			
	Short-term debt (less than one year)		Long-term debt (over one year)	
	2004	2005	2004	2005
	<i>(RUR thousands)</i>			
Credits obtained by the subjects of the Russian Federation from credit institutions.....	—	45,000	70,826	25,826
Budgetary loans received by the budget of the subjects of the Russian Federation from the federal budget funds.....	—	—	588,531	1,484,204

Indirect debt liabilities of the Republic

Maturity structure of state guarantees of the Republic of Tatarstan	As at 1 January			
	Short-term debt (less than one year)		Long-term debt (over one year)	
	2004	2005	2004	2005
	<i>(RUR thousands)</i>			
RUR denominated debt obligations	705,320.6	1,667,286.6	148,267.4	159,428.8
Debt obligations denominated in foreign currencies	—	311,072.8	2,372,002.6	1,853,718.8

The State Council of the Republic has authorised the issuance of the Republic Guarantee by the Law "On Amending the Law of the Republic of Tatarstan on the Budget of the Republic of Tatarstan for the year 2005" No.77 - 2RT dated 18 June 2005 which was followed by the Resolution of the Cabinet of Ministers No. 345 dated 13 July 2005. The Republic Guarantee is issued by the Ministry of Finance of the Republic pursuant to the Deed of Guarantee and Indemnity to be dated 3 August 2005. See "The Republic Guarantee".

THE BORROWER

Incorporation

SINEK Capital S.A. (the “Borrower”) was incorporated as a *société anonyme* on 1 July 2005 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation will be published in the Mémorial, Recueil des Sociétés et Associations. It is registered with the Register of Commerce and Companies, Luxembourg under number B-109016.

Registered office

Its registered office is located at 7, Val Sainte-Croix, L-1371 Luxembourg.

Management

The Borrower has a board of directors, currently consisting of three directors. The directors at present are:

- Sergey V. Alekseev
- Artur N. Khayrullin
- Brian V. Murray

Business activity

The corporate object of the Borrower, as described in Article 3 of its Articles of Incorporation is:

The corporate objective of the company is the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or other entities; the direct and/or indirect financing of the companies and/or entities in which it holds a participation or which are members of its group; the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities of any kind of instrument and contracts thereon or relative thereto; and the ownership, administration, development and management of its portfolio holdings.

It may in particular:

- acquire by way of subscription, purchase, exchange or in any other manner any stock, shares and other participation securities, bonds, debentures, certificates of deposit and other debt instruments and more generally any securities and financial instruments representing ownership rights, claims or transferable securities issued by any public or private issuer whatsoever;
- exercise all rights whatsoever attached to these securities and financial instruments;
- grant any direct and/or indirect financial assistance whatsoever to the companies and/or enterprises in which it holds a participation or which are members of its group, in particular by granting loans, facilities, security interests over its assets or guarantees in any form and for any term whatsoever and provide them any advice and assistance in any form whatsoever;
- enter into swap and other derivative transactions with banks or companies which are members of its group;
- make deposits at banks or with other depositaries and invest it in any other manner; and
- in order to raise funds which it needs to carry out its activity within the frame of its object, take up loans in any form whatsoever, accept any deposit from companies or entities in which it holds a participation or which is part of its group, to issue debt instruments in any form whatsoever.

The Borrower may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

In general the Borrower may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Auditors

KPMG Audit Sàrl having its registered office at 31 Allée Scheffer, L-2520 Luxembourg have been appointed to act as independent auditors to the Borrower. KPMG Audit Sàrl is a member of the Luxembourg body of registered auditors, “*Institut des Reviseurs d’entreprise*”.

Statutory capital

The Borrower's subscribed share capital amounts to RUR 1,500,000 divided into 100 registered shares with a par value of RUR 15,000 each. All of the shares are fully paid up. 99 shares are owned by OAO Svyazinvestneftekhim and one share by OOO Investneftekhim.

Capitalisation

The following table sets forth the unaudited capitalisation of the Borrower as at the date of this Prospectus:

	<u>RUR</u>
Shareholders' funds	
Share capital (issued 100 Ordinary Shares of RUR 15,000 each)	<u>1,500,000</u>
Total capitalisation	<u>1,500,000</u>

Other than as detailed above, the Borrower does not have any loan capital, borrowings or contingent liabilities.

Financial statements

Since its date of incorporation, no financial statements of the Borrower have been prepared. The Borrower intends to publish its first financial statements in respect of the period ending on 31 December 2005. Any future published financial statement prepared by the Borrower (which will be in respect of the period ending on the last day of December of each year) will be available from the Paying Agents in Ireland and Luxembourg.

THE ISSUER

Incorporation

Edel Capital S.A. (the “Issuer”) was incorporated as a *société anonyme* on 1 July 2005 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation will be published in the Mémorial, Recueil des Sociétés et Associations. It is registered with the Register of Commerce and Companies, Luxembourg under number B-109013.

Registered office

Its registered office is located at 7, Val Sainte-Croix, L-1371 Luxembourg.

Management

The Issuer has a board of directors, currently consisting of three directors. The directors at present are:

- Alexis Kamarowsky;
- Federigo Cannizzaro di Belmontino; and
- Jean-Marc Debaty.

Business activity

The corporate object of the Issuer, as described in Article 3 of its Articles of Incorporation is:

- the issue of loan participation notes for the purposes of financing loans to SINEK Capital S.A.;
- the granting of loans to SINEK Capital S.A.;
- the granting of security interests over its assets in relation to the issuance of the loan participation notes; and
- the making of deposits at banks with other depositaries.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

In general the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Auditors

KPMG Audit Sàrl having its registered office at 31 Allée Scheffer, L-2520 Luxembourg have been appointed to act as statutory auditors to the Issuer. KPMG Audit Sàrl is a member of the Luxembourg body of registered auditors “*Institut des Reviseurs d’entreprise*”.

Statutory capital

The Issuer’s subscribed share capital amounts to U.S.\$50,000 divided into 100 registered shares with a par value of U.S.\$500 each. All of the shares are fully paid up. One share is owned by Stichting Unidel and 99 shares by Stichting Globaldel. The Issuer does not have an authorised share capital.

Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as at the date of this Prospectus:

	<u>U.S.\$</u>
Shareholders’ funds:	
Share capital (issued 100 Ordinary Shares of U.S.\$500 each)	50,000
Total capitalisation	<u>50,000</u>

Other than as detailed above, the Issuer does not have any loan capital, borrowings or contingent liabilities.

Financial statements

Since its date of incorporation, no financial statements of the Issuer have been prepared. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2005. The Issuer will not prepare interim financial statements. Any future published financial statement prepared by the Issuer (which will be in respect of the period ending on the last day of December of each year) will be available from the Paying Agents in Ireland and Luxembourg.

THE LOAN AGREEMENT

THIS LOAN AGREEMENT is made on 3 August 2005 between:

- (1) **SINEK CAPITAL S.A.**, a company organised as a société anonyme under the laws of Luxembourg, having its registered office at 7, Val Sainte-Croix, L-1371 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number 109016 (the “**Borrower**”); and
- (2) **EDEL CAPITAL S.A.**, a company organised as a société anonyme under the laws of Luxembourg, having its registered office at 7, Val Sainte-Croix, L-1371 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number 109013 (the “**Lender**”).

Whereas:

- (A) The Lender has at the request of the Borrower, the Republic of Tatarstan (the “**Republic**”) and OAO “Svyazinvestneftekhim” (“**SINEK**”) agreed to make available to the Borrower a Rouble loan facility on the terms and subject to the conditions of this Agreement.
- (B) Pursuant to the Republic Guarantee (as defined below), the Republic (acting through the Ministry of Finance of the Republic of Tatarstan) has agreed to guarantee the payment of all sums owing by the Borrower under this Agreement subject to the Maximum Amount (as defined in the Republic Guarantee).
- (C) Pursuant to the SINEK Guarantee (as defined below), SINEK has agreed to guarantee the payment of all sums owing by the Borrower under this Agreement.
- (D) It is intended that the Lender will issue U.S. dollar-denominated loan participation notes for the sole purpose of financing the loan facility.

NOW IT IS HEREBY AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

“**Account**” means the Rouble account in the name of the Lender with the Conversion Bank, account number 40807810466002213849 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

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

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agency Agreement**” means the agency agreement relating to the Notes dated the date hereof between the Lender, the Trustee and the other agents named therein;

“**Agent Bank**” means the person appointed from time to time as agent bank under the Reference Agency Agreement;

“**Agreed Funding Source**” shall mean any Person to whom the Lender owes any indebtedness (including securities), which indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person);

“**Agreed Funding Source Agreements**” means the Trust Deed; the Notes; the FX Contract; the Subscription Agreement; the Agency Agreement; the Reference Agency Agreement; and any other agreements entered into in connection with the Notes;

“**Authorised Signatory**” means, in relation to the Borrower, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such Person and confirming such Person’s authority to act;

“Borrower’s Account” means the Rouble account (account number 40807810666002213801) in the name of the Borrower with the Conversion Bank;

“Business Day” means a day on which commercial banks generally are open for business (including dealings in foreign exchange exchange and foreign currency deposits) in Moscow, New York and Luxembourg;

“Calculation Date” means, in respect of the amount of any payment to be determined hereunder, the Business Day immediately prior to the due date for such payment;

“Central Bank” means the Central Bank of the Russian Federation;

“Closing Date” means 3 August 2005 (or such later date not later than 17 August 2005 as may be agreed between the Lender and the Borrower);

“Conversion Bank” means Dresdner Bank ZAO;

“Current Exchange Rate” means the official rate as published by the Central Bank on the applicable Calculation Date for the conversion of Roubles into US dollars as displayed on Reuters screen page FXSU (or such page or service as shall replace it for the purpose of displaying such rate), provided that (a) if no such rate is available or (b) where the Current Exchange Rate is being used to determine the amount of any payment under this Agreement and the Lender has concluded a foreign exchange transaction to convert the proceeds of such payment into US dollars under the FX Contract at the spot rate quoted by the Conversion Bank for the conversion of roubles into US dollars, the Current Exchange Rate shall be the spot rate quoted by the Conversion Bank for the conversion of Roubles into US dollars on the applicable Calculation Date);

“Default” means any event which is, or after notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) would be, an Event of Default;

“Event of Default” has the meaning assigned to such term in Clause 11.1;

“Facility” means the RUR term loan facility granted by the Lender to the Borrower as specified in Clause 2;

“FX Contract” means the currency conversion agreement dated the date hereof between the Lender and the Conversion Bank as counterparty;

“Indebtedness” has the meaning ascribed to that term in the SINEK Guarantee;

“Initial Exchange Rate” means the single rate of exchange (expressed as an amount of Roubles per one US dollar) that would have applied had the aggregate US dollar amount exchanged by the Lender under the Initial FX Transactions (as defined in the FX Contract) for the aggregate Rouble amount received by the Lender from such transactions been effected by a single foreign exchange transaction;

“Interest Payment Date” means 3 February and 3 August of each year;

“Interest Period” has the meaning assigned to such term in Clause 4.2;

“Interest Rate” has the meaning assigned to such term in Clause 4.2;

“Loan”, at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

“Luxembourg” means the Grand Duchy of Luxembourg;

“Material Adverse Effect” means a material adverse effect on the business, operations, property, condition (financial or otherwise) or prospects of the Borrower or SINEK or the ability of the Borrower or SINEK to perform or comply with their respective obligations under this Agreement and the SINEK Guarantee, or the validity or enforceability of this Agreement, the SINEK Guarantee and the FX Contract, or the rights and remedies of the Lender thereunder;

“Minimum Balance” means, at any time, an amount in US dollars equal to the amount of interest payable under the Notes on the next Interest Payment Date (as defined in the Notes);

“Notes” means the U.S.\$250,000,000 7.70% Loan Participation Notes due 2015 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

“**Officers’ Certificate**”, of any company, means a certificate in English signed on its behalf by two of its authorised officers;

“**Opinion of Counsel**” means a written opinion from international counsel acceptable to the Lender;

“**Put Event**” has the meaning given to that term in Condition 6(C) (*Purchase at the Option of the Noteholders upon a Put Event*) of the Notes;

“**Put Event Payment Date**” has the meaning given to that term in Condition 6(C) (*Purchase at the Option of the Noteholders upon a Put Event*);

“**Reference Agency Agreement**” means the reference agency agreement dated on or about the date hereof between the Lender, the Trustee and the Agent Bank;

“**Relevant Entity**” means any executive, governing, administrative or other body, department, committee, commission, division, unit or entity of any kind operating under the authority of or representing the Republic or the territorial community of the Republic;

“**Repayment Date**” means 3 August 2015;

“**Republic Guarantee**” means the guarantee and indemnity dated on or about the date hereof between the Republic, acting through the Ministry of Finance of the Republic of Tatarstan, and the Lender;

“**Reserved Rights**” has the meaning assigned to such term in the Trust Deed;

“**Rouble**” and “**RUR**” mean the lawful currency of the Russian Federation;

“**Russian Federation**” means the Russian Federation and any subject or other administrative division;

“**SINEK Dollar Account**” means the U.S. dollar account (account number 40702840766002213795) in the name of SINEK required to be maintained by SINEK with the Conversion Bank pursuant to the FX Contract;

“**SINEK Guarantee**” means the guarantee and indemnity dated on or about the date hereof between SINEK and the Lender;

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated on 28 July 2005 hereof between the Lender, the Republic, SINEK, the Borrower and Dresdner Bank AG London Branch;

“**Taxes**” means any present or future taxes, levies, duties, assessments, imposts or other governmental charges or withholding of a similar nature no matter how they are levied or determined;

“**Taxing Authority**” means any body having authority to levy Taxes;

“**Trust Deed**” means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee as amended from time to time;

“**Trustee**” means J.P. Morgan Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder; and

“**US dollars**”, “**Dollars**”, “**US\$**” and “**U.S.\$**” mean the lawful currency of the United States of America.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which (i) are not defined in this Agreement but which are defined in, or (ii) are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the terms and conditions of the Notes), the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein, provided that in the case of terms defined or references herein to documents to which the Borrower is not a party, the Borrower has received an up-to-date copy of such documents (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

The “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first

currency which would be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) Roubles and the second currency is (ii) US dollars or as the case may be euros (or vice versa), as quoted by the Central Bank at or about noon (London time or Brussels time (as applicable) or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.3.1** all references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement;
- 1.3.2** the terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;
- 1.3.3** words importing the singular number include the plural and vice versa; and
- 1.3.4** the table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.4 Amendments

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

2 FACILITY

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend and advance to the Borrower, and the Borrower hereby agrees to borrow from the Lender, an amount equal to the amount realised by the Lender from converting into Roubles the gross proceeds of issue of the Notes at the Initial Exchange Rate under the FX Contract.

2.2 Purpose

The Advance will be used to fund a loan to SINEK, but the Lender shall not be concerned with the application thereof.

3 DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, no later than the seventh Business Day following the Closing Date the Lender shall complete the making of the aggregate amount of the Advance to the Borrower.

3.2 Disbursement

Subject to the conditions set forth herein, no later than the seventh Business Day following the Closing Date the Lender shall complete the transfer of the aggregate amount of the Advance to the Borrower's account no. 40807810666002213081 with the Conversion Bank less the amount of the fee payable pursuant to Clause 3.3 (*Upfront Fee*).

3.3 Upfront Fee

The Borrower shall pay the Lender a fee in the amount specified in a letter, dated the date hereof from the Lender to the Borrower, such fee to be deducted from the amounts to be advanced by the Lender pursuant to Clause 3.2 (*Disbursement*).

4 INTEREST

4.1 Payment of Interest

Subject to the foregoing, not later than 12 noon (Moscow time) one Business Day prior to each Interest Payment Date the Borrower shall pay all accrued and unpaid interest calculated to the last day of each Interest Period on the outstanding principal amount of the Loan to the Account. Interest shall accrue from day to day, starting from (and including) the Closing Date. For the purpose of this Clause 4 only, the Advance shall be treated as having been made in full on the Closing Date and, accordingly, the Loan shall be treated as outstanding and bearing interest on and with effect from that date.

4.2 Calculation of Interest

The Loan shall bear interest during each Interest Period at the rate calculated in accordance with the following formula (the “**Interest Rate**”):

The Interest Rate shall be calculated in accordance with the following formula:

$$A = B \times C/D$$

where:

A = the Interest Rate expressed as a percentage per annum

B = 7.70 per cent.

C = the Current Exchange Rate, as determined on the applicable Calculation Date

D = the Initial Exchange Rate

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Interest Rate to the amount of the Loan, dividing the product by two, and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. If interest is required to be calculated for any period other than an Interest Period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

“**Interest Period**” means each period beginning on, and including, the Closing Date or any Interest Payment Date and ending on, but excluding, the next Interest Payment Date.

4.3 Additional Interest

If, on the date on which any payment of principal falls due, the Current Exchange Rate, as determined on the Calculation Date immediately preceding such date, exceeds the Initial Exchange Rate, the Borrower shall pay, together with such principal payment and the payment of interest as calculated under the foregoing provisions of this Clause 4, an additional amount of interest (the “**Additional Interest**”) calculated in accordance with the following formula:

$$A = (B \times C/D) - B$$

where:

A = the amount of Additional Interest

B = the amount of the relevant payment of principal

C = the Current Exchange Rate, as determined on the Calculation Date immediately preceding the date on which such payment falls due

D = the Initial Exchange Rate

5 REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan in full not later than 12 noon (Moscow time) one Business Day prior to the Repayment Date.

5.2 Extinguishment of Loan

If, on the date on which the Borrower is required to repay the Loan in full, the Current Exchange Rate, as determined on the Calculation Date immediately preceding that date, is less than the Initial Exchange Rate, the amount of such payment of principal shall be decreased in accordance with the following formula:

$$A = (B \times C/D)$$

where:

A = the adjusted amount of the relevant payment of principal

B = the amount of the relevant payment of principal (before the adjustment provided for by this Clause 5.2)

C = the Current Exchange Rate as determined on the Calculation Date immediately preceding the date on which such payment of principal falls due

D = the Initial Exchange Rate

and the principal amount of the Loan shall be extinguished to the extent of the adjustment in the relevant payment of principal provided by this Clause 5.2.

5.3 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of, or any amendments or clarification to, or change (including a change in interpretation or application) in, the laws or regulations of Luxembourg or of any political sub-division thereof or any Taxing Authority therein (the “**Taxing Jurisdiction**”), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 July 2005 or the enforcement of the security provided for by the Trust Deed, (a) the Borrower would thereby be required (i) to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on Notes*), or if (for whatever reason) the Borrower would have to or has been required (ii) to pay additional amounts pursuant to Clause 8 (*Change in Law; Increase in Cost*), or (b) SINEK would be unable for reasons outside their control to procure payment by the Borrower and in making payment itself SINEK would be required to increase any payment under the SINEK Guarantee and in any such case such obligation cannot be avoided by the Borrower or SINEK, as the case may be, taking reasonable measures available to it, then the Borrower may (without penalty), upon not less than 30 days’ notice to the Lender (which notice shall be irrevocable), prepay the Loan in full (but not in part).

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which the Borrower would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2 (*Set-off, Counterclaim or Withholding; Gross-Up*), the Lender shall have received an Officers’ Certificate of the Borrower or, as the case may be, SINEK confirming that the Borrower or SINEK, as the case may be, would be required to increase the amount payable and that the obligation to make such payment cannot be avoided by the Borrower or SINEK, as the case may be, taking reasonable measures available to it, supported by an opinion of an independent tax adviser addressed to the Lender.

5.4 Prepayment in the Event of Exchange Rate Fluctuations

5.4.1 If, for a period of 20 consecutive Business Days, the Rouble Equivalent of the aggregate principal amount of the Notes then outstanding exceeds the Threshold Amount, the Borrower shall, within 15 Business Days of the expiry of such period of 20 consecutive Business Days, pay to the Lender in prepayment of the Loan (together with accrued and unpaid interest and other amounts outstanding hereunder) such an amount as will, following the conversion of the amount of the Loan so prepaid (together with accrued and unpaid interest and other amounts outstanding hereunder) into US dollars under the FX Contract and its application in prepayment of the Notes, result in the Rouble Equivalent of the aggregate outstanding principal amount of the Notes then outstanding falling below the

Reset Amount, unless the Republic has given the Lender notice in writing signed by two authorised signatories of the Republic (a “**Notice of Increase**”) within five Business Days from the expiry of such period of 20 consecutive Business Days stating that it intends to apply to the State Council of the Republic for an amendment to the budget law of the Republic to permit an increase in the maximum liability of the Republic under the Republic Guarantee such that 80 per cent. of such increased maximum liabilities (actual or contingent) of the Republic under the Republic Guarantee exceeds the Rouble Equivalent of the aggregate principal amount of the Notes then outstanding.

5.4.2 Unless, by no later than the date (the “**Required Delivery Date**”) falling on the earlier of:

- (a) 30 Business Days from the date on which the Republic gives a Notice of Increase to the Lender as referred in Clause 5.4.1 (or, if the State Council of the Republic is not in session at the time such notice is given, within 30 Business Days from the date on which the State Council of the Republic is convened for its next session); and
- (b) the date falling 90 days from the date on which the Republic gives such Notice of Increase,

the Lender has received (i) a deed, in form and manner satisfactory to the Lender, executed by the Republic providing for an increase in the maximum liability (actual or contingent) of the Republic under the Republic Guarantee such that 80 per cent. of such increased maximum liability (actual or contingent) of the Republic under the Republic Guarantee exceeds the Rouble Equivalent of the aggregate outstanding principal amount of the Notes then outstanding, (ii) all actions, conditions and things required to be taken, fulfilled and done to ensure the Republic Guarantee, subject to such increase in the liability of the Republic thereunder, is a valid, legally binding and enforceable obligation of the Republic and (iii) legal opinions from an independent law firm as to matters of Russian and English law in relation to fulfilment of the conditions in (ii), the Borrower shall, within 15 Business Days after the Required Delivery Date, pay to the Lender in prepayment of the Loan (together with accrued and unpaid interest and other amounts outstanding hereunder) such an amount as will, following the conversion of the amount of the Loan so prepaid (together with accrued and unpaid interest and other amounts outstanding hereunder) into US dollars under FX Contract and the application of the US dollar proceeds thereof in prepayment of the Notes, result in the Rouble Equivalent of the aggregate principal amount of the Notes then outstanding falling below the Reset Amount.

5.4.3 In this Clause 5:

“**Rouble Equivalent**” of an amount in US dollars on any date means that amount converted into Roubles at the Current Exchange Rate on the applicable Calculation Date;

“**Reset Amount**” means an amount equal to 80 per cent. of the maximum liability (actual or contingent) of the Republic under the Republic Guarantee; and

“**Threshold Amount**” means an amount equal to 91 per cent. of the maximum liability (actual or contingent) of the Republic under the Republic Guarantee.

5.5 Prepayment upon the occurrence of a Put Event or on 3 August 2012

5.5.1 If a Put Event occurs, the Borrower shall, on the Put Event Payment Date, be required to prepay such proportion of the Loan (together with (i) all accrued and unpaid interest and (ii) any other amounts outstanding hereunder) as is equal to the proportion that the aggregate outstanding principal amount of the Notes required to be redeemed on the occurrence of the Put Event as provided by Condition 6(C) (*Purchase at the option of the Noteholders upon a Put Event*) bears to the aggregate outstanding principal amount of all the Notes then outstanding. The Lender shall, at least five (5) Business Days prior to the Put Event Payment Date provide a written notice to the Borrower (with a copy to the Trustee) setting out its computation of the relevant prepayment of the Loan.

Promptly, and in any event within fifteen (15) calendar days after the date of any Put Event, the Borrower shall deliver to the Lender (and to the Trustee) a written notice in the form of an Officers’ Certificate:

- (i) stating that a Put Event has occurred; and

- (ii) specifying the Put Event Payment Date which date shall be a Business Day falling not less than 30 calendar days nor more than 60 calendar days after the date such notice is delivered.

5.5.2 The Borrower shall, on 3 August 2012, be required to prepay such proportion of the Loan (together with (i) all accrued and unpaid interest and (ii) any other amounts outstanding hereunder) as is equal to the proportion that the aggregate outstanding principal amount of the Notes to be redeemed on 3 August 2012 as provided by Condition 6(D) (*Redemption of the option of Noteholders on 3 August 2012*) bears to the aggregate outstanding principal amount of all the Notes then outstanding. The Lender shall, at least five (5) Business Days prior to 3 August 2012 provide a written notice to the Borrower (with a copy to the Trustee) setting out its computation of the relevant prepayment of the Loan.

5.6 Illegality

If, at any time after the date of this Agreement, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel at the request of the Borrower, with the cost of such Opinion of Counsel being borne by the Borrower) that it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder and/or to maintain the Notes and/or to charge or receive or be paid interest at the rate then applicable to the Loan, then the Lender shall, promptly after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

- (a) if any part of the Advance has not then been made, the Lender shall not thereafter be obliged to make that part of the Advance; and
- (b) if the Loan is then outstanding, then the Borrower and the Lender shall, to the extent reasonably practicable under the circumstances, consult in good faith as to a basis that eliminates the application of such illegality. If a basis has not been agreed between the Borrower and the Lender within 30 Business Days after the date on which the Lender first notified the Borrower of such illegality and if the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or on such earlier date as the Borrower shall elect, repay the full (but not part only) of the outstanding principal amount of the Loan and accrued interest on the Loan (up to but excluding the date of such payment) and all other amounts owing to the Lender hereunder.

5.7 Reduction of Loan upon Cancellation of Notes

If Notes are delivered to the Borrower by SINEK or any of its Subsidiaries or by the Republic or any other Person, having a minimum aggregate principal value of at least U.S.\$1,000,000, the Borrower may deliver such Notes to the Principal Paying Agent for cancellation. If such Notes so delivered are surrendered by the Borrower for cancellation, on the date on which such Notes are cancelled, a principal amount of the Loan shall be extinguished as calculated in accordance with the following formula:

$$A = B \times C/D$$

where:

A = the principal amount of the Loan to be extinguished

B = the principal amount of the Loan (calculated before the extinguishment of the Loan)

C = the outstanding principal amount of the Notes surrendered for calculation

D = the outstanding principal amount of the Notes (calculated before the surrender of the relevant Notes)

5.8 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.3 (*Prepayment in the Event of Taxes or Increased Costs*), 5.4 (*Prepayment in the Event of Exchange Rate Fluctuations*), 5.5 (*Prepayment upon the occurrence of a Put Event or on 3 August 2012*) or 5.6 (*Illegality*), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued

interest thereon to the date of actual payment, and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.7 (*Reduction of Loan upon Cancellation of Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Lender shall not be entitled to any interest in respect of the Notes cancelled pursuant to Clause 5.7 (*Reduction of Loan upon Cancellation of Notes*).

5.9 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to reborrow any amounts prepaid or repaid.

6 PAYMENTS

6.1 Making of Payments

All payments of principal, interest and other amounts (other than those in respect of Reserved Rights) to be made by the Borrower to the Lender under this Agreement shall be made unconditionally by Rouble credit transfer to the Account not later than 12 noon (Moscow time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be), or as the Trustee may otherwise direct following the occurrence of a Relevant Event.

Not less than one Business Day prior to the date on which the Borrower is required to make payment to the Account, the Borrower shall submit to the Lender and the Conversion Bank the necessary payment instructions issued by the Borrower for transferring the amount of the relevant payment from the Borrower's account with such bank to the Account for the purposes of discharging the Borrower's indebtedness under this Agreement.

If any payment under this Agreement shall fall due on a day which is not a Business Day, such payment shall be made on the next following Business Day.

The Borrower's obligation to make any payment under this Agreement shall be deemed discharged as of the moment of receipt of the relevant funds in the Account.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without withholding or deduction for or on account of any Taxes imposed or levied by or on behalf of Luxembourg or by any Taxing Authority thereof. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall promptly notify the Lender and on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such additional amount as may be necessary to ensure that the Lender receives a net amount in Roubles equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence reasonably satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender for such payment on demand. For the avoidance of doubt, this Clause 6.2 shall not apply to any Taxes payable on the overall income of the Lender.

6.3 Withholding on Notes

Without prejudice to the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of the Notes, the

Borrower agrees to pay into the Account, no later than the Business Day prior to the date on which payment is due to the Noteholders, the Rouble Equivalent of such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction and the Lender will provide the Borrower with such information as the Lender reasonably has access to as issuer of the Notes that may help in determining whether the Noteholders are entitled to additional amounts pursuant to the terms and conditions of the Notes insofar as permitted by applicable laws; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, pay the Rouble Equivalent of such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligations to determine whether any Noteholder is entitled to any such additional amount). In this Clause 6.3, the “**Rouble Equivalent**” of any amount in US dollars shall mean that amount converted into Roubles at the Current Exchange Rate prevailing on the immediately preceding Calculation Date.

Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction. The Lender shall, at the same time as it notifies the Borrower that it has become obliged to make any such withholding or deduction, provide the Borrower with reasonable detail in writing as to the reasons for such withholding or deduction with such evidence as the Borrower may reasonably require; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any Tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6, it shall pay to the Borrower so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender (in good faith), provided that the Lender shall notify the Borrower promptly upon determination that it has received any such benefit and shall provide detailed calculations of such benefit. The Lender shall use reasonable endeavours to obtain any tax credits or allowances available to the Lender and shall notify the Borrower of any such available tax credit or allowances.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any Taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) imposed by any Taxing Authority of Luxembourg (a) such Taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of Taxes as referred to above, the Lender as represented by the Borrower applies to the competent Taxing Authority for a Tax refund (it being agreed that the Lender hereby authorises the Borrower to make such application) and such Tax is refunded or repaid by the relevant Taxing Authority to the Lender, the Lender shall as soon as reasonably practicable notify the Borrower of the receipt of such Tax refund and promptly transfer the amount of the Tax refund in the currency actually received and less any applicable cost to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 Evidence of Debt

The entries made in the accounts of the Lender shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations to pay amounts thereto, as recorded therein.

6.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above-mentioned provisions, such party shall, upon becoming aware of the same, notify the other party thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to result in a breach of any provision of the Trust Deed or the Notes.

7 CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make all or any part of the Advance shall be subject to the following conditions:

- 7.1.1** the Lender has received full funding of the relevant part of the Advance from the Agreed Funding Source and has converted the same into US dollars pursuant to the Initial FX Transactions (as defined in the FX Contract); and
- 7.1.2** (i) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement, constitute an event described under Clause 11 (*Events of Default*) (ii) the representations set out in Clause 9 (*Representations and Warranties*) are true and accurate in all material respects on and as of the proposed date for the making of all or any part of the Advance (iii) the representations and warranties set out in Clause 12 (*Guarantor's Representations and Warranties*) of the Republic Guarantee are true and accurate in all material respects in the context of the Loan on and as of the proposed date for making all or any part of the Advance, (iv) the representations and warranties as set out in Clause 10 (*Guarantor's Representations and Warranties*) of the SINEK Guarantee are true and accurate in all material respects in the context of the Loan on and as of the proposed date for making all or any part of the Advance, (v) the Borrower shall be in full compliance with its obligations under this Agreement, (vi) the Republic shall be in full compliance with its obligations under the Republic Guarantee and (vii) SINEK shall be in full compliance with its obligations under the SINEK Guarantee.

8 CHANGE IN LAW; INCREASE IN COST

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority, which:

- 8.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than in relation to any income or corporation taxes payable by the Lender or any Taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on Notes*)); or
- 8.1.2** increases or will increase the taxation of or changes or will change the basis of taxation of

payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than in relation to any income or corporation taxes payable by the Lender or as a result of any Taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on Notes*)); or

8.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

- (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificates; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs; and
- (b) after written demand by the Lender to the Borrower, the Borrower, in the case of sub-Clauses (i) and (iii) above, shall, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, provided that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the gross negligence or wilful default of the Lender.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 (*Compensation*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under the above-mentioned provision, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, and subject to the Borrower reimbursing it for its full costs and expenses in relation thereto, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might be expected to have resulted in a breach of the provisions of the Trust Deed or the Notes.

9 REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the date on which all or any part of the Advance is to be made, as follows:

9.1 Incorporation, Capacity and Authorisation; Subsidiaries

(a) The Borrower is validly existing under the laws of Luxembourg, has full power, capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; (b) the Borrower has full power and capacity to execute this Agreement and the Agreed Funding Source Agreements to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein; and (c) the Borrower has taken all necessary corporate and other action required to authorise the execution and delivery of this Agreement and the Agreed Funding Source Agreements to which it is a party and the performance by the Borrower of its obligations under this Agreement and the Agreed Funding Source Agreements to which it is a party. The Borrower has no Subsidiaries.

9.2 Valid and Binding Obligations

This Agreement and the Agreed Funding Source Agreements to which it is a party have been duly executed and delivered and constitute legal, valid and binding obligations of the Borrower which are, subject to applicable laws of general application relating to or affecting the rights of creditors and to general principles of equity, enforceable in accordance with their respective terms.

9.3 No conflict

The execution and performance of this Agreement and the Agreed Funding Source Agreements to which it is a party by the Borrower does not conflict with or result in any breach or violation of (a) any law or regulation or any judgment or order of any governmental, judicial or public body or authority in Luxembourg, or (b) (to an extent or in a manner which would reasonably be expected to result in a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement and the Agreed Funding Source Agreements to which it is a party) any agreement or other undertaking, instrument or legal restrictions to which the Borrower is a party or which is/are binding upon the Borrower or any of its assets or revenues, nor result in the creation or imposition of nor oblige it to create any Security Interest on any of its assets or revenues pursuant to the provisions of any such agreement or other undertaking, instrument or legal restrictions.

9.4 Consents

All consents, licences, notifications, authorisations, procedures or approvals of, or filings with, any governmental, judicial and public bodies and authorities of Luxembourg required in connection with the execution, delivery, performance, legality, validity, enforceability and admissibility in evidence of this Agreement and the Agreed Funding Source Agreements to which it is a party have been obtained or effected and are in full force and effect.

9.5 Ranking

The obligations of the Borrower under this Agreement and the Agreed Funding Source Agreements to which it is a party will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

9.6 Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement and the Agreed Funding Source Agreements to which it is a party admissible in evidence in Luxembourg have been done, fulfilled and performed.

9.7 Stamp Duty

Under the laws of Luxembourg in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Agreement and the Agreed Funding Source Agreements to which it is a party.

9.8 No Default

No event has occurred or circumstance arisen which would constitute an Event of Default or a Default.

9.9 Withholding Tax

No withholding in respect of any Tax in Luxembourg is required to be made from any payment by the Borrower under this Agreement and the Agreed Funding Source Agreements to which it is a party.

9.10 Choice of Law

In any proceedings taken in Luxembourg in relation to this Agreement, the choice of English law as the governing law of this Agreement will be recognised and enforced after compliance with the applicable procedural rules and other legal requirements in Luxembourg.

9.11 Litigation

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement and the Agreed Funding Source Agreements to which it is a party or the Borrower's compliance with its obligations under this Agreement and the Agreed Funding Source Agreements to which it is a party or (b) adversely affect the right and power of the Borrower to enter into this Agreement and the Agreed Funding Source Agreements to which it is a party or (c) have a Material Adverse Effect.

9.12 No Material Adverse Change

Since 31 December 2004 there has been no material adverse change in the business, financial condition or results of operations of the Borrower.

9.13 Repetition

Each of the representations and warranties contained in this Clause 9 shall be deemed to be repeated (with reference to the facts and circumstances then subsisting) by the Borrower on the date on which all or any part of the Advance is to be made.

10 COVENANTS

So long as any amount remains outstanding hereunder:

10.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of, and do all that is necessary to maintain in full force and effect, all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Luxembourg to enable it lawfully to enter into and perform its obligations under this Agreement and the Agreed Funding Source Agreements to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in Luxembourg of this Agreement and the Agreed Funding Source Agreements to which it is a party.

10.2 Notification of Default

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

10.3 Claims *Pari Passu*

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

10.4 Notes Held by the Borrower or SINEK

Upon being so requested in writing by the Lender or the Trustee (acting reasonably), the Borrower shall deliver to the Lender an Officers' Certificate of the Borrower setting out the total number of

Notes which, at the date of such certificate, are held by the Borrower or SINEK and have not been cancelled and are retained by it for its own account or for the account of any other company.

11 EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.20.

11.2 Non-Payment

- (i) The Borrower fails to pay any sum (other than interest) payable under this Agreement within five Business Days of the due date for payment thereof, in the currency and in the manner specified in this Agreement.
- (ii) The Borrower fails to pay interest payable under this Agreement within ten Business Days of the due date for payment thereof, in the currency and in the manner specified in this Agreement.

11.3 Breach of Covenants by Borrower

The Borrower fails duly to perform or comply with, or is otherwise in breach of, any other of the obligations expressed to be assumed by it under this Agreement and such failure or breach is not remedied within 30 days after the Lender has given notice of it to the Borrower.

11.4 Breach of Covenants by Republic

The Republic fails duly to perform or comply with, or is otherwise in breach of, any of the obligations expressed to be assumed by it under the Republic Guarantee and such failure or breach is not remedied within 30 days after the Lender has given notice of it to the Republic.

11.5 Breach of Covenants by SINEK

SINEK fails duly to perform or comply with, or is otherwise in breach of, any of the obligations expressed to be assumed by it under the SINEK Guarantee and such failure or breach is not remedied within 30 days after the Lender has given notice of it to SINEK.

11.6 Non-Payment of Indebtedness

Any Indebtedness of SINEK, the Borrower or the Republic is not paid when due after the expiration of any originally applicable grace period, or any Indebtedness of SINEK, the Borrower or the Republic is declared to be or otherwise becomes due and payable prior to its specified maturity following a default by SINEK, the Borrower or the Republic, as the case may be, provided, however, that no Event of Default shall have occurred under this Clause 11.6 if the aggregate amount of such Indebtedness (or its equivalent) which is not paid when due (after the expiration of any originally applicable grace period) or is due and payable prior to its specified maturity date is equal to or less than U.S.\$15,000,000 (or its equivalent in another currency) (in the case of Indebtedness of SINEK and the Borrower) or U.S.\$40,000,000 (or its equivalent in another currency) (in the case of Indebtedness of the Republic).

11.7 Moratorium

A moratorium is placed on the payment of all or any of the Indebtedness of the Republic or any Relevant Entity.

11.8 Insolvency

SINEK or the Borrower becomes insolvent, is unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or any part of its Indebtedness which it will or might otherwise be unable to pay when due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its Indebtedness or makes

a general assignment for the benefit of or a composition with its creditors (including, without limitation, the convening or announcement of an intention to convene a meeting of its creditors for the purposes of considering an amicable settlement, or its entry into a voluntary arrangement (*mirovoye soglasheniye*)).

11.9 Insolvency Proceedings

SINEK or the Borrower takes any corporate action or steps are taken or legal proceedings are started for its bankruptcy, insolvency, dissolution, liquidation, administration or reorganisation (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Trustee or by an Extraordinary Regulation (as defined in the Trust Deed) of the holders of the Notes) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee, arbitrazh manager or other similar officer in respect of it or of any or all of its revenues and assets.

11.10 Non-Satisfaction of Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against either SINEK or the Borrower, in the aggregate, exceeds U.S.\$10,000,000 (or its equivalent in another currency), and there is a period of 30 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed.

11.11 Analogous Proceedings

Any procedure or event occurs which under the laws of any jurisdiction has a similar or analogous effect to any of those procedures or events mentioned in Clause 11.8 (*Insolvency*), Clause 11.9 (*Insolvency Proceedings*), or Clause 11.10 (*Non-Satisfaction of Judgments*) including, for the avoidance of doubt and without prejudice to any events specified in Clause 11.8 (*Insolvency*), Clause 11.9 (*Insolvency Proceedings*), Clause 11.10 (*Non-Satisfaction of Judgments*), (i) SINEK or the Borrower seeking, consenting to or acquiescing in the introduction of proceedings for its liquidation, bankruptcy, reorganization or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or other similar officer of SINEK or the Borrower; (ii) the institution of the supervision (*nablyudeniye*), financial recovery (*finansovoe ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of any of SINEK or the Borrower, and/or the appointment of a temporary manager (*vremenniy upravlyaushchiy*), administrative manager (*administrativniy upravlyaushchiy*), external manager (*vneshniy upravlyaushchiy*), bankruptcy manager (*konkursniy upravlyaushchiy*) or similar officer of any of SINEK or the Borrower as these terms are construed by applicable Russian legislation; or (iv) the institution of financial rehabilitation (*finansovoye ozdorovlenie*), temporary administration (*vremennaya administratsiya*) and bankruptcy management (*konkursnoye proizvodstvo*) with respect to SINEK or the Borrower as these terms are construed by applicable Russian legislation.

11.12 Adverse Government Action

There is a seizure, compulsory acquisition, expropriation, nationalisation or renationalisation, in each case, without appropriate compensation, by or under state authority of all or any substantial part of the assets of SINEK or the Borrower.

11.13 Consents and Approvals

Any consent, approval, authorisation or licence necessary for the performance of any obligation of the Borrower, SINEK or the Republic under this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, fails or ceases to be in full force and effect.

11.14 Repudiation

The Borrower, the Republic or SINEK repudiates this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, or does or causes to be done any act or thing evidencing an intention to repudiate this Agreement, the Republic Guarantee or the SINEK Guarantee.

11.15 No Action taken

At any time any act, condition or thing required to be done, fulfilled or performed in order (i) to enable the Borrower, the Republic or SINEK lawfully to enter into, exercise its rights under and

perform the obligations expressed to be assumed by it in this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, (ii) to ensure that the obligations expressed to be assumed by it in this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, are legal, valid and binding, or (iii) to make this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, admissible in evidence in Luxembourg, the Russian Federation or England, is not done, fulfilled or performed.

11.16 Obligations Unlawful

At any time it is or becomes unlawful for the Borrower, the Republic or SINEK to perform or comply with any or all of its obligations under this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, or any of the obligations of the Borrower, the Republic or SINEK under this Agreement, the Republic Guarantee or the SINEK Guarantee, respectively, are not or cease to be legal, valid and binding.

11.17 Inconvertibility

If, for any reason, the Lender is unable to convert into US dollars under the FX Contract:

11.17.1 the proceeds of any Rouble payment under this Agreement, the Republic Guarantee or the SINEK Guarantee (other than interest) within five Business Days of the due date for the payment thereof; or

11.17.2 the proceeds of any Rouble payment of interest under this Agreement, the Republic Guarantee or the SINEK Guarantee within ten Business Days of the due date for the payment thereof.

11.18 SINEK Dollar Account

If, at any time after the date falling five Business Days after the date on which the Advance is to be made, the credit balance on the SINEK Dollar Account falls below the Minimum Balance.

11.19 Notice of Default

The Borrower shall deliver to the Lender and the Trustee within (i) 10 Business Days of any written request by the Lender or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.20 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

12 LATE PAYMENTS

If the Lender receives or recovers any amount due from the Borrower under this Agreement otherwise than on the due date thereof (a "**Late Payment**"), the Borrower shall pay to the Lender on demand an amount equal to the amount (if any) by which (a) an amount equal to the U.S. dollar equivalent of the Late Payment (determined by applying the Current Exchange Rate prevailing on the Calculation Date immediately preceding the due date of the Late Payment), together with interest accrued on any such payment which corresponds to a payment of principal on the Notes at the rate of 7.70% per annum from such due date until the actual date of payment of the Late Payment, exceeds (b) the actual proceeds realised by the Lender from converting the Late Payment, when received, into US dollars under the FX Contract.

13 INDEMNITY

13.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the

meaning of the United States securities laws (each an “**indemnified party**”) incurs any loss, liability, cost, claim, charge, expense (including without limitation, legal fees, costs and expenses), demand or damage (a “**Loss**”) as a result of or in connection with the Loan and/or this Agreement (including the performance of the Lender’s obligations thereunder and/or the enforcement thereof and/or the consequence of the occurrence of any Default or Event of Default), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party’s negligence or wilful misconduct or fraud or arises out of a breach of the representations and warranties of the Lender contained in the Subscription Agreement, the Republic Guarantee or the SINEK Guarantee. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause.

13.2 Independent Obligation

Clause 13.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

13.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 13.1 (*Indemnification*) and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

14 SURVIVAL

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on Notes*), 12 (*Late Payments*), 13 (*Indemnity*) and 15.1 (*Stamp Duties*) shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

15 GENERAL

15.1 Stamp Duties

15.1.1 The Borrower shall pay all United Kingdom and Luxembourg stamp, registration, documentary and similar Taxes or similar charges (if any) that may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such Taxes or similar charges.

15.1.2 The Borrower agrees that if the Lender incurs a liability to pay any United Kingdom and Luxembourg stamp, registration, documentary and similar Taxes or similar charges (if any) that may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary Taxes or similar charges and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such Taxes or similar charges.

15.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or

privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

15.3 Prescription

In the event that any Notes become void pursuant to Condition 11 (*Prescription*) of the Notes, the Lender shall forthwith pay to the Borrower the principal amount of such Notes subject to the Lender having previously received from the Borrower principal amounts pursuant to this Agreement which, following their conversion into US dollars pursuant to the FX Contract, correspond to the principal amount of such Notes.

15.4 Rights Not Exclusive

The rights of the Lender provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

15.5 Determinations by Agent Bank

As provided by the Reference Agency Agreement, the Agent Bank shall determine the following:

- (a) the Interest Rate and amount of interest payable for each Interest Period under Clause 4.2 (*Calculation of Interest*);
- (b) the amount of Additional Interest payable under Clause 4.3 (*Additional Interest*);
- (c) the amount by which the Loan may be extinguished as provided by Clause 5.2 (*Extinguishment of Loan*); and
- (d) whether the Rouble Equivalent of the outstanding principal amount of the Notes then outstanding exceeds the Threshold Amount in any period of 20 consecutive Business Days for the purpose of Clause 5.4 (*Prepayment in the Event of Exchange Rate Fluctuations*),

and, as soon as practicable after its determination, notify the Lender, the Trustee, the Principal Paying Agent and the Borrower thereof. Such determinations shall be binding on the parties to this Agreement in the absence of manifest error.

16 NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

16.1 if to the Borrower:

SINEK Capital S.A.
7 Val Sainte-Croix
L-1371
Luxembourg

Fax: +7 843 2319856

Attention: Artur N. Khayrullin

16.2 if to the Lender:

Edel Capital S.A.
7 Val Sainte-Croix
L-1371
Luxembourg

Fax: +352 221192

Attention: Alexis Kamarowsky

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

17 ASSIGNMENT AND TRANSFER

17.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following notification to the Borrower of the assignment referred to in Clause 17.3, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

17.2 By the Borrower

17.2.1 Subject as provided in sub-Clause 17.2.2., the Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other Person without the prior consent of the Lender.

17.2.2 If a Withholding Event occurs, the Borrower may notify the Lender that the Borrower shall be substituted as obligor hereunder, subject to the conditions hereof, by such other entity which the Borrower may reasonably specify and which is a subsidiary of SINEK (a "**Substituted Obligor**"). Prior to the delivery of such notice the Borrower shall deliver the Lender a certificate signed by two Directors of the Borrower stating that the Withholding Event has occurred and, save for the substitution mentioned herein, cannot be avoided by the Borrower taking reasonable measures available to it and the Lender shall be entitled to accept such certificate as sufficient evidence of the circumstances set out herein.

A substitution of a Substituted Obligor in place of the Borrower shall take effect hereunder provided that:

- (i) a deed is executed or undertaking given by the Substituted Obligor to the Lender, in form and manner satisfactory to the Lender, agreeing to be bound by this Agreement (with consequential or other amendments as the Lender may deem appropriate) as if the Substituted Obligor has been named in this Agreement as the principal debtor in place of the Borrower;
- (ii) without limitation to the generality of sub-Clause 17.2.2(i), if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory to the taxing jurisdiction of which (or to any authority of or in which) the Borrower is subject generally (the "**Borrower's Territory**"), the Substituted Obligor will (unless the Lender otherwise agrees) give to the Lender an undertaking satisfactory to the Lender in terms corresponding to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) with the substitution for the references in that Clause to the Borrower's Territory of reference to the Substituted Territory whereupon this Agreement will be read accordingly;
- (iii) the Republic and SINEK shall have entered into guarantee and indemnity agreements (the "**New Guarantees**") in terms substantially similar to the Republic Guarantee and the SINEK Guarantee with respect to the obligations of the Substituted Obligor under the Agreement with such amendments as the Lender may reasonably require;
- (iv) the Lender shall be satisfied that the rights of the Lender against the Substituted Obligor under or in connection with the Agreement and against the Republic and SINEK under or in connection with the New Guarantees shall have been effectively charged in favour, and assigned to, the Trustee in a manner satisfactory to the Trustee;
- (v) all actions, conditions and things required to be taken fulfilled and done (including

the obtaining of any necessary consents) to ensure this Agreement and the New Guarantees represent valid, legally binding and enforceable obligations of the Substituted Obligors, the Republic and SINEK, as the case may be, have been taken fulfilled and done and are in full force and effect;

- (vi) the Lender shall have received legal opinions from an independent law firm in the Substituted Territory, Russia and England as to the fulfilment of the conditions in sub-Clause 17.2.2(v);
- (vii) if any two Directors of the Substituted Obligor certify that it will be solvent immediately after such substitution, the Lender need not have regard to the Substituted Obligor's financial condition, profits or prospects or compare them with those of the Borrower; and
- (viii) the Borrower and the Substituted Obligor comply with such other reasonable requirements as the Lender may direct.

“Withholding Event” means any change in, or amendment to, the laws, regulations or treaty arrangements of or involving Russia or Luxembourg, or any change in the application or generally accepted official interpretation of the laws, regulations or treaty arrangements of or involving Russia or Luxembourg, which change or amendments become effective after 28 July 2005, which results in any payment by SINEK to or for the account of the Borrower under the Inter-group Loan being subject to withholding or deduction for any Taxes of the Russian Federation.

“Inter-group Loan” means the lending or other financing arrangement pursuant to which the Borrower, applying the RUR proceeds of the Advance, shall on-lend an amount in RUR equal to the Advance to SINEK.

References to “the Borrower” in this Clause include such other entity as was previously substituted as obligor hereunder.

17.3 By the Lender

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4.2 of the Trust Deed.

18 LAW AND JURISDICTION

18.1 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

18.2 Jurisdiction

Each of the Borrower and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (respectively, **“Proceedings”** and **“Disputes”**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

18.3 Appropriate Forum

Each of the parties to this Agreement irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and, subject to the existence of a treaty relating to the mutual recognition of foreign judgments, may be enforced in the courts of any other jurisdiction.

18.4 Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any party to take Proceedings against another party in any other court

of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction to the extent permitted by any applicable law.

18.5 Waiver of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

18.6 Consent to Enforcement, etc.

Each of the Lender and the Borrower consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

18.7 The Borrower's Process Agent

The Borrower agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Hackwood Secretaries Limited, One Silk Street, London EC2Y 8HQ, or, if different, its registered office for the time being or at any address of the Borrower in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on the Borrower's behalf, the Borrower shall, on the written demand of the Lender, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a Person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

18.8 Lender's Process Agent

The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the attention of Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Lender in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a Person by written notice to the Lender. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

19 ARBITRATION

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

20 SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining

provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

21 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A Person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

22 AMENDMENTS

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

23 COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

IN WITNESS whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

SINEK CAPITAL S.A.

By:

EDEL CAPITAL S.A.

By:

THE REPUBLIC GUARANTEE

THIS DEED OF GUARANTEE AND INDEMNITY is made on 3 August 2005

BETWEEN:

- (1) **THE REPUBLIC OF TATARSTAN** (the “**Guarantor**”), acting through the Ministry of Finance of the Republic of Tatarstan; and
- (2) **EDEL CAPITAL S.A.**, a company established under the laws of Luxembourg, having its registered office at 7, Val Sainte-Croix, L-1371, Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number 109013 (the “**Lender**”).

WHEREAS

- (A) The Lender has at the request of the Guarantor and OAO “Svyazinvestneftekhim” (“**SINEK**”) agreed to make available to SINEK Capital S.A. (the “**Borrower**”), a Rouble credit facility (the “**Facility**”) on the terms and subject to the conditions contained in a loan agreement dated 3 August 2005 (the “**Loan Agreement**”) between the Lender and the Borrower.
- (B) The Borrower is a subsidiary of SINEK and the Guarantor is the sole shareholder of SINEK.
- (C) In consideration of the Lender agreeing to make available the Facility to the Borrower, the Guarantor has agreed to enter into this Deed in order to guarantee to the Lender the payment of all sums owing by the Borrower under the Loan Agreement subject to the Maximum Amount (as defined below).
- (D) It is intended that the Lender will issue certain US dollar-denominated notes, the proceeds of which will be converted into Roubles and used for the purpose of funding the amount to be advanced under the Facility.
- (E) It is further intended that the Lender will charge and assign certain of its rights and benefits under this Deed in favour of a trustee for the holders of the above-mentioned notes.

NOW THIS DEED WITNESSES and it is hereby declared as follows:

1. DEFINITIONS AND INTERPRETATION.

1.1 Definitions

In this Deed unless otherwise defined herein the following terms shall have the meanings indicated.

“**Agreed Funding Source**” means any Person to whom the Lender owes any Indebtedness incurred in respect of the funding of the Loan.

“**Agreed Funding Source Agreements**” means the Trust Deed, the Notes, the FX Contract, the Subscription Agreement, the Agency Agreement, the Reference Agency Agreement and any other agreements entered into in connection with the Agreed Funding Source.

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

“**Agency Agreement**” means the agency agreement relating to the Notes dated the date hereof between the Lender, the Trustee, the principal paying agent and the other agents named therein.

“**Budget Accounts**” means the 2005 Budget of the Guarantor approved by the Law of the Republic of Tatarstan “On the Budget of the Republic of Tatarstan for the year 2005” No. 60-ZRT dated 4 December 2004 together with further amendments thereto, the 2004 Budget of the Guarantor approved by the Law of the Republic of Tatarstan “On the Budget of the Republic of Tatarstan for the year 2004” No. 52-ZRT dated 16 December 2003 together with further amendments thereto and the report on the implementation of the 2004 Budget of the Guarantor approved by the Law of the Republic of Tatarstan “On the Implementation of the Budget of the Republic of Tatarstan for the year 2004” No. 345 dated 13 July 2005.

“**Business Day**” means a day on which commercial banks are open for general business in Moscow.

“**DTT Provisions**” means the provisions of a Treaty on the Avoidance of Double Taxation as

concluded and remaining in force at any relevant date between the Russian Federation and the Grand Duchy of Luxembourg or any other relevant jurisdiction (where any recipients of any payments under this Deed may be located) under which payments due by the Guarantor pursuant to this Deed shall be exempt from Russian withholding tax.

“**Event of Default**” has the meaning given to that term in the Loan Agreement.

“**FX Contract**” means the currency conversion agreement dated on or about 3 August 2005 between SINEK, the Lender and Dresdner Bank ZAO.

“**Guaranteed Obligations**” means all sums in Roubles of any nature whatsoever now or at any time payable or expressed to be payable by the Borrower to the Lender under or pursuant to the Loan Agreement, including, without limitation, principal, interest, fees, expenses, indemnity payments and other amounts.

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

“**Interest Payment Date**” has the meaning given to that term in the Loan Agreement.

“**Loan**” means the principal amount advanced or to be advanced by the Lender to the Borrower pursuant to the Loan Agreement.

“**Material Adverse Effect**” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of SINEK, (b) SINEK’s ability to perform its obligations under the SINEK Guarantee or (c) the validity or enforceability of the SINEK Guarantee.

“**Maximum Amount**” means an amount equal to RUR 13,000,000,000.

“**Notes**” means the issue of U.S.\$250,000,000 7.70% Loan Participation Notes due 2015 proposed to be issued by the Lender for the purpose of financing the Loan.

“**Offering Documents**” means the preliminary prospectus dated 11 July 2005 and the prospectus dated 28 July 2005, in each case relating to the issuance of the Notes by the Lender to the Agreed Funding Source.

“**Officers’ Certificate**” means a certificate signed by two duly authorised officers of the Guarantor.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

“**Reference Agency Agreement**” means the reference agency agreement dated the date hereof between the Lender, the Trustee and the person named therein as agent bank.

“**Relevant Indebtedness**” means any present or future indebtedness which is (i) in the form of, or represented by, bonds, notes, debentures, loan stocks or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market or (ii) incurred in connection with a transaction under whose overall structure indebtedness of the type referred to in (i) of this definition is incurred (whether or not by the person which incurs the indebtedness referred to in this sub-paragraph (ii)).

“**RUR**” and “**Roubles**” mean the lawful currency of the Russian Federation.

“**Russian Federation**” means the Russian Federation and any subject or other administrative sub-division thereof.

“**Security Interest**” means a mortgage, charge, pledge, lien or other encumbrance including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

“**SINEK Guarantee**” means the deed of guarantee and indemnity dated the date hereof between SINEK and the Lender.

“**State Debt Book**” means the register of indebtedness of the Guarantor maintained in accordance with the requirements of the Budget Code of the Russian Federation dated 31 July 1998 (as amended) and the Budget Code of the Republic of Tatarstan dated 29 May 2004 (as amended).

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated on or about 28 July 2005 between the Lender, the Guarantor, SINEK, the Borrower and Dresdner Bank AG London Branch.

“**Taxes**” means any present or future taxes, levies, duties, assessments, imposts or other governmental charges or withholding of a similar nature no matter how they are levied or determined.

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

“**Trust Deed**” means the trust deed relating to the Notes to be dated on or about the date hereof between the Lender and the Trustee.

“**Trustee**” means J.P. Morgan Corporate Trustee Services Limited, as Trustee under the Trust Deed and any successor thereto as provided thereunder.

1.2 **Interpretation**

Unless the context or the express provisions of this Deed otherwise require, the following shall govern the interpretation of this Deed:

- (a) all references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Deed;
- (b) the terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Deed as a whole and not any particular part hereof;
- (c) words importing the singular number include the plural and vice versa; and
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3 **Amendments**

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

2. **GUARANTEE.**

The Guarantor unconditionally and irrevocably guarantees the due and punctual payment of the Guaranteed Obligations so that if and each time and to the extent that the Borrower does not make due and punctual payment of the Guaranteed Obligations on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantor will, immediately after receiving a notice of demand from the Lender, unconditionally pay that sum to the Lender.

3. **INDEMNITY.**

As separate, independent and alternative stipulations, the Guarantor unconditionally and irrevocably agrees (a) that any sum which, although expressed to be payable by the Borrower is for any reason (whether or not now existing and whether or not now known or becoming known to the Lender) not recoverable from the Guarantor on the basis of a guarantee such sum shall nevertheless be recoverable from it as if it were the sole principal debtor and shall be paid by it to the Lender immediately after receiving a notice of demand from the Lender and (b) as a primary obligation to indemnify the Lender against any loss suffered by it as a result of any sum expressed to be payable by the Borrower under the Loan Agreement not being paid by the time, on the date (whether on the normal due date, on acceleration or otherwise) and otherwise in the manner specified therein or any payment obligation of the Borrower under the Loan Agreement being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Lender), the amount of that loss being the amount expressed to be payable by the Borrower in respect of the relevant sum.

4. **WAIVER OF DEFENCES.**

As between the Guarantor and the Lender, but without affecting the Lender’s obligations, the Guarantor shall be liable under this Deed as if it were the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including, without limitation, (a) any time, indulgence, concession, waiver or consent at any time given to the Borrower, SINEK or any other person, (b) any amendment or supplement to any of the provisions

of the Loan Agreement or the SINEK Guarantee or to any security or other guarantee or indemnity, (c) (subject to the provisions of Clause 5 (*Demand on Borrower*)) the making or absence of any demand for payment, (d) the enforcement or absence of enforcement of the Loan Agreement or the SINEK Guarantee or of any security or other guarantee or indemnity, (e) the taking, existence or release of any security, guarantee or indemnity, (f) the winding up, dissolution, administration, amalgamation, reconstruction or reorganisation of the Borrower, SINEK or any other person or (g) the illegality, invalidity or unenforceability of or any defect in any provision of the Loan Agreement or the SINEK Guarantee or any of the obligations of the Borrower or SINEK under any of them).

5. DEMAND ON BORROWER.

Notwithstanding any other provision of this Deed, the Guarantor shall not be liable under this Deed in relation to any Guaranteed Obligation unless the Lender has made demand for payment thereof on the Borrower and such demand has not been satisfied.

6. LIMITATION OF GUARANTEE.

Notwithstanding any other provision of this Deed, the aggregate amount recoverable from the Guarantor under this Deed (including, for avoidance of doubt, in respect of any increased amounts payable by the Guarantor under Clause 17 (*No Set-Off, Counterclaim or Withholding; Gross-Up*)) will not exceed the Maximum Amount.

7. GUARANTOR'S OBLIGATIONS CONTINUING.

The Guarantor's obligations under this Deed shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any partial or intermediate payment or satisfaction of any of the Borrower's obligations under the Loan Agreement and shall continue in full force and effect until all the Guaranteed Obligations are paid in full and no sum remains payable under this Deed. Furthermore, those obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time in existence in favour of any person, whether from the Guarantor or otherwise, and may be enforced without first having recourse to any other person, any security or any other guarantee or indemnity. The Guarantor specifically agrees that it shall not be necessary or required in order to enforce the liability of the Guarantor hereunder that there be, and the Guarantor specifically and irrevocably waives, notice of acceptance, demand, presentment for payment or protest, or other notice save to the extent specially required hereunder.

8. EXERCISE OF GUARANTOR'S RIGHTS.

So long as any of the Guaranteed Obligations are outstanding or any sum remains payable under this Deed, no right of the Guarantor, by reason of the performance of any of its obligations under this Deed, to be indemnified by, or receive any contribution from, the Borrower or SINEK or to take the benefit of or enforce any security or other guarantee or indemnity shall be exercised or enforced except in the manner and on such terms as the Lender may approve, and any amount received or recovered by the Guarantor (a) as a result of any exercise of any such right or (b) in the winding-up, dissolution, amalgamation, reconstruction or reorganisation of the Borrower or SINEK will be held in trust for the Lender and immediately paid to the Lender.

9. AVOIDANCE OF PAYMENTS.

The Guarantor shall on demand indemnify the Lender against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up dissolution or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Borrower under the Loan Agreement or by SINEK under the SINEK Guarantee and shall in any event pay to it on demand the amount as refunded by it.

10. SUSPENSE ACCOUNTS.

Any amount received or recovered by the Borrower in respect of any sum payable by the Guarantor under this Deed may be placed in a suspense account and kept there for so long as the Lender thinks fit.

11. NO CLAIM AGAINST BORROWER.

As separate, independent and alternative stipulations, the Guarantor hereby covenants with the Lender that, so long as any amount under the Loan Agreement is outstanding, it will not take action for or in connection with the liquidation or winding up of the Borrower or SINEK.

12. GUARANTOR'S REPRESENTATIONS AND WARRANTIES.

The Guarantor makes the representations and warranties to the Lender set out in this Clause, to the intent that such shall form the basis of this Deed and shall remain in full force and effect at the date hereof:

12.1 Status

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

12.2 Due authorisation

It has taken all necessary legal and other action required to authorise the execution and delivery of this Deed and all other documents to be executed and delivered by it in connection with this Deed and the performance of this Deed in accordance with its terms.

12.3 Valid and Binding Obligations

This Deed has been duly executed and delivered and constitutes a legal, valid and binding obligation of the Guarantor which is, subject to applicable laws of general application relating to or affecting the rights of creditors and to general principles of equity, enforceable in accordance with its terms.

12.4 No conflict

The execution and performance of this Deed by the Guarantor does not conflict with or result in any breach or violation of (a) any law or regulation or any judgment or order of any governmental, judicial or public body or authority in the Russian Federation or the Republic of Tatarstan, or (b) (to an extent or in a manner which would reasonably be expected to result in a material adverse effect on the ability of the Guarantor to perform its obligations under this Deed) any treaty, agreement or other undertaking, instrument or legal restrictions to which the Guarantor is a party or which is/are binding upon the Guarantor or any of its assets or revenues, nor result in the creation or imposition of nor oblige it to create any Encumbrances on any of its assets or revenues pursuant to the provisions of any such treaty, agreement or other undertaking, instrument or legal restrictions.

12.5 Consents

All consents, licences, notifications, authorisations, procedures or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation or the Republic of Tatarstan required in connection with the execution, delivery, performance, legality, validity, enforceability and admissibility in evidence of this Deed have been obtained or effected and are in full force and effect.

12.6 Ranking

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

12.7 Admissibility in Evidence

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

12.8 Private and Commercial Acts

The execution, delivery and performance of this Deed by the Guarantor constitute private and commercial acts rather than governmental or public acts.

12.9 **Stamp Duty**

Under the laws of the Russian Federation and the Republic of Tatarstan in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Deed.

12.10 **Events of Default**

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

12.11 **Withholding Tax**

Subject to the performance by a recipient of any payment by the Guarantor under this Deed of the relevant procedures established by Russian tax regulations with regard to application of the relevant DTT Provisions, no withholding in respect of any Tax in the Russian Federation or the Republic of Tatarstan is required to be made from any payment by the Guarantor to the Lender under this Deed.

12.12 **Choice of Law**

In any proceedings taken in the Russian Federation or the Republic of Tatarstan in relation to this Deed, the choice of English law as the governing law of this Deed and any arbitration award obtained in England in relation thereto will be recognised and enforced after compliance with the applicable procedural rules and other legal requirements in the Russian Federation.

12.13 **Litigation**

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Guarantor, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Deed or the Guarantor's compliance with its obligations hereunder or (b) adversely affect the right and power of the Guarantor to enter into this Deed or (c) have a material adverse effect on the sources and amounts of revenue of the Guarantor or in the proposed expenditure of the Guarantor, each as set out in the Budget Accounts, which would be reasonably likely to affect the investment decision of the Agreed Funding Source.

12.14 **Budget Accounts**

The Budget Accounts of the Guarantor have been prepared in accordance with the Budget Code of the Russian Federation dated 31 July 1998 (as amended) and the Budget Code of the Republic of Tatarstan dated 29 May 2004 (as amended) and other applicable legislation.

12.15 **No Material Adverse Change**

Since 31 December 2004 there has been no material adverse change in the sources and amounts of revenue of the Guarantor or in the proposed expenditure of the Guarantor, each as set out in the Budget Accounts, which would be reasonably likely to affect the investment decision of the Agreed Funding Source.

12.16 **Repetition**

Each of the representations and warranties contained in Clause 12 shall be deemed to be repeated by the Guarantor on the date for the making of all or any part of the Loan.

13. INFORMATION.

13.1 **Budget Accounts**

The Guarantor shall supply or procure to be supplied to the Lender (in such number of copies as may reasonably be required by the Lender) its budget accounts when such accounts are officially published.

13.2 **Officers' Certificate**

The Guarantor shall ensure that it provides to the Lender within 10 Business Days of any request by the Lender and at the time of the dispatch to the Lender of its budget accounts pursuant to Clause 13.1 and in any event not later than 45 days after the dates on which (i) the Guarantor's budget relating to the next financial year and (ii) the implementation of the Guarantor's budget for

the relevant financial year approved by the relevant law of the Republic of Tatarstan, an Officers' Certificate certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Guarantor up to the last day of the month preceding to the date of such Officers' Certificate (the "**Certified Date**") the Guarantor has complied with its obligations under this Deed existing on such Certified Date (or, if such is not the case, giving details of the circumstances under such non-compliance) and that as at such date there did not exist nor had there existed at any time prior thereto since the Certified Date in respect of the previous such certificate (or, in the case of the first such certificate, since the date of this Deed) any Event of Default or (if such is not the case) specifying the same.

14. GUARANTOR'S UNDERTAKINGS.

So long as any amount remains outstanding under this Deed:

14.1 Maintenance of Legal Validity

The Guarantor shall take all necessary action to obtain and do, or cause to be done, all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Russian Federation and the Republic of Tatarstan, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation and the Republic of Tatarstan for the execution, delivery or performance of this Deed or for the validity, enforceability or admissibility in evidence thereof.

14.2 Registration

Without prejudice to the generality of the Guarantor's obligation under Clause 14.1 (*Maintenance of Legal Validity*), the Guarantor shall take all steps to ensure the registration of this Guarantee with the Ministry of Finance of the Russian Federation in accordance with Article 120 para. 1 of the Budget Code of the Russian Federation dated 31 July 1998 (as amended) and Article 40 para. 2 of the Budget Code of the Republic of Tatarstan dated 29 May 2004 (as amended).

14.3 Claims Pari Passu

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

14.4 Negative Pledge

The Guarantor shall not create or permit to subsist any Security Interest over all or any of its present or future revenues or assets to secure any Relevant Indebtedness or any guarantee or indemnity of any Relevant Indebtedness unless, at the same time or prior thereto, the obligations under this Deed (i) are secured equally and rateably therewith or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to such Security Interest and which shall be approved by the Lender.

14.5 SINEK

The Guarantor undertakes that it shall not, without the prior written consent of the Lender or, following the assignment referred to in Clause 21.3, without approval pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Notes:

- (a) take or omit to take any action whereby the Guarantor would cease to own in excess of 50 per cent. of the issued share capital of SINEK (excluding any part thereof that does not carry a right to participate beyond a specified amount in any distribution of profit or capital); and
- (b) unless required by mandatory provisions of Russian federal legislation, make, or permit to be made, any amendments to the charter of SINEK in any manner which would be inconsistent with the provisions of the Notes, the SINEK Guarantee or the other provisions of the Trust Deed and/or which could have a Material Adverse Effect.

14.6 Untrue Representations

Before the making of the Loan, the Guarantor shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations contained in Clause 12 (*Guarantor's Representations and Warranties*) being untrue at or before the time of the making of the Loan.

14.7 **Notification of Events of Default**

The Guarantor shall promptly on becoming aware thereof inform the Lender of the occurrence of any Event of Default.

15. **LENDER'S REPRESENTATIONS AND WARRANTIES.**

The Lender makes the representations and warranties to the Guarantor set out in this Clause to the intent that they shall form the basis of this Deed and shall remain in full force and effect at the date hereof.

15.1 **Incorporation**

The Lender is validly existing under the laws of the Grand Duchy of Luxembourg and has full power and capacity to execute this Deed and the Agreed Funding Source Agreements to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate and other action to approve and authorise the same.

15.2 **Residence**

The Lender (i) is an entity which at the date hereof is a resident of the Grand Duchy of Luxembourg, is subject to taxation in the Grand Duchy of Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in the Grand Duchy of Luxembourg merely on income from sources in the Grand Duchy of Luxembourg or connected with property located in the Grand Duchy of Luxembourg, and (ii) does not have a permanent establishment in the Russian Federation.

15.3 **No Conflict**

The execution of this Deed and the Agreed Funding Source Agreements to which it is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Grand Duchy of Luxembourg or any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety.

15.4 **Valid and Binding**

This Deed and the Agreed Funding Source Agreements to which it is a party have been duly executed by and constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

15.5 **Authorisations**

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Deed and the Agreed Funding Source Agreements to which it is a party and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

16. **LENDER'S UNDERTAKINGS.**

16.1 **Relief**

The Lender shall make reasonable and timely efforts to assist the Guarantor to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and the jurisdiction in which the Lender is incorporated. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the Russian Federation and the jurisdiction in which the Lender is incorporated.

16.2 **No Change in Domicile**

The Lender will not move its domicile from Luxembourg without the prior consent of the Guarantor. The Lender agrees promptly, upon becoming aware of the same, to notify the Guarantor if it ceases to be resident in Luxembourg or if the representation set forth in Clause 15.2 (*Residence*) is no longer true and correct.

16.3 Withholding Tax Exemption

The Lender shall use its best endeavours to provide the Borrower no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities, confirming that the Lender is tax resident in the Grand Duchy of Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify the Borrower without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall, at the expense of the Borrower, be appropriately apostilled and a certified translation supplied. Should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in this Clause 16.3 will be deemed to have changed accordingly.

16.4 Provision of Information

The Lender shall use all best efforts to within 30 days of the request of the Guarantor (to the extent it is able to do so under applicable law including Russian laws) deliver to the Guarantor such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. If required, the other forms referred to in this Clause 16.4 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to the Guarantor shall be duly signed and apostilled or otherwise legalised, all at the Guarantor's expense. The Lender shall provide the Guarantor with all assistance it may reasonably require to ensure that the Guarantor can deliver to the tax authorities the information or forms specified in this Clause 16.4. If a relief from deduction or withholding of Russian Tax under this Clause 16.4 has not been obtained and further to an application of the Guarantor to the relevant Russian tax authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Guarantor (a) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Guarantor with the details of such rouble bank account. The Guarantor shall pay for all costs, if any, associated with opening and maintaining such rouble bank account. The Lender shall not be obligated to take any step under this Clause 16.4 if, in the reasonable opinion of the Lender, such step would be materially prejudicial to it (other than incurring of costs and expenses of an administrative nature).

17. NO SET-OFF, COUNTERCLAIM OR WITHHOLDING; GROSS-UP.

All payments to be made by the Guarantor under this Deed shall be made in full without set off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed by any Taxing Authority within the Russian Federation. If the Guarantor shall be required by applicable law to make any deduction or withholding from any payment under this Deed for or on account of any such Taxes, it shall increase the payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in Roubles equal to the full amount which it would have received had payment not been made subject to such Taxes, shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefore to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, penalties or interest, the Guarantor shall reimburse the Lender in Roubles for such payment immediately upon receipt of a notice of demand and documentary evidence of such payment.

18. STAMP DUTIES.

The Guarantor shall pay all United Kingdom and Russian stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which are payable upon or in connection with the execution and delivery of this Deed, and shall indemnify the Lender against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same. The Guarantor agrees that

if the Lender incurs a liability to pay any United Kingdom and Russian stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Deed, the Guarantor shall reimburse the Lender immediately after receiving a notice of demand from the Lender for an amount equal to such stamp or other documentary Taxes or duties and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Guarantor to procure the payment of such Taxes or similar charges.

19. WAIVERS.

No failure to exercise and no delay in exercising, on the part of the Lender or the Guarantor, any right, power or privilege hereunder and no course of dealing between the Guarantor and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

20. NOTICES.

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Deed addressed as follows:

(a) if to the Guarantor:

to it at
The Republic of Tatarstan
acting through the Ministry of Finance
of the Republic of Tatarstan
37 Poushkin Street
Kazan 420015
Republic of Tatarstan
Russian Federation

Fax: +7 843 2647803

Attention: Pavel Dudulin

(b) if to the Lender:

to it at
7, Val Sainte-Croix
L-1371 Luxembourg

Fax: +352 221192

Attention: Alexis Kamarowsky

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

21. ASSIGNMENT.

21.1 General

This Deed shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Deed. Any reference in this Deed to any party shall be construed accordingly and, in particular, references to the exercise rights and discretions by the Lender, following notification to the Guarantor of the assignment referred to in Clause 21.3, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

21.2 **By the Guarantor**

The Guarantor shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other Person.

21.3 **By the Lender**

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Deed except:

- (a) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Deed; and
- (b) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Deed, in each case, pursuant to Clause 4.2 of the Trust Deed.

Notwithstanding the charge referred to in (a) of this Clause 21.3, the Lender shall remain the legal and beneficial owner of rights and benefits accruing to the Lender under this Deed that are subject to that charge. For the avoidance of doubt, the Guarantor may discharge its obligations hereunder by making payment of sums payable hereunder to the Lender that are subject to that charge unless and until that charge becomes enforceable.

22. **UNENFORCEABILITY.**

Any provision of this Deed which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Deed or affecting the validity or enforceability of such provision in any other jurisdiction.

23. **EXCLUSION OF LEGISLATION.**

To the fullest extent to which it may from time to time be lawful so to do the provisions of all legislation whether existing now or in the future which operate directly or indirectly:

- (a) to lessen or otherwise modify or vary or affect in favour of the Guarantor its obligations under this Deed; or
 - (b) to delay, postpone or otherwise prevent or prejudicially affect the exercise by the Lender or its attorney of any of the rights, powers and remedies conferred on the Lender or attorney,
- shall be, and the same are, excluded from and shall not have effect in relation to this Deed.

24. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999.**

No person shall have any right to enforce any term of this Deed under the Contracts (Rights of Third Parties) Act 1999.

25. **GOVERNING LAW.**

This Deed shall be governed by and construed in accordance with English law.

26. **ARBITRATION.**

Any dispute or difference of whatever nature howsoever arising from or in connection with this Agreement (or any supplement, modification or addition thereto) (each a "**Dispute**"), shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any arbitration shall be London, England. The language of the arbitration shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the President of the London Court of International Arbitration.

27. **LANGUAGE.**

A Russian language version of this Deed shall also be executed by the parties hereto provided that, for the purposes of interpretation of the provisions of this Deed, the executed English language Deed shall prevail and the English language shall govern the interpretation of the terms hereof.

28. AMENDMENTS.

Except as otherwise provided by its terms, this Deed may not be varied except by an agreement in writing signed by the parties hereto.

29. COUNTERPARTS.

This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

IN WITNESS whereof the Guarantor has caused this Deed to be duly executed and delivered as a deed the day and year first before written.

EXECUTED and DELIVERED)
as a **DEED** for and on behalf of)
THE REPUBLIC OF TATARSTAN)
ACTING THROUGH THE MINISTRY)
OF THE REPUBLIC OF TATARSTAN)
by Radik R. Gaizatullin, the Minister)
of Finance of the Republic of)
Tatarstan, pursuant to the)
Regulation on the Ministry of)
Finance of the Republic of)
Tatarstan and the Resolution)
of the Cabinet of Ministers)
of the Republic of Tatarstan)
No. 345 dated 13 July)
2005)

EXECUTED)
by _____)
for and on behalf of)
EDEL CAPITAL S.A.)

THE SINEK GUARANTEE

THIS DEED OF GUARANTEE AND INDEMNITY is made on 3 August 2005

BETWEEN:

- (1) **OA O "SVYAZINVESTNEFTEKHIM"**, an open joint-stock company established under the laws of the Russian Federation having its registered office at 61 Karl Marx Street, Kazan 420015, The Republic of Tatarstan (the "**Guarantor**"); and
- (2) **EDEL CAPITAL S.A.**, a company organised as a société anonyme under the laws of Luxembourg, having its registered office at 7, Val Sainte-Croix, L-1371, Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number 109013 (the "**Lender**").

WHEREAS

- (A) The Lender has at the request of the Guarantor agreed to make available to SINEK Capital S.A. (the "**Borrower**"), a Rouble credit facility (the "**Facility**") on the terms and subject to the conditions contained in a loan agreement dated 3 August 2005 (the "**Loan Agreement**") between the Lender and the Borrower.
- (B) The Borrower is a subsidiary of the Guarantor.
- (C) In consideration of the Lender agreeing to make available the Facility to the Borrower, the Guarantor has agreed to enter into this Deed in order to guarantee to the Lender the payment of all sums owing by the Borrower under the Loan Agreement.
- (D) It is intended that the Lender will issue certain US dollar-denominated notes, the proceeds of which will be converted into Roubles and used for the purpose of funding the amount to be advanced under the Facility.
- (E) It is further intended that the Lender will charge and assign certain of its rights and benefits under this Deed in favour of a trustee for the holders of the above-mentioned notes.

NOW THIS DEED WITNESSES and it is hereby declared as follows:

1. DEFINITIONS AND INTERPRETATION.

1.1 Definitions

In this Deed unless otherwise defined herein the following terms shall have the meanings indicated.

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person, (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in clause (i) or (ii) above. For the purposes of this definition, a Person shall be taken as having "control" over another if that first Person (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, control or otherwise) has the power to appoint and/or remove all or a majority of the members of the board of directors or other governing body of that other Person or if that first Person possesses over 10% of the share capital or voting rights in the other Person (and "**controlled**" and "**controlling**" shall be construed accordingly).

"**Affiliate Transaction**" has the meaning given to that term in Clause 14.4 (*Transactions with Affiliates*).

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

"**Agency Agreement**" means the agency agreement relating to the Notes dated on or about the date hereof between the Lender, the Trustee, the Principal Paying Agent and the other agents named therein.

"**Agreed Funding Source**" shall mean any Person to whom the Lender owes any indebtedness (including securities), which indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person).

“**Agreed Funding Source Agreements**” means the Trust Deed; the Notes; the FX Contract; the Subscription Agreement; the Agency Agreement; the Reference Agency Agreement; and any other agreements entered into in connection with the Agreed Funding Source.

“**Applicable Accounting Principles**” means, in relation to the Borrower or the Guarantor, those accounting principles and practices in accordance with which it is required to prepare the financial statements as provided by Clause 13.1 (*Financial Statements*).

“**Auditors**” means KPMG Limited and any other internationally recognised firm of accountants approved by the Trustee in writing.

“**Authorised Signatories**” means the Persons identified by the Guarantor as such in a written notice given by the Guarantor to the Lender from time to time.

“**Business Day**” means a day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in Moscow, New York and Luxembourg.

“**Capitalised Lease Obligations**” means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with Applicable Accounting Principles; and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation determined in accordance with Applicable Accounting Principles. For purposes of Clause 14.3 (*Limitation on Security Interests*), a Capitalised Lease Obligation shall be deemed secured by a Security Interest on the property or assets being leased.

“**Cash Flow**” means, in relation to any period, investment income plus, to the extent the same have been deducted in the determination of investment income, Non-Cash Charges plus cash proceeds from the sale of equity investments less cash applied in the purchase of equity investments, as determined in accordance with Applicable Accounting Principles.

“**Closing Date**” has the meaning given to that term in the Loan Agreement.

“**Default**” has the meaning given to that term in the Loan Agreement.

“**Dollars**”, “**\$**” and “**US\$**” mean the lawful currency of the United States of America.

“**DTT Provisions**” means the provisions of a Treaty on the Avoidance of Double Taxation as concluded and remaining in force at any relevant date between the Russian Federation and the Grand Duchy of Luxembourg or any other relevant jurisdiction (where any recipients of any payments under this Deed may be located) under which payments due by the Guarantor pursuant to this Deed shall be exempt from Russian withholding tax.

“**Event of Default**” has the meaning given to that term in the Loan Agreement.

“**Fair Market Value**” means the price that could be negotiated in an arm’s-length free market transaction between a willing seller under no compulsion to sell and a willing and able buyer under no compulsion to buy.

“**Financial Statements**” shall mean the financial statements of the Guarantor and the Borrower referred to in Clause 13.1 (*Financial Statements*).

“**Guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods securities or services, to take-or-pay or maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the creditor or obligor of such Indebtedness or other obligation of the payment thereof or to protect such creditor or obligor against loss in respect thereof (in whole or in part); provided, however, that the term “**Guarantee**” will not include endorsements for collection or deposit in the ordinary course of business. The term “**Guarantee**” used as a verb has a corresponding meaning.

“**Guaranteed Obligations**” means all sums in Roubles of any nature whatsoever now or at any time payable or expressed to be payable by the Borrower to the Lender under or pursuant to the Loan Agreement, including, without limitation, principal, interest, fees, expenses, indemnity payments and other amounts.

“**IFRS**” means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“**Incur**” means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness of a Person existing at the time such Person is merged into the Guarantor or the Borrower will be deemed to be Incurred or issued by the Guarantor or the Borrower, as the case may be, at the time it becomes or is merged into the Guarantor or the Borrower, as the case may be.

“**Indebtedness**” with respect to any Person means, at any time, without duplication, (a) its liabilities for borrowed money; (b) any amount raised by acceptance under an acceptance credit facility; (c) any amount raised pursuant to a note purchase facility or by the issue of bonds, notes, debentures, loan stock or any similar instrument; (d) its liabilities for the deferred purchase price of property acquired by such Person; (e) receivables which are sold or discounted with recourse to the seller; (f) any amount raised pursuant to an issue of shares which are expressed to be redeemable; (g) all liabilities in respect of Capitalised Lease Obligations; (h) all liabilities for borrowed money secured by any Security Interest with respect to the property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); (i) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; (j) all liabilities in respect of interest rate swaps, currency swaps, forward foreign exchange transactions, cap, floor, collar or option transactions or any other treasury transaction or any combination thereof or any other programme entered into in connection with the management of risks related to financial indebtedness (and the amount of the Indebtedness in relation to any such transaction shall be calculated by reference to the net marked to market valuation of such transaction at the relevant time after taking into account any off-setting position); (k) any Guarantees, standby letters of credit or other instruments issued in connection with the performance of contracts and (l) any Guarantee of such Person with respect to liabilities of a type described in sub-paragraphs (a) through (j) hereof; provided, however, that there shall be excluded from the definition indebtedness of the Guarantor to the federal budget, regional budgets, local budgets and non-budgetary funds on account of current taxes which are not overdue.

“**Independent Appraiser**” means an investment banking firm of international standing or any third party appraiser of international standing; provided, however, that such firm of appraiser is not an Affiliate of the Guarantor.

“**Interest Coverage Ratio**” means, for any period, the ratio of the total Cash Flow of the Guarantor and the Borrower for that period to the total Interest Expense of the Guarantor and the Borrower.

“**Interest Expense**” means, in relation to any period, the aggregate of all accrued interest, commissions, periodic fees and other recurrent financing charges payable in cash by the Guarantor and/or the Borrower during that period in relation to any Indebtedness (including the interest element of Capitalised Lease Obligations) (excluding all such amounts payable to the Borrower or the Guarantor).

“**Interest Payment Date**” has the meaning given to that term in the Loan Agreement.

“**Loan**” means the principal amount advanced or to be advanced by the Lender to the Borrower pursuant to the Loan Agreement.

“**Luxembourg**” means the Grand Duchy of Luxembourg.

“**Luxembourg GAAP**” means accounting principles and practices generally accepted in Luxembourg from time to time.

“**Material Adverse Effect**” means a material adverse effect on the business, operations, property, condition (financial or otherwise) or prospects of the Guarantor or the Borrower or the ability of the Guarantor or the Borrower to perform or comply with its obligations under this Deed or the Loan Agreement, respectively, or the validity or enforceability of this Deed or the Loan Agreement or any document related to them, or the rights and remedies of any Person thereunder.

“**Non-Cash Charges**” means, in relation to any period, the aggregate depreciation, amortisation and other non-cash expenses of the Guarantor or the Borrower determined in accordance with Applicable Accounting Principles excluding items which will require cash payments to be made.

“**Notes**” means the issue of U.S.\$250,000,000 7.70% Loan Participation Notes due proposed to be issued by the Lender for the purpose of financing the Loan.

“**Offering Documents**” means the preliminary prospectus dated 11 July 2005 and the prospectus dated 28 July 2005, in each case relating to the issuance of the Notes by the Lender to the Agreed Funding Source.

“**Officers’ Certificate**” means a certificate in English signed by two duly authorised officers of the Guarantor.

“**Permitted Indebtedness**” means:

- (a) the Indebtedness owing to the Guarantor or the Borrower;
- (b) Refinancing Indebtedness;
- (c) Indebtedness in respect of performance, bid, appeal and surety bonds and completion bonds and guarantees provided by the Guarantor and that do not secure other indebtedness, entered into in the ordinary course of business;
- (d) Indebtedness arising from netting arrangements and the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within three Business Days of its incurrence;
- (e) Indebtedness arising from the agreements of the Guarantor or the Borrower providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or capital stock of any Subsidiary of the Guarantor or the Borrower; provided that (i) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness) the Guarantor or the Borrower in connection with such disposition (without giving effect to any subsequent changes in value) and (ii) such Indebtedness is not reflected in the balance sheet of the Guarantor or the Borrower (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this paragraph (e)); and
- (f) Indebtedness incurred in respect of workers’ compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit; provided that such Indebtedness is reimbursed within 30 days of its Incurrence.

“**Permitted Security Interest**” means:

- (a) Security Interests incurred, or pledges and deposits in connection with, workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature incurred in the ordinary course of business;
- (b) Security Interests imposed by law, including, without limitation, mechanics’, carriers’ warehousemen’s, materialmen’s, suppliers’ and vendors’ Security Interests, incurred in the ordinary course of business;
- (c) Security Interests for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Guarantor has set aside on its books reserves to the extent required by Applicable Accounting Principles;
- (d) (i) bankers’ Security Interests in respect of deposit accounts, (ii) statutory landlords’ Security Interests, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in sub-paragraphs (i), (ii) and (iii) of this paragraph (d), such Security Interests do not secure obligations constituting Indebtedness for borrowed money and are incurred in the ordinary course of business), and (iv) Security Interests arising from any judgment, decree or other order which does not constitute a Default;

- (e) Security Interests arising under an order, attachment, injunction or other similar legal process restraining the disposal of an asset provided that any relevant judgement is being contested (an “**Appeal**”) in good faith and the Indebtedness in relation to such Security Interest is discharged, or the Security Interest is otherwise released, within 30 days of the final termination of the Appeal;
- (f) any other Security Interest (created pursuant to a written agreement) which, if incurred, would not result in the aggregate amount of Indebtedness secured by such Security Interests under this paragraph (f) exceeding 10 per cent. of the aggregate amount of total assets shown on the most recent balance sheet of the Guarantor prepared in accordance with Applicable Accounting Principles.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

“**Put Event**” has the meaning given to that term in Condition 6(C) (*Purchase at the option of the Noteholders upon a Put Event*) of the Notes.

“**Reference Agency Agreement**” means the reference agency agreement dated on or about the date hereof between the Lender, the Trustee and the person named therein as agent bank;

“**Refinancing Indebtedness**” means Indebtedness of the Guarantor or the Borrower that is incurred to refinance any other Indebtedness of the Guarantor or the Borrower (other than intercompany Indebtedness), provided that:

- (a) the principal amount of such Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness to be refinanced (plus all accrued interest on the Indebtedness, defeasance costs and the amount of all expenses and premiums in connection therewith); and
- (b) if the Indebtedness to be refinanced is subordinated in right of payments to the Loan Agreement or this Deed, as the case may be, such Refinancing Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such Refinancing Indebtedness is issued or remains outstanding, is expressly made subordinated in right of payment to the Loan Agreement or this Deed, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Loan Agreement or this Deed, as the case may be.

“**Republic**” means the Republic of Tatarstan.

“**Republic Guarantee**” means the guarantee and indemnity dated the date hereof between the Republic, acting through the Ministry of Finance of the Republic of Tatarstan and the Lender.

“**RUR**” and “**Roubles**” mean the lawful currency of the Russian Federation.

“**Russian Federation**” means the Russian Federation and any subject or other administrative sub-division thereof.

“**Security Interest**” means any mortgage, charge, pledge, lien, or other encumbrance including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated 28 July 2005 between the Lender, the Republic, the Guarantor, the Borrower and Dresdner Bank AG London Branch.

“**Subsidiary**” of a company or corporation means any company or corporation:

- (a) which is controlled, directly or indirectly, by the first-mentioned company or corporation; or
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the first-mentioned company or corporation; or
- (c) which is a Subsidiary of another Subsidiary of the first-mentioned company or corporation.

“**Taxes**” means any present or future taxes, levies, duties, assessments, imposts or other governmental charges or withholding of a similar nature no matter how they are levied or determined.

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

“**Trust Deed**” means the trust deed relating to the Notes to be dated on or about the date hereof between the Lender and the Trustee.

“**Trustee**” means J.P. Morgan Corporate Trustee Services Limited, as Trustee under the Trust Deed and any successor thereto as provided thereunder.

“**U.S. GAAP**” means U.S. generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (“**FASB**”) or, if FASB ceases to exist, any successor thereto.

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Deed which (i) are not defined in this Deed but which are defined in, or (ii) are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the terms and conditions of the Notes), the Agency Agreement, the Subscription Agreement or the Loan Agreement shall have the meanings assigned to such terms therein, provided that in the case of terms defined or references herein to documents to which the Guarantor is not a party, the Guarantor has received an up-to-date copy of such documents (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

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

1.3 **Interpretation**

Unless the context or the express provisions of this Deed otherwise require, the following shall govern the interpretation of this Deed:

- (a) all references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Deed;
- (b) the terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Deed as a whole and not any particular part hereof;
- (c) words importing the singular number include the plural and vice versa; and
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.4 **Amendments**

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

2. **GUARANTEE.**

The Guarantor unconditionally and irrevocably guarantees the due and punctual payment of the Guaranteed Obligations so that if and each time and to the extent that the Borrower does not make due and punctual payment of the Guaranteed Obligations on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantor will, immediately after receiving a notice of demand from the Lender, unconditionally pay that sum to the Lender.

3. **INDEMNITY.**

As separate, independent and alternative stipulations, the Guarantor unconditionally and irrevocably agrees (a) that any sum which, although expressed to be payable by the Borrower is for any

reason (whether or not now existing and whether or not now known or becoming known to the Lender) not recoverable from the Guarantor on the basis of a guarantee such sum shall nevertheless be recoverable from it as if it were the sole principal debtor and shall be paid by it to the Lender immediately after receiving a notice of demand from the Lender and (b) as a primary obligation to indemnify the Lender against any loss suffered by it as a result of any sum expressed to be payable by the Borrower under the Loan Agreement not being paid by the time, on the date (whether on the normal due date, on acceleration or otherwise) and otherwise in the manner specified therein or any payment obligation of the Borrower under the Loan Agreement being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Lender), the amount of that loss being the amount expressed to be payable by the Borrower in respect of the relevant sum.

4. WAIVER OF DEFENCES.

As between the Guarantor and the Lender, but without affecting the Lender's obligations, the Guarantor shall be liable under this Deed as if it were the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including, without limitation, (a) any time, indulgence, concession, waiver or consent at any time given to the Borrower, the Republic or any other person, (b) any amendment or supplement to any of the provisions of the Loan Agreement or the Republic Guarantee or to any security or other guarantee or indemnity, (c) the making or absence of any demand for payment, (d) the enforcement or absence of enforcement of the Loan Agreement or the Republic Guarantee or of any security or other guarantee or indemnity, (e) the taking, existence or release of any security, guarantee or indemnity, (f) the winding up, dissolution, administration, amalgamation, reconstruction or reorganisation of the Borrower or any other person or (g) the illegality, invalidity or unenforceability of or any defect in any provision of the Loan Agreement or the Republic Guarantee or any of the obligations of the Borrower or the Republic under any of them).

5. GUARANTOR'S OBLIGATIONS CONTINUING.

The Guarantors obligations under this Deed shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any partial or intermediate payment or satisfaction of any of the Borrower's obligations under the Loan Agreement and shall continue in full force and effect until all the Guaranteed Obligations are paid in full and no sum remains payable under this Deed. Furthermore, those obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time in existence in favour of any person, whether from the Guarantor or otherwise, and may be enforced without first having recourse to any other person, any security or any other guarantee or indemnity. The Guarantor specifically agrees that it shall not be necessary or required in order to enforce the liability of the Guarantor hereunder that there be, and the Guarantor specifically and irrevocably waives, notice of acceptance, demand, presentment for payment or protest, or other notice save to the extent specially required hereunder.

6. EXERCISE OF GUARANTOR'S RIGHTS.

So long as any of the Guaranteed Obligations are outstanding or any sum remains payable under this Deed, no right of the Guarantor, by reason of the performance of any of its obligations under this Deed, to be indemnified by, or claim any right of contribution from, the Borrower or the Republic or to take the benefit of or enforce any security or other guarantee or indemnity shall be exercised or enforced except in the manner and on such terms as the Lender may approve, and any amount received or recovered by the Guarantor (a) as a result of any exercise of any such right or (b) in the winding-up, dissolution, amalgamation, reconstruction or reorganisation of the Borrower will be held in trust for the Lender and immediately paid to the Lender.

7. AVOIDANCE OF PAYMENTS.

The Guarantor shall on demand indemnify the Lender against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up dissolution or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Borrower under the Loan Agreement or by the Republic under the Republic Guarantee and shall in any event pay to it on demand the amount as refunded by it.

8. SUSPENSE ACCOUNTS.

Any amount received or recovered by the Borrower in respect of any sum payable by the Guarantor under this Deed may be placed in a suspense account and kept there for so long as the Lender thinks fit.

9. NO CLAIM AGAINST BORROWER.

As separate, independent and alternative stipulations, the Guarantor hereby covenants with the Lender that, so long as any amount under the Loan Agreement is outstanding, it will not take action for or in connection with the liquidation or winding up of the Borrower.

10. GUARANTOR'S REPRESENTATIONS AND WARRANTIES.

The Guarantor makes the representations and warranties to the Lender set out in this Clause, to the intent that such shall form the basis of this Deed and shall remain in full force and effect at the date hereof:

10.1 Incorporation, Capacity and Authorisation; Subsidiaries

(a) The Guarantor is validly existing under the laws of Russia, has full power, capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; (b) the Guarantor has full power and capacity to execute this Deed and the Agreed Funding Source Agreements to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein; and (c) the Guarantor has taken all necessary corporate and other action required to authorise the execution and delivery of this Deed and the Agreed Funding Source Agreements to which it is a party and the performance by the Guarantor of its obligations under this Deed and the Agreed Funding Source Agreements to which it is a party.

10.2 Valid and Binding Obligations

This Deed and the Agreed Funding Source Agreements to which it is a party have been duly executed and delivered and constitutes a legal, valid and binding obligation of the Guarantor which is, subject to applicable laws of general application relating to or affecting the rights of creditors and to general principles of equity, enforceable in accordance with its terms.

10.3 No conflict

The execution and performance of this Deed and the Agreed Funding Source Agreements to which it is a party by the Guarantor does not conflict with or result in any breach or violation of (a) any law or regulation or any judgment or order of any governmental, judicial or public body or authority in the Russian Federation, or (b) (to an extent or in a manner which would reasonably be expected to result in a material adverse effect on the ability of the Guarantor to perform its obligations under this Deed and the Agreed Funding Source Agreements to which it is a party) any agreement or other undertaking, instrument or legal restrictions to which the Guarantor is a party or which is/are binding upon the Guarantor or any of its assets or revenues, nor result in the creation or imposition of nor oblige it to create any Security Interest on any of its assets or revenues pursuant to the provisions of any such agreement or other undertaking, instrument or legal restrictions.

10.4 Consents

All consents, licences, notifications, authorisations, procedures or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required in connection with the execution, delivery, performance, legality, validity, enforceability and admissibility in evidence of this Deed and the Agreed Funding Source Agreements to which it is a party have been obtained or effected and are in full force and effect.

10.5 Ranking

The obligations of the Guarantor under this Deed and the Agreed Funding Source Agreements to which it is a party will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Guarantor, except as otherwise provided by mandatory provisions of applicable law.

10.6 Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Deed and the Agreed Funding Source Agreements to which it is a party admissible in evidence in the Russian Federation have been done, fulfilled and performed.

10.7 Stamp Duty

Under the laws of the Russian Federation in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to this Deed and the Agreed Funding Source Agreements to which it is a party.

10.8 No Default

No event has occurred or circumstance arisen which would constitute a Default or an Event of Default.

10.9 Withholding Tax

Subject to the performance by a recipient of any payment by the Guarantor under this Deed of the relevant procedures established by Russian tax registrations with regard to application of the relevant DTT provisions no withholding in respect of any Tax levied or implied in the Russian Federation is required to be made from any payment by the Guarantor to the Issuer under this Deed and the Agreed Funding Source Agreements to which it is a party.

10.10 Choice of Law

In any proceedings taken in the Russian Federation in relation to this Deed, the choice of English law as the governing law of this Deed will be recognised and enforced after compliance with the applicable procedural rules and other legal requirements in the Russian Federation.

10.11 Litigation

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Guarantor, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Deed and the Agreed Funding Source Agreements to which it is a party or the Guarantor's compliance with its obligations under this Deed and the Agreed Funding Source Agreements to which it is a party or (b) adversely affect the right and power of the Guarantor to enter into this Deed and the Agreed Funding Source Agreements to which it is a party or (c) have a Material Adverse Effect.

10.12 No Material Adverse Change

Since 31 December, 2004 there has been no material adverse change in the business, financial condition or results of operations of the Guarantor.

10.13 Financial Statements

The Guarantor's audited financial statements (i) as at, and for the period from, 11 April 2003 to 31 December 2003 and (ii) as at, and for the nine month period ending, 30 September 2004 were prepared in accordance with U.S. GAAP consistently applied and presented (in conjunction with the notes thereto) in accordance with such accounting principles, the financial condition of the Guarantor and the financial results of the operations of the Guarantor for the periods for which they were prepared.

10.14 Repetition

Each of the representations and warranties contained in this Clause 10 shall be deemed to be repeated (with reference to the facts and circumstances then subsisting) by the Guarantor on the date on which all or any part of the Advance is made under and as defined in the Loan Agreement.

11. LENDER'S REPRESENTATIONS AND WARRANTIES.

The Lender makes the representations and warranties to the Guarantor set out in this Clause to the intent that they shall form the basis of this Deed and shall remain in full force and effect at the date hereof.

11.1 **Incorporation**

The Lender is validly existing under the laws of the Grand Duchy of Luxembourg and has full power and capacity to execute this Deed and the Agreed Funding Source Agreements to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate and other action to approve and authorise the same.

11.2 **Residence**

The Lender (i) is an entity which at the date hereof is a resident of the Grand Duchy of Luxembourg, is subject to taxation in the Grand Duchy of Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in the Grand Duchy of Luxembourg merely on income from sources in the Grand Duchy of Luxembourg or connected with property located in the Grand Duchy of Luxembourg, and (ii) does not have a permanent establishment in the Russian Federation.

11.3 **No Conflict**

The execution of this Deed and the Agreed Funding Source Agreements to which it is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Grand Duchy of Luxembourg or any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety.

11.4 **Valid and Binding**

This Deed and the Agreed Funding Source Agreements to which it is a party have been duly executed by and constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

11.5 **Authorisations**

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Deed and the Agreed Funding Source Agreements to which it is a party and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

12. **LENDER'S UNDERTAKINGS.**

12.1 **Relief**

The Lender shall make reasonable and timely efforts to assist the Guarantor to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and the jurisdiction in which the Lender is incorporated. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the Russian Federation and the jurisdiction in which the Lender is incorporated.

12.2 **No Change in Domicile**

The Lender will not move its domicile from Luxembourg without the prior consent of the Guarantor. The Lender agrees promptly, upon becoming aware of the same, to notify the Guarantor if it ceases to be resident in Luxembourg or if the representation set forth in Clause 11.2 is no longer true and correct.

12.3 **Withholding Tax Exemption**

The Lender shall use its best endeavours to provide the Borrower no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities, confirming that the Lender is tax resident in the Grand Duchy of Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify the Borrower without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall, at the expense of the

Borrower, be appropriately apostilled and a certified translation supplied. Should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in this Clause 12.3 will be deemed to have changed accordingly.

12.4 **Provision of Information**

The Lender shall use all best efforts to within 30 days of the request of the Guarantor (to the extent it is able to do so under applicable law including Russian laws) deliver to the Guarantor such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. If required, the other forms referred to in this Clause 12.4 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to the Guarantor shall be duly signed and apostilled or otherwise legalised, all at the Guarantor's expense. The Lender shall provide the Guarantor with all assistance it may reasonably require to ensure that the Guarantor can deliver to the tax authorities the information or forms specified in this Clause 12.4. If a relief from deduction or withholding of Russian Tax under this Clause 12.4 has not been obtained and further to an application of the Guarantor to the relevant Russian tax authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Guarantor (a) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Guarantor with the details of such rouble bank account. The Guarantor shall pay for all costs, if any, associated with opening and maintaining such rouble bank account. The Lender shall not be obligated to take any step under this Clause 12.4 if, in the reasonable opinion of the Lender, such step would be materially prejudicial to it (other than incurring of costs and expenses of an administrative nature).

13. **FINANCIAL INFORMATION.**

13.1 **Financial Statements**

The Guarantor shall deliver to the Lender:

- (a) as soon as they are available but in any event within 120 days after the end of each of its financial years, the annual audited financial statements of the Guarantor and the Borrower prepared in accordance with U.S. GAAP (in the case of the Guarantor's financial statements) and Luxembourg GAAP (in the case of the Borrower's financial statements) or (in the case of either of the Guarantor or the Borrower) IFRS or such other accounting principles as the Lender may approve including the notes thereto and the accompanying report of the Auditors; and
- (b) as soon as they become available but in any event within 90 days after the end of the first six months of each of its financial years, the unaudited financial statements of the Guarantor and the Borrower for that period prepared in accordance with U.S. GAAP (in the case of the Guarantor's financial statements) and Luxembourg GAAP (in the case of the Borrower's financial statements) or (in the case of either of the Guarantor or the Borrower) IFRS or such other accounting principles as the Lender may approve.

13.2 **Further Information**

In addition to the Financial Statements which the Guarantor is required to provide to the Lender under Clause 13.1 (*Financial Statements*), the Guarantor shall also from time to time on the request of the Trustee, provide the Trustee with all documents dispatched by it on a regular basis as required by applicable law to its shareholders (or any class of them) or its creditors (or any class of them) at the same time as they are despatched to such Persons.

13.3 **Officers' Certificate**

The Guarantor shall ensure that it provides to the Lender within 10 Business Days of any request by the Lender and at the time of the despatch to the Lender of its Financial Statements pursuant to Clause 13.1 (*Financial Statements*) a certificate in form and substance acceptable to the Lender, signed by two Authorised Signatories of the Guarantor certifying that up to a specified date not earlier than 7 days prior to the date of such certificate (the "**Certified Date**") the Guarantor has complied with all of its obligations under this Deed (or if such is not the case, giving details of the circumstances of such non-compliance) and that as at such date there did not exist nor had there

existed at any time prior thereto since the Certified Date in respect of the previous such certificate (or, in the case of the first such certificate, since the Closing Date) any Put Event, Event of Default or Default (or, if such is not the case, specifying the same and, in the case of Event of Default or Default, specifying what action the Guarantor proposes to take with respect thereto).

13.4 **Auditors' Certificate**

Each set of Financial Statements delivered by it pursuant to paragraph (a) of Clause 13.1 (*Financial Statements*) shall be accompanied by a certificate of the Auditors stating that as of the date to which such Financial Statements were prepared the Guarantor was in compliance with Clause 14.2 (*Limitation on Indebtedness*).

13.5 **Untrue Representations**

Before the making of the Loan, the Guarantor shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations contained in Clause 10 (*Guarantor's Representations and Warranties*) being untrue at or before the Closing Date or the date of the making of all or any part of the Loan.

13.6 **Notification of Defaults**

The Guarantor shall promptly on becoming aware thereof inform the Lender of the occurrence of any Default.

14. **GUARANTOR'S UNDERTAKINGS.**

So long as any amount remains outstanding under this Deed:

14.1 **Compliance with Applicable Laws**

The Guarantor shall obtain, comply with the terms of and do all that is necessary to renew and maintain in full force and effect all authorisations, approvals, licences and consents from the government or the relevant agency of the Russian Federation or the Republic of Tatarstan or any political subdivision thereof or therein required to enable it lawfully to enter into and, to make payments and to perform its obligations under this Deed and the Agreed Funding Source Agreements to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation, the Republic of Tatarstan and England of this Deed and the Agreed Funding Source Agreements to which it is a party.

14.2 **Limitation on Indebtedness**

The Guarantor shall not, and shall not permit the Borrower, to incur or allow to remain outstanding Indebtedness which result in the total Indebtedness of the Guarantor and the Borrower (including, without limitation, the Indebtedness under or in respect of the Loan Agreement but excluding any Indebtedness assumed by the Guarantor from the Borrower in connection with the Loan Agreement and excluding any Indebtedness under this Deed and any Permitted Indebtedness) to exceed U.S.\$500,000,000 (or the equivalent in other currencies) unless, following the incurrence of such Indebtedness by the Guarantor or the Borrower, the Interest Coverage Ratio for the last two full financial half years of the Guarantor (the "**Calculation Period**") ending prior to date of the transaction giving rise to the need to calculate the Interest Coverage Ratio for which financial statements are available (the "**Transaction Date**") does not fall below 1.75:1. In determining the Interest Coverage Ratio for the purpose of this Clause 14.2, "**Interest Expense**" shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to the incurrence of Indebtedness of the Guarantor or the Borrower giving rise to need to make such calculation, and any other incurrence or any repayment of Indebtedness of the Guarantor or the Borrower occurring during the Calculation Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be, occurred on the first day of the Calculation Period. Furthermore, in calculating "**Interest Expense**" for the purposes of this Clause 14.2, interest on (or any equivalent charge in relation to) outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on (or equivalent charge in relation to) such Indebtedness in effect on the Transaction Date.

14.3 **Limitation on Security Interests**

The Guarantor shall not, and shall not permit the Borrower to, directly or indirectly, create, incur or permit to exist any Security Interest, other than Permitted Security Interest, on any of its present

or future assets or revenues securing any Indebtedness, unless the obligations under this Deed or the Loan Agreement, as the case may be, are secured equally and rateably with such other Indebtedness.

14.4 **Transactions with Affiliates**

The Guarantor shall not, and shall not permit the Borrower, to, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service but excluding any transaction entered into by the Guarantor solely in the capacity of agent for the Republic) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”) including intercompany loans unless the terms of such Affiliate Transaction are no less favourable to the Guarantor or the Borrower, as the case may be, than those that could be obtained in a comparable arm’s-length transaction with a Person that is not an Affiliate.

14.5 **Payment of Taxes and Other Claims**

The Guarantor shall, and shall ensure that the Borrower will, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all Tax, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Guarantor and/or the Borrower, *provided that*, neither of the Guarantor nor the Borrower shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge of claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Applicable Accounting Principles or other appropriate provision has been made; or (b) whose amount, together with all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed U.S.\$10,000,000 (or the equivalent in other currencies).

14.6 **Ranking of Claims**

The Guarantor shall ensure that at all times the claims of the Lender against it under this Deed rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

14.7 **Change of Business**

The Guarantor shall ensure that no material change is made to the general nature or scope of the business of the Guarantor or the Borrower from that carried on at the Closing Date.

15. **NO SET-OFF, COUNTERCLAIM OR WITHHOLDING; GROSS-UP.**

All payments to be made by the Guarantor under this Deed shall be made in full without set off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed or levied by the Russian Federation or by any Taxing Authority thereof. If the Guarantor shall be required by applicable law to make any deduction or withholding from any payment under this Deed for or on account of any such Taxes, it shall increase the payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in Roubles equal to the full amount which it would have received had payment not been made subject to such Taxes, shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, penalties or interest, the Guarantor shall reimburse the Lender in Roubles for such payment immediately upon receipt of a notice of demand and documentary evidence of such payment.

16. **CURRENCY INDEMNITY.**

If any sum payable by the Guarantor under this Deed or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purposes of (a) making or filing a claim or proof against the Guarantor, (b) obtaining any order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Guarantor shall indemnify and hold harmless the Lender from and

against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or part, of such order, judgment, claim or proof.

17. STAMP DUTIES.

The Guarantor shall pay all United Kingdom and Russian stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which are payable upon or in connection with the execution and delivery of this Deed, and shall indemnify the Lender against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same. The Guarantor agrees that if the Lender incurs a liability to pay any United Kingdom or Russian stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Deed, the Guarantor shall reimburse the Lender immediately after receiving a notice of demand from the Lender for an amount equal to such stamp or other documentary Taxes or duties and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Guarantor to procure the payment of such Taxes or similar charges.

18. WAIVERS.

No failure to exercise and no delay in exercising, on the part of the Lender or the Guarantor, any right, power or privilege hereunder and no course of dealing between the Guarantor and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

19. NOTICES.

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Deed addressed as follows:

(a) if to the Guarantor:

61 Karl Marx Street
Kazan 420015
Republic of Tatarstan

Fax: +7 843 2319856

Attention: Artur N. Khayrullin

(b) if to the Lender:

7, Val Sainte-Croix
L-1371
Luxembourg

Fax: +352 221192

Attention: Alexis Kamarowsky

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

20. ASSIGNMENT.

20.1 General

This Deed shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Deed. Any reference in this Deed to any party shall be construed accordingly and, in particular, references to the exercise rights and discretions by the Lender, following notification to the Guarantor of the assignment referred to in Clause 20.3, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

20.2 By the Guarantor

The Guarantor shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other Person.

20.3 By the Lender

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Deed except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Deed and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Deed, in each case, pursuant to Clause 4.2 of the Trust Deed.

Notwithstanding the charge referred to in (i) of this Clause 20.3, the Lender shall remain the legal and beneficial owner of rights and benefits accruing to the Lender under this Deed that are subject to that charge. For the avoidance of doubt the Guarantor may discharge its obligations hereunder by making payment of sums payable hereunder to the Lender that are subject to that charge unless and until that charge becomes enforceable.

21. UNENFORCEABILITY.

Any provision of this Deed which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Deed or affecting the validity or enforceability of such provision in any other jurisdiction.

22. EXCLUSION OF LEGISLATION.

To the fullest extent to which it may from time to time be lawful so to do the provisions of all legislation whether existing now or in the future which operate directly or indirectly:

- (a) to lessen or otherwise modify or vary or affect in favour of the Guarantor its obligations under this Deed; or
 - (b) to delay, postpone or otherwise prevent or prejudicially affect the exercise by the Lender or its attorney of any of the rights, powers and remedies conferred on the Lender or attorney,
- shall be, and the same are, excluded from and shall not have effect in relation to this Deed.

23. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999.

No person shall have any right to enforce any term of this Deed under the Contracts (Rights of Third Parties) Act 1999.

24. GOVERNING LAW AND JURISDICTION.

24.1 Governing Law

This Deed shall be governed by and construed in accordance with English law.

24.2 Jurisdiction

Each of the Guarantor and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Deed (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

24.3 **Appropriate Form**

Each of the parties to this Deed irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and, subject to the existence of a treaty relating to the mutual recognition of foreign judgments, may be enforced in the courts of any other jurisdiction.

24.4 **Non-exclusivity**

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Deed in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction to the extent permitted by any applicable law.

24.5 **Waiver of Immunity**

To the extent that 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 judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Guarantor or its assets or revenues, the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

24.6 **Consent to enforce etc.**

Each of the Lender and the Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

24.7 **Guarantor's process agent**

The Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Hackwood Secretaries Limited, One Silk Street, London EC2Y 8HQ or, if different, its registered office for the time being or at any address of the Guarantor in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on the Guarantor's behalf, the Guarantor shall, on the written demand of the Lender, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a Person by written notice on the Guarantor. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

24.8 **Lender's process agent**

The Lender agrees that process by which any proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Lender in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Guarantor, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Guarantor shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of the Guarantor to serve process in any other manner permitted by law.

25. ARBITRATION.

If any dispute or difference of whatever nature howsoever arises from or in connection with this Deed (or any supplement, modification or addition thereto) (each a “**Dispute**”), each party may elect, by notice in writing to the other party, to settle such claim by arbitration in accordance with the following provisions. Each party hereby agrees that any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any arbitration shall be London, England. The language of the arbitration shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the President of the London Court of International Arbitration.

26. LANGUAGE.

The language which governs the interpretation of this Deed is the English language.

27. AMENDMENTS.

Except as otherwise provided by its terms, this Deed may not be varied except by an agreement in writing signed by the parties hereto.

28. COUNTERPARTS.

This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

IN WITNESS whereof the Guarantor has caused this Deed to be duly executed and delivered as a deed the day and year first before written.

EXECUTED and DELIVERED)
as a **DEED** for and on behalf of)
ОАО “СVYАЗИНVESTНЕFТЕKHИM”)

EXECUTED)
by _____)
for and on behalf of)
EDEL CAPITAL S.A.)

FX CONTRACT

The following is a summary of certain provisions of the FX Contract and is not complete and is subject to and qualified in its entirety by reference to the provisions of the FX Contract. A copy of the FX Contract is available for inspection at the offices of the Paying Agents.

For the purposes of the FX Contract, SINEK and the Issuer will open RUR and U.S.\$ accounts with the Conversion Bank which will be utilised by the Conversion Bank for the purpose settling foreign exchange transactions entered into by the Conversion Bank with SINEK and the Issuer under the FX Contract.

SINEK and the Issuer may, pursuant to the provisions of the FX Contract, request that the Conversion Bank enters into foreign exchange transactions to convert monies held on their respective accounts with the Conversion Bank from roubles into U.S. dollars or from U.S. dollars into roubles. Such a request, once given, may not be revoked by SINEK or the Issuer. However, the Conversion Bank is under no obligation to enter into the requested foreign exchange transaction.

If SINEK requests the Conversion Bank to enter into a foreign exchange transaction to convert U.S. dollars into roubles, the Issuer has given a standing instruction for an equivalent transaction between the Issuer and the Conversion Bank converting the roubles back into U.S. dollars (at the same rate and on the date as the initial transaction) to enable the Issuer to make payments in U.S. dollars on the Notes.

The Conversion Bank may in addition quote a rate of exchange which will be used purely for calculation purposes in connection with the Loan Agreement. However, it may not be willing to enter into a foreign exchange transaction with SINEK or the Issuer at that rate.

If the Issuer is unable to convert rouble payments under the Loan Agreement into U.S. dollars within 10 Business Days of their due date (in the case of payments of interest) or five Business Days of their due date (in the case of payments of other sums), this shall be an Event of Default under the Loan Agreement. It shall be a further Event of Default under the Loan Agreement if, at any time after the date falling five Business Days after the date on which the Advance is made under and as defined in the Loan Agreement, the minimum balance on the \$ account required to be maintained by SINEK with the Conversion Bank under the FX Contract falls below the amount of interest payable on the Notes on an Interest Payment Date.

TERMS AND CONDITIONS OF THE NOTES

The U.S.\$250,000,000 7.70 per cent. Loan Participation Notes due 2015 (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of Edel Capital S.A. (the “**Issuer**”) were authorised by a resolution of the Board of Directors of the Issuer passed on 21 July 2005. The Notes are constituted by a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 3 August 2005 and made between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include any successor trustee for the time being of the Trust Deed) as trustee for the holders of the Notes.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a Rouble loan (the “**Loan**”) to SINEK Capital S.A. (the “**Borrower**”). The terms of the Loan are recorded in a loan agreement (as amended, restated or supplemented from time to time, the “**Loan Agreement**”) dated 3 August 2005 between the Issuer and the Borrower. The Loan is guaranteed by the Republic of Tatarstan (the “**Republic**”), acting through the Ministry of Finance of the Republic of Tatarstan and OAO “Svyazinvestneftekhim” (“**SINEK**”). The Republic’s guarantee of the Loan is contained in a deed of guarantee and indemnity (as amended, restated or supplemented from time to time, the “**Republic Guarantee**”) dated 3 August 2005 between the Republic and the Issuer and is subject to a limit of RUR13,000,000,000. SINEK’s guarantee of the Loan is contained in a deed of guarantee and indemnity (as amended, restated or supplemented from time to time, the “**SINEK Guarantee**”) dated 3 August 2005 between SINEK and the Issuer.

The Issuer and SINEK have entered into a currency conversion agreement dated 3 August 2005 (as amended, restated or supplemented from time to time, the “**FX Contract**”) with Dresdner Bank ZAO (the “**Conversion Bank**”, which expression includes any successors) pursuant to which the Conversion Bank has agreed to enter into foreign exchange transactions with the Issuer for exchange of U.S. dollars into Roubles and Roubles into U.S. dollars at the rates set out therein (the “**Conversion Rate**”). The proceeds realised by the Issuer from the conversion of one currency into another currency pursuant to the FX Contract are referred to herein as the “**Conversion Proceeds**”. The Issuer has agreed that, upon the receipt of any amount in Roubles under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (save in respect of Reserved Rights (as defined below)), it shall exchange such amount for U.S. dollars with the Conversion Bank pursuant to the FX Contract.

The Issuer has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests (i) as Issuer under the Loan Agreement, (ii) as a party to the Republic Guarantee, (iii) as a party to the SINEK Guarantee (iv) as a party to the FX Contract, (v) in amounts deposited in the Rouble account with the Conversion Bank into which payments made pursuant to the Loan Agreement, the Republic Guarantee or the SINEK Guarantee are to be deposited (the “**Rouble Account**”), (vi) in amounts deposited in the U.S. dollar account with the Conversion Bank into which payments made pursuant to the FX Contract are deposited (the “**Dollar Collection Account**”), and (vii) in amounts deposited in the U.S. dollar account with the Principal Paying Agent to which sums standing to the credit of the Dollar Collection Account are transferred (the “**Dollar Disbursement Account**” and, together with the Dollar Collection Account and the Rouble Account, the “**Accounts**”), as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract to the Trustee (the “**Assigned Rights**” and, together with the Charge, the “**Security Interests**”) in each case excluding the Reserved Rights. The property subject to the Charge and the Assigned Rights is referred to herein as the “**Secured Property**”. “**Reserved Rights**” are the rights excluded from the Charge and the Assigned Rights, being:

- (a) all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower under the following provisions of the Loan Agreement: Clause 6.2 the penultimate sentence thereof (*No Set-off, Counterclaim or Withholding; Gross-Up*), Clause 6.3 (*Withholding on Notes*) (to the extent it relates to amounts received by the Issuer, but to which the Noteholders are not entitled), Clause 8.1 (*Compensation*), Clause 9 (*Representation and Warranties*), Clause 13 (*Indemnity*) and Clause 15 (*Stamp Duties*); and, to the extent that they relate to the foregoing provisions, Clause 6.2 (*No Set-off, Counterclaim or Withholding; Gross-Up*) and Clause 12 (*Late Payments*);
- (b) all and any rights, interests and benefits of the Issuer in respect of the obligations of the Republic under the Republic Guarantee to the extent that they relate to the obligations the Borrower

referred to in sub-paragraph (a) above and Clause 17 (*No Set-off Counterclaim or Withholding; Gross-Up*) and Clause 18 (*Stamp Duties*) to the extent that such provisions relate to amounts due to be received by the Issuer, but to which the Noteholders are not entitled; and

- (c) all and any rights, interests and benefits of the Issuer in respect of the obligations of SINEK under the SINEK Guarantee to the extent that they relate to the obligations of the Borrower referred to in sub-paragraph (a) above and Clause 15 (*No Set-off Counterclaim or Withholding; Gross-Up*), Clause 16 (*Currency Indemnity*) and Clause 17 (*Stamp Duties*) to the extent that such provisions relate to amounts due to be received by the Issuer, but to which the Noteholders are not entitled.

All payments to be made by the Issuer in respect of the Notes will be only from and to the extent of the sums received or recovered by the Issuer or the Trustee in respect of the Secured Property. Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee, the Trust Deed and the FX Contract and the credit and financial standing of the Borrower, the Republic, SINEK and the Conversion Bank. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests). Payments in respect of the Notes will be made in accordance with an agency agreement (as amended, restated or supplemented from time to time, the “**Agency Agreement**”) dated 3 August 2005 and made between the Borrower, the Issuer, J.P. Morgan Bank Luxembourg S.A. as the registrar (the “**Registrar**”, which expression shall include any successors), JPMorgan Chase Bank, N.A., London Branch, as the principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successors) and the transfer agents and paying agents named therein (the “**Transfer Agents**” and “**Paying Agents**” respectively, which expressions shall include any successors) and the Trustee. The determination of certain amounts under the Loan Agreement will be made by the person appointed from time to time as agent bank (the “**Agent Bank**”) under the reference agency agreement (as amended, restated or supplemented from time to time, the “**Reference Agency Agreement**”) dated 3 August 2005 between the Issuer, the Trustee and the Agent Bank. References herein to the “**Agents**” are to the Principal Paying Agent, the Registrar, the Transfer Agents, the Paying Agents and the Agent Bank and a reference to an “**Agent**” means any one of them.

Copies of the Trust Deed, the Loan Agreement, the Republic Guarantee, the SINEK Guarantee, the FX Contract, the Agency Agreement and the Reference Agency Agreement are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agents in Ireland and Luxembourg, the initial specified offices of which are set out below.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement, the Republic Guarantee, the SINEK Guarantee, the FX Contract, the Agency Agreement and the Reference Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions that are applicable to them.

1. STATUS

The sole purpose of the issue of the Notes is to provide the funds for the Issuer, following their conversion into Roubles pursuant to the FX Contract, to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the Conversion Proceeds of the gross proceeds from the issue of the Notes, following their conversion into Roubles as aforesaid, solely for financing the Loan and, following the conversion of the relevant sums into U.S. dollars pursuant to the FX Contract, to account to the Noteholders for the Conversion Proceeds of sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, the Republic Guarantee and the SINEK Guarantee, less any amount in respect of Reserved Rights.

The Trust Deed provides that the Issuer is obliged only to make payments in respect of the Notes pro rata among all Noteholders in an amount equivalent to the Conversion Proceeds of the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, the Republic Guarantee or the SINEK Guarantee (less any amount in

respect of the Reserved Rights) and converted into U.S. dollars pursuant to the FX Contract. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement, the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, liability or obligation in respect of the performance and observance by the Borrower, the Republic, SINEK and/or the Conversion Bank of their respective obligations under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and/or the FX Contract or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower, the Republic and/or SINEK under the Loan Agreement, the Republic Guarantee and/or the SINEK Guarantee, respectively, or the recoverability of any sum due or to become due from the Conversion Bank under the FX Contract;
- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower, the Republic, SINEK and/or the Conversion Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower, the Republic, SINEK and/or the Conversion Bank under or in respect of the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and/or the FX Contract;
- (d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Agent Bank, the Paying Agents, the Registrar or the Transfer Agents of their respective obligations under the Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon the performance by the Borrower, the Republic, SINEK and/or the Conversion Bank of their respective obligations under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract and their credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower (subject to customary exceptions) and the Republic has represented in the Republic Guarantee that the Republic Guarantee constitutes a legal, valid and binding obligation of the Republic (subject to customary exceptions) and SINEK has represented in the SINEK Guarantee that the SINEK Guarantee constitutes a legal, valid and binding obligation of SINEK (subject to customary exceptions) and the Conversion Bank has represented in the FX Contract that the FX Contract constitutes a legal, valid and binding obligation of the Conversion Bank (subject to customary exceptions);
- (f) the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower, the Republic, SINEK or the Conversion Bank, as the case may be, (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower, the Republic, SINEK and the Conversion Bank are complying with their respective obligations under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and the FX Contract and shall not otherwise be responsible for investigating any aspect of the Borrower's, the Republic's, SINEK's or the Conversion Bank's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer nor the Trustee will be liable for any failure to make any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Issuer or the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security;

- (g) neither the Issuer nor the Trustee shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Borrower or SINEK the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and
- (h) the Issuer will not be liable for any withholding or deduction or for any payment on account of tax required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee which will or may affect payments made or to be made by the Issuer in respect of the Notes save to the extent of the Conversion Proceeds of the additional amounts it has actually received under the Loan Agreement in respect of such withholding or deduction or payment and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in Clause 6 (*Payments*) of the Loan Agreement.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes constitute direct and general obligations of the Issuer which at all times rank *pari passu* without any preference among themselves, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The obligations of SINEK under the SINEK Guarantee constitute direct, general and unsubordinated obligations of SINEK ranking *pari passu* with all other present and future unsecured and unsubordinated obligations of SINEK, save for such obligations as may be preferred by mandatory provisions of applicable law. In the event that the Conversion Proceeds of payments under the Loan Agreement, the Republic Guarantee or the SINEK Guarantee are paid to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, the Loan, the Republic Guarantee, the SINEK Guarantee or the FX Contract exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement, the Republic Guarantee, the SINEK Guarantee or the FX Contract or direct recourse to the Borrower, the Republic, SINEK or the Conversion Bank except through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee and/or the FX Contract unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

Notwithstanding any other provisions of these Conditions and the provisions of the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Secured Property in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding-up of the Issuer.

2. FORM AND DENOMINATION

The Notes are in registered form, serially numbered, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an "**Authorised Holding**").

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Registrar will maintain a register outside the United Kingdom (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" or "**Noteholder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register.

(B) Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

(C) Transfers

Subject to Conditions 3(F) (*Closed Periods*) and 3(G) (*Regulations concerning Transfers and Registration*), a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the Transferor.

(D) Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with Condition 3(C) (*Transfers*), the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its specified office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. COVENANTS BY THE ISSUER

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

5. INTEREST

The Notes bear interest from 3 August 2005 (the “**Issue Date**”) at the rate of 7.70% per annum (the “**Interest Rate**”) payable semi-annually in arrear on 3 February and 3 August of each year (each, other than the Issue Date, an “**Interest Payment Date**”), subject as provided in Condition 7 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an “**Interest Period**”.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Certificate, payment of principal is improperly withheld or refused, in which case interest will continue to accrue (before or after any judgment) from the due date for redemption to, but excluding, the date on which payment in full of the principal is made under the Notes.

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Interest Rate to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half cent being rounded upwards). When interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

6. REDEMPTION

(A) Scheduled Redemption

Unless previously prepaid or repaid, all Notes outstanding will on 3 August 2015 be redeemed or repaid by the Issuer at 100 per cent. of the outstanding principal amount thereof.

(B) Early Redemption

If the Loan becomes repayable in the circumstances specified in Clauses 5.3 (*Prepayment in the Event of Taxes or Increased Costs*), 5.4 (*Prepayment in the Event of Exchange Rate Fluctuations*) or 5.6 (*Illegality*) of the Loan Agreement prior to the business day prior to 3 August 2015, the Issuer shall redeem the Notes then outstanding:

- (i) in the circumstances specified in Clause 5.3 (*Prepayment in the Event of Taxes or Increased Costs*) or 5.6 (*Illegality*) of the Loan Agreement, in full at 100 per cent. of the outstanding principal amount of such Notes; or
- (ii) in the circumstances specified in Clause 5.4 (*Prepayment in the Event of Exchange Rate Fluctuations*) of the Loan Agreement, in such proportion as is equal to the proportion that the principal amount of the Loan that becomes so repayable bears to the amount of the Loan immediately before such repayment is made,

together with accrued interest and the Issuer will endeavour to give not less than 8 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date for redemption being the business day following the date on which the corresponding prepayment of the Loan falls due under the Loan Agreement).

If the Notes are to be redeemed in part only on any date in accordance with paragraph (ii) above, each Note shall be redeemed in part in the proportion which the aggregate outstanding principal amount of the Notes then outstanding to be redeemed on the date fixed for redemption of such Notes bears to the aggregate outstanding principal amount of the Notes then outstanding on such date.

(C) Purchase at the option of the Noteholders upon a Put Event

- (i) Upon the occurrence of a Put Event, the Issuer will give notice to the Noteholders of an offer by it to purchase all or any part of the Notes pursuant to the offer described below (the “**Put Event Offer**”) at a price per Note in cash (the “**Put Event Payment**”) equal to the principal amount thereof plus accrued and unpaid interest thereon and additional amounts, if any, to the date of such purchase. A “**Put Event**” shall occur if:
 - (a) SINEK shall dispose of any interest in the share capital of OAO Tatneft (“**Tatneft**”) or OAO Nizhnekamskneftekhim (“**NKNK**”) and such disposal shall result in an Ownership Change; or

- (b) any other event shall occur which results in an Ownership Change and, on the date of such Ownership Change, after giving *pro forma* effect to such Ownership Change, as determined in good faith by SINEK, as if it had occurred at the beginning of the two most recent financial half years of SINEK for which SINEK has prepared financial statements in accordance with Clause 13.1 (*Financial Statements*) of the SINEK Guarantee, the ratio of (a) the total Cash Flow of SINEK and the Borrower for such period to (b) the total Interest Expense of SINEK and the Borrower for such period would be no less than 1.20:1.

For this purpose:

“**Cash Flow**” means, in relation to any period, investment income plus, to the extent the same have been deducted in the determination of investment income, Non-Cash Charges plus cash proceeds from the sale of equity investments less cash applied in the purchase of equity investments, as determined in accordance with Applicable Accounting Principles (as defined in the SINEK Guarantee);

“**Interest Expense**” means, in relation to any period, the aggregate of all accrued interest, commissions, periodic fees and other recurrent financing charges payable in cash during that period in relation to any Indebtedness (as defined in the SINEK Guarantee) (including the interest element of Capitalised Lease Obligations (as defined in the SINEK Guarantee));

“**Non-Cash Charges**” means, in relation to any period, the aggregate depreciation, amortisation and other non-cash expenses of SINEK or the Borrower determined in accordance with Applicable Accounting Principles excluding items which will require cash payments to be made; and

“**Ownership Change**” means SINEK ceasing to be the owner (directly or indirectly) of in excess of 25 per cent. of the issued and paid-up share capital and voting rights in Tatneft or NKNK.

- (ii) Pursuant to Clause 5.5 (*Prepayment upon the occurrence of a Put Event or on 3 August 2012*) of the Loan Agreement, the Borrower is required to give notice of the occurrence of a Put Event and the date of the Put Event Offer to the Issuer and the Trustee promptly and in any event within 15 days after the date of occurrence of such Put Event (the “**Borrower Put Event Notice**”). The Issuer, upon receipt of such Borrower Put Event Notice, shall give notice thereof to the Noteholders in accordance with Condition 14 (*Notices*) with a copy to the Paying Agents and the Trustee, with the following information: (a) that the Put Event Offer is being made pursuant to this Condition 6(C) and all Notes properly tendered pursuant to such Put Event Offer will be accepted for purchase (the “**Put Notes**”); (b) the Put Event Payment and the purchase date for the Put Notes, which will be a Business Day (as defined in the Loan Agreement) falling not less than 30 days nor more than 60 days after the date of delivery to the Issuer of the Borrower Put Event Notice (the “**Put Event Payment Date**”); (c) that any Note not properly tendered or not tendered will remain outstanding and continue to accrue interest and additional amounts, if any; (d) that, unless the Issuer defaults in the payment of the Put Event Payment in respect of the Put Notes, all Notes accepted for payment pursuant to the Put Event Offer will cease to accrue interest and additional amounts, if any, on the Put Event Payment Date; (e) that Noteholders electing to have any Notes purchased pursuant to a Put Event Offer will be required to surrender such Notes, with the form entitled “**Option to Purchase Notice**” set out in a schedule to the Agency Agreement completed, to a Paying Agent and at the address specified in the notice prior to the close of business on the eighth Business Day preceding the Put Event Payment Date; and (f) that Noteholders will be entitled to withdraw their tendered Put Notes and their election to require the Issuer to repurchase such Put Notes provided that the Paying Agents receive prior to the close of business on the seventh business day preceding the Put Event Payment Date, a facsimile transmission or letter setting out the name of the Noteholder, the principal amount of Put Notes tendered for purchase, and a statement that such Noteholder is withdrawing its tendered Put Notes and its election to have such Put Notes purchased.
- (iii) At least five business days prior to the Put Event Payment Date, the Issuer will provide a notice (the “**Issuer Put Event Notice**”) to the Trustee and the Borrower in accordance with Condition 14 (*Notices*) setting out the aggregate Put Event Payment in respect of the Put Notes tendered and not withdrawn (including the computation thereof) required to be made by the Issuer for such Notes on the Put Event Payment Date.

- (iv) On the Business Day (as defined in the Loan Agreement) prior to the Put Event Payment Date, the Borrower will, pursuant to Clause 5.5 (*Prepayment upon the occurrence of a Put Event or on 3 August 2012*) of the Loan Agreement, prepay such proportion of the Loan (together with all accrued interest and any other amounts outstanding thereunder) as is equal to the proportion that the aggregate outstanding principal amounts of the Put Notes tendered and not withdrawn as set out in the Issuer Put Event Notice bears to the aggregate outstanding principal amount of all the Notes then outstanding. On the Put Event Payment Date, the Issuer will, to the extent permitted by law and subject to such prepayment, (a) accept for purchase all Put Notes properly tendered and not withdrawn pursuant to the Put Event Offer and (b) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Certificates representing such Put Notes together with a certificate of two authorised officers of the Issuer stating that such Notes have been tendered to and purchased by the Issuer. In accordance with the instructions of the Noteholder set out in the Option to Purchase Notice, the Paying Agent will promptly pay to the Noteholder the Put Event Payment for such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 14 (*Notices*), the results of the Put Event Offer on or as soon as practicable after the Put Event Payment Date.
- (v) For the purpose of this Condition 6(C), “**business day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York and Moscow.

(D) Redemption at the option of Noteholders on 3 August 2012

- (i) The Issuer shall, at the option of the holder of any Notes redeem such Note on 3 August 2012 (“**Put Date**”) at a price per Note (the “**Put Payment**”) equal to its outstanding principal amount together with interest accrued to such date and additional amounts, if any. In order to exercise the option contained in this Condition 6(D), the holder of a Note must, not less than 60 nor more than 90 days before the Put Date, deposit the Certificate relating to such Note with any Paying Agent together with a duly completed put option notice (a “**Put Option Notice**”) in the form scheduled to the Agency Agreement. No Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 6(D), may be withdrawn; *provided, however, that* if, prior to the Put Date, the Notes evidenced by any Certificate so deposited become immediately due and payable or, upon due presentation of any Certificate on the Put Date, payment of the redemption moneys is improperly withheld or refused the Certificate shall, without prejudice to the exercise of the put option contained in this Condition 6(D), be returned to the holder by uninsured first class mail (airmail if overseas) at the address specified by such holder in the relevant Put Option Notice.
- (ii) On the Business Day (as defined in the Loan Agreement) prior to the Put Date, the Borrower will, pursuant to Clause 5.5 (*Prepayment upon the occurrence of a Put Event or on 3 August 2012*) of the Loan Agreement, prepay such proportion of the Loan (together with all accrued interest and any other amounts outstanding thereunder) as is equal to the proportion which Notes the Certificates for which have been deposited with any Paying Agent together with a duly completed Put Option Notice bear to the aggregate outstanding principal amount of all the Notes then outstanding. On the Put Date, the Issuer will, to the extent permitted by law and subject to such prepayment, (a) redeem such Notes and (b) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Certificates representing such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 14 (*Notices*), the results of the exercise of the option contained in this Condition 6(D) on or as soon as practicable after the Put Date.

(E) Cancellation

The Loan Agreement provides that the Issuer, SINEK or any of SINEK’s Subsidiaries may, among other things, from time to time purchase and deliver Notes to the Issuer, having an aggregate outstanding principal value of at least U.S.\$1,000,000 together with a request for the Issuer to present the Certificates representing such Notes to the Registrar for cancellation, whereupon pursuant to the Agency Agreement, the Registrar shall cancel such Notes. On the date on which such Notes are cancelled in accordance with this Condition 6(E), there shall be extinguished that proportion of the principal amount of the Loan as is equal to the proportion that the aggregate outstanding principal amount of the Notes so cancelled bears to the aggregate outstanding principal amount of all Notes outstanding immediately prior to cancellation.

No further payment shall be made or required to be made by the Issuer in respect of any Notes so cancelled.

(F) Purchase of Notes

The Issuer or SINEK or any of SINEK's Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purpose of calculating quorums at meetings.

The Issuer will notify the Irish Stock Exchange if it decides to purchase Notes in accordance with this Condition 6(F) and will ensure that it does not carry out any dealings in the Notes and that no dealings in the Notes are carried out on its behalf.

7. PAYMENTS

(A) Payments in respect of Notes

Payments of principal and interest in respect of the Notes will be made by the Issuer against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office outside the United States of any of the Paying Agents.

(B) Method of Payment

Payments will be made by transfer to an account in U.S. dollars maintained by the payee with a bank in New York City or, upon application by the payee to the specified office of the Principal Paying Agent not later than 15 days prior to the due date for such payment by a cheque in U.S. dollars drawn on a bank in New York City.

(C) Payments on Business Days

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means 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 New York, Moscow and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which that Certificate is surrendered (or, as the case may be, endorsed).

(D) Payments subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*), no commissions or expenses shall be charged to the Noteholders in respect of such payments.

(E) Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment (the "**Record Date**"), whether or not a business day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) Payments by Borrower

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer (i) will require the Borrower or, failing which, the Republic and/or SINEK to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to the Rouble Account and (ii) will require the Conversion Bank to make all payments of U.S. dollars pursuant to the FX Contract to which it is a party to the Dollar Collection Account.

Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in the Accounts in favour of the Trustee for the benefit of itself and the Noteholders.

(G) Liability of Issuer

The liability of the Issuer to make payments of principal, interest and additional amounts (if any) in respect of the Notes shall be limited to, and may be only be satisfied out of, the Secured Property. Neither the Trustee nor the Noteholders shall have recourse to any other assets of the Issuer. Once these assets have been exhausted (which fact will be conclusively determined in respect of all parties concerned by the Trustee) the liabilities of the Issuer under and pursuant to the Trust Deed and the Notes shall thereupon be determined and satisfied in full.

8. TAXATION

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. The Issuer shall only make such additional payments to the extent of the Conversion Proceeds of equivalent sums received by it at such time from the Borrower under the Loan Agreement or from the Republic under the Republic Guarantee or from SINEK under the SINEK Guarantee and converted in U.S. dollars pursuant to the FX Contract. To the extent that the Issuer does not receive any such equivalent sum or is unable to convert the same into U.S. dollars pursuant to the FX Contract, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a pro rata proportion of the Conversion Proceeds of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement, the Republic Guarantee and the SINEK Guarantee and converted in U.S. dollars pursuant to the FX Contract on the date of, and subject to any conditions attaching to, the payment of such additional amount to the Issuer once converted into U.S. dollars pursuant to the FX Contract, provided that no such additional amount will be payable:

- (a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory or applicable double tax treaty requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of its having some connection with Luxembourg other than the mere holding of such Notes or the receipt of payments in respect thereof (including being a citizen, resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, Luxembourg);
- (b) in respect of a Certificate presented for payment more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such thirtieth day;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, “**Relevant Date**” means the later of (i) the date on which the equivalent payment under the Loan Agreement first becomes due and (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement, the Republic Guarantee or the SINEK Guarantee on or prior to such date and converted into U.S. dollars pursuant to the FX Contract, the date on which such full amount shall have been so received and converted into U.S. dollars and notice to that effect shall have been duly given to the Noteholders by or on behalf of the

Issuer. Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement) or of a Relevant Event (as defined below), the Trustee may, and shall, if requested to do so by Noteholders whose Notes constitute at least one quarter of the principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Loan Agreement by the Borrower to be immediately due and payable (in the case of a Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

For the purposes of these Conditions, “**Relevant Event**” means any of the following events pertaining to the Issuer: (i) the failure by the Issuer to make any payment of principal or interest on the Notes on the due date for payment thereof as required by these Conditions; (ii) the Issuer fails duly to perform or comply with, or is otherwise in breach of, any other obligations expressed to be assumed by it in the Notes or the Trust Deed and such failure or breach is not remedied within 30 days after the Trustee has given notice of it to the Issuer; (iii) bankruptcy, pre-insolvency composition (*concordat préventif de faillite*), moratorium, controlled management (*gestion contrôlée*), suspension of payments (*sursis de paiement*), general settlement with creditors, liquidation, reorganisation, administration, dissolution and any other similar legal proceedings affecting the Issuer or a *commissaire à la gestion contrôlée*, a *liquidateur*, a *commissaire*, a *curateur*, an *administrateur* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer; or (iv) the taking of any action in furtherance of dissolution of the Issuer.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed or, following the creation of the Security Interests, the Loan Agreement, the Republic Guarantee or the SINEK Guarantee. Upon a poll being called, Noteholders will vote pro rata according to the principal amount of their Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement, the Republic Guarantee, the SINEK Guarantee or the FX Contract. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Agency Agreement and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement, the Republic Guarantee, the SINEK Guarantee or the FX Contract which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders and is not a Reserved Matter. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or, following the creation of the Security Interests, by the Borrower of the terms of the Loan Agreement or by the Republic of the terms of the Republic Guarantee or by SINEK of the terms of the SINEK Guarantee or by the Conversion Bank of the

terms of the FX Contract, or determine that any event which would otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Borrower, the Republic, SINEK and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein (including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, and its right, title and interest in amounts deposited in the Accounts being charged, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes), substitute any entity (a “**substitute obligor**”) in place of the Issuer as creditor under the Loan Agreement and as a party to the Republic Guarantee, the SINEK Guarantee and the FX Contract, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified or secured to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. Nothing in the Trust Deed or these Conditions shall require the Trustee to do anything which would cause it to expend or risk its own funds. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Republic, SINEK, the Conversion Bank and the Borrower and any entity relating to the Issuer, the Republic, SINEK, the Conversion Bank and the Borrower without accounting for any profit. The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement, the Republic Guarantee, the SINEK Guarantee or the FX Contract or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes, the FX Contract and the Trust Deed or by the Borrower in respect of the Loan Agreement or by the Republic in respect of the Republic Guarantee or by SINEK in respect of the SINEK Guarantee or by the Conversion Bank in respect of the FX Contract. In acting under the Agency Agreement, the Reference Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The power of appointing new trustees shall be vested in the Issuer but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of the Noteholders. A trust corporation may

be appointed sole trustee but subject thereto there shall be at least two trustees one at least of which shall be a trust corporation. Any appointment of a new trustee shall as soon as practicable thereafter be notified by the Issuer to the Principal Paying Agent and the other Agents and to the Noteholders. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being. The removal of any trustee shall not become effective unless there remains a trustee (being a trust corporation) in office after such removal.

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar or agent bank and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal paying agent, a registrar and an agent bank, (b) a paying agent and transfer agent having specified offices in at least two major European cities approved by the Trustee (including Ireland, so long as the Notes are admitted to trading on the Irish Stock Exchange and admitted to the Official List of the Irish Stock Exchange), and (c), a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive. Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Noteholders.

13. REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange (as defined in the Trust Deed), be replaced at the specified office of the Registrar or the Transfer Agent having its specified office in Ireland on payment by the claimant of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe or as otherwise required by the rules of any exchange on which the Notes are listed. In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange (as defined in the Trust Deed) shall constitute sufficient notice to such holders for every purpose hereunder.

15. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a loan agreement with the Borrower on the same terms as the Loan Agreement (or on the same terms except for the first payment of interest), a guarantee agreement with the Republic on the same terms as the Republic Guarantee, a guarantee agreement with SINEK on the same terms as the SINEK Guarantee and a currency conversion agreement with the Conversion Bank on the same terms as the FX Contract, subject, in the case of each such agreement, to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement and over any further guarantee agreement and any further currency conversion agreement and over the Accounts and any other bank accounts established by the Issuer in connection with such further Notes to secure amounts due on the Notes and such further Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No Person shall have any right to enforce or enjoy the benefit of any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of Articles 86 to 94-8 on the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

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

The Global Certificate will become exchangeable in whole, but not in part, for definitive certificates (“Definitive Certificates”) if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Definitive Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Certificate for Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Definitive Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions which modify the terms and conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”), notices to holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System provided that, so long as the Notes are listed by the Irish Financial Services Regulatory Authority and admitted to trading on the Irish Stock Exchange, notices will also be published in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*).

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes against presentation and surrender of such Global Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Certificate. Payment while Notes are represented by a Global Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system as appropriate.

TAXATION

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

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to (I) the purchase, ownership and disposal of the Notes as well as concerning (II) the taxation of payments under the Loan and the FX Contract, the Republic Guarantee and the SINEK Guarantee. The summary is based on the laws of the Federation in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of the Federation. Nor does the summary seek to address the availability of double tax treaty relief to prospective investors, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes. No representation with respect to Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and more developed taxation systems. Also, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates. Such interpretation and application by different local tax inspectorates may be inconsistent or contradictory and may involve the imposition of conditions, requirements or restrictions not stated by applicable Russian tax legislation. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

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

The Russian tax treatment of guarantee payments made by the Republic to the Issuer under the Republic Guarantee and guarantee payments made by SINEK to the Issuer under the SINEK Guarantee may affect the holders of the Notes. See “Taxation of payments under the Republic Guarantee or the SINEK Guarantee” below.

Taxation of the Notes

Non-resident holders

A non-resident holder will not be subject to any Russian taxes in respect of amounts of principal or interest on the Notes received from the Issuer.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised through redemption, sale or other disposal of the Notes outside of Russia provided that the proceeds from such disposal are not received from a payor which is a Russian legal entity or a non-Russian legal entity with a permanent establishment within Russia or an individual registered as an individual entrepreneur.

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

Accrued interest may be distinguished from the total gain and be subject to Russian withholding tax at 20 per cent. to a non-resident holder which is a legal person if the interest is received from a payor which is a Russian legal entity or a non-Russian legal entity with a permanent establishment within Russia. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation where there is a capital loss on the disposal of the Notes. Non-resident holders that are legal persons or organisations should consult their own tax advisers with respect to this possibility. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Treaty relief may be available, subject to the satisfaction of the requirements of such treaty and certain other requirements of Russian tax legislation.

A non-resident holder who is an individual will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from a disposal of the Notes less any available cost deductions (including the original purchase price) if the disposal is in Russia, subject to any available double tax treaty relief. If the Notes are disposed of to a Russian legal entity, an individual registered as an individual entrepreneur or a permanent establishment of a foreign legal entity in Russia, the proceeds from such disposal may be regarded for personal income tax purposes as income from a disposal in Russia giving rise to Russian source income subject to withholding at source of payment or, if the tax is not withheld, then the non-resident individual may be liable to pay the tax.

There is some uncertainty regarding the treatment by a non-resident holder who is an individual of the portion of disposal proceeds attributable to accrued interest subject to reduction or elimination under the provisions of an applicable tax treaty related to interest income. Disposal proceeds attributable to accrued interest may be taxed at a rate of 30 per cent., even if the disposal results in a capital loss. In order to obtain double tax treaty relief, an individual should provide appropriate documentary proof of tax residency in respect of which tax treaty benefits are claimed. Alternatively, if such non-resident holder seeks a refund of tax withheld in Russia, in addition to a tax residency certificate, documentary proof of tax payments made must also be presented. In practice, because of the uncertainties regarding the form and procedures for providing such documentation, individuals may not be able to claim an exemption under a treaty with respect to the receipt of proceeds from a source within Russia and obtaining a refund can be extremely difficult. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of receiving the proceeds of a disposal of the Notes from a source within Russia. The taxable base of a non-resident holder may also be affected by changes in the exchange rates between the currency of acquisition, sale or other disposal of the Notes and roubles.

Resident holders

A holder of a Note, who is an individual resident in Russia for tax purposes or an organisation which is not a non-resident in Russia, is subject to all applicable Russian taxes in respect of gains from a disposal of the Notes and interest received on the Notes.

Taxation of payments under the Loan and the FX Contract

Payments to the Issuer under the Loan Agreement should not be subject to Russian withholding tax, unless such payments are attributable to a permanent establishment of SINEK Capital in the Russian Federation. In the Loan Agreement, SINEK Capital will represent and undertake to the Issuer that it does not, and will not, have a permanent establishment in the Russian Federation.

The Issuer should not be subject to Russian profits tax in respect of payments by SINEK Capital under the Loan Agreement or in respect of any amounts received or gains realised upon the conversion and exchange of amounts under the FX Contract with the Conversion Bank, provided that the Issuer does not have a permanent establishment in the Russian Federation to which such income of the Issuer under the Loan Agreement or such amounts or gains under the FX Contract are attributable.

Taxation of payments under the Republic Guarantee or the SINEK Guarantee

In general, payments made to the Issuer under the Republic Guarantee or the SINEK Guarantee may be characterised as Russian source income, subject to Russian profits withholding tax at the rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, SINEK believes that payments made to the Issuer under the Republic Guarantee or the SINEK Guarantee should not be subject to Russian profits withholding tax under the terms of the double tax treaty between the Federation and the Grand Duchy of Luxembourg.

If, as a result of the enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests created under the Trust Deed, such payments become payable to the Trustee, the

benefit of the double tax treaty between the Federation and the Grand Duchy of Luxembourg would cease and payments under the Republic Guarantee and the SINEK Guarantee would be subject to Russian profits withholding tax.

In the absence of specific tax legislation or court practice, payments under the Republic Guarantee and the SINEK Guarantee should not be subject to Russian VAT.

Enforceability of gross-up provisions under Russian law

Each of the Republic Guarantee and the SINEK Guarantee provides that, if any of the payments thereunder are subject to Russian withholding taxes, the relevant party is obliged to increase payments to the extent necessary so that the net payments received thereunder shall be not less than the amount which would have been received in the absence of such withholding taxes. It should be noted, however, that tax gross-up provisions in contracts may not be enforceable under Russian law.

Luxembourg

General

The following is a general description of certain Luxembourg tax consequences of the acquisition, ownership and disposition of the Notes by Luxembourg non-resident Noteholders, as well as certain Luxembourg withholding tax considerations with respect to payments under the Loan Agreement.

For this purpose, a non-tax resident of Luxembourg is a person who has neither his residence, customary place of abode, seat or place of management in Luxembourg.

This summary is based on the laws currently in force in the Grand Duchy of Luxembourg and as applied in practice as of the date of this Prospectus, and is subject to any changes in law occurring after such date, possibly with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of the Notes should consult their tax advisers as to the overall tax consequences of the purchase, ownership and disposition of the Notes.

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Tax qualification of the Notes as debt

The Issuer intends to qualify the Notes as debt, characterise the Notes as debt in its annual accounts, treat the Notes as debt for all Luxembourg tax purposes, and will report payments made on the Notes in a manner consistent with such characterisation.

Withholding tax on payments in respect of the Notes

Under Luxembourg tax law currently in effect, there is no withholding tax for non-resident Noteholders on payments to Luxembourg non-resident Noteholders of principal and interest (including accrued but unpaid interest) in respect of the Notes. There is also no Luxembourg withholding tax payable on redemption or exchange of the Notes.

The implementation of the European Union Savings Tax Directive may nevertheless have withholding tax impacts in Luxembourg. See separate section below.

Taxation of the Luxembourg non-resident Noteholders

Noteholders who are non-residents of Luxembourg and who do not hold the Notes through an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in Luxembourg are not liable for any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption of the Notes, or realise capital gains on the sale or the exchange of any Notes.

Net wealth tax

Luxembourg net wealth tax will not be levied on a non-resident Noteholder, unless the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

Other Taxes in respect of the Notes

Registration duty

The Notes being considered as a collective instrument (as divided in notes of equal value repayable at the same date and remunerated at the same interest rate), there is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty payable in Luxembourg on the issue or transfer of the Notes, in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the issuer's obligations under the Notes.

In certain circumstances, e.g. where the Notes cannot be considered as a collective instrument (which is unlikely to happen) and in the case where the documents relative to the issue of the Notes are presented, on a voluntary basis or not, to a Luxembourg court or to an "*autorité constituée*", registration may be required, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan will be subject to an ad valorem registration duty of 0.24 per cent., calculated on the amounts mentioned therein.

Further, if the Notes cannot be considered as a collective instrument (which is unlikely to happen) and if the Notes are annexed or referred to in a deed signed before a Luxembourg notary public that will be registered, the Luxembourg authorities may decide to levy the 0.24 per cent. duty. In practice, we are not aware of a situation where such duty has been levied if the note instrument is annexed to a Luxembourg deed.

Value added tax

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Estate duties

No estate or inheritance tax is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and no gift tax is levied upon a gift of Notes if the gift is not passed in front of a Luxembourg notary or recorded in a deed registered in Luxembourg.

Withholding tax on payments in respect of the Loan

Under Luxembourg tax law currently in effect, there is no withholding tax on payments by SINEK Capital as borrower to the Issuer as lender, each being a Luxembourg resident company, of principal and interest in respect of the Loan (including accrued but unpaid interest, any additional interest as provided under Clause 4.3 of the Loan Agreement, and any interest due in case of Late Payment as defined in Clause 12 of the Loan Agreement), nor is any Luxembourg withholding tax payable on additional amounts to be paid under Clauses 6.2 and 6.3 of the Loan Agreement, on any reimbursement to be made under Clause 6.4 of the Loan Agreement, and on any other amount due in case of Late Payment as provided in Clause 12 of the Loan Agreement.

EU Directive on the Taxation of Savings Income

On 3 June 2003, the Council of the European Union adopted a directive regarding the taxation of savings income (Directive 2003/48/EC) (the "Directive"). Subject to a number of important conditions being met, it is proposed that any economic operator (paying agent within the meaning of the Directive) situated within a Member State of the European Union (or, subject to bilateral agreements with the EU, within associated or dependent territories and five third countries, Switzerland, Liechtenstein, San Marino, Monaco and Andorra) is required from 1 July 2005 to provide to the tax authorities of its country of residence (which will forward this information to the tax authorities of another Member State) details of payments of interest or other similar income paid by the economic operator within its jurisdiction to or for the benefit of an individual, as well as, in some cases, to specific forms of organizations such as partnerships (not being a legal person, not being themselves subject to business taxation, and not being a UCITS Investment Fund recognised in accordance with Directive 85/611/EEC – so-called "residual entities"), resident of that other Member State. Certain Member States, including Luxembourg, are

allowed to apply a withholding system for a transitional period. Certain associated territories and certain third countries may also apply withholding instead of exchange of information during the transitional period. Any withholding tax levied pursuant to the Directive may be in addition to any domestic withholding tax levied by those Member States.

Luxembourg has opted for the withholding tax system (15 per cent. until 30 June 2008, 20 per cent. from 1 July 2008 until 30 June 2011, 35 per cent. as from 1 July 2011). The withholding tax shall apply for payments made to individual beneficial owners of debt claims (which may include, for example, individuals who hold interests through forms of organisations such as partnerships, among others) who are resident in a Member State of the European Union that is different from the Member State of the paying agent (which could, for these purposes, include a person making payment in respect of the debt on behalf of the issuer or on behalf of the holder). Thus, payments made on or after 1 July 2005 by a Luxembourg paying agent in respect of instruments issued after 1 March 2001 could be subject to withholding tax under the Directive (especially if the beneficial owner of the notes is an EU resident), if the individual beneficial owner or, as the case may be, the residual entity, does not opt, by an authorisation expressly given, for the exchange of information.

The Directive has been incorporated in Luxembourg Tax Law under the Law dated 21 June 2005, which entered into force as from 1 July 2005.

Specific case of interest payments made to a residual entity

In order to track any interest payments made to EU individuals through residual entities, the Directive provides for a reporting by the paying agent of interest paid to such entities regardless of the status, i.e. corporate, individual, etc. of the final beneficiaries.

In order to be recognised as a residual entity, and thus a paying agent upon receipt, the recipient of the interest shall not be a legal person, nor taxed on its business profits, nor an UCITS recognised in accordance with Directive 85/611/EEC.

The information which must be exchanged by the paying agent consists in the name and address of the residual entity and the total amount of interest paid to it.

If the paying agent is located in Luxembourg, the withholding tax system basically remains the default system so that, if the residual entity does not expressly opt for the exchange of information, any interest payment to a residual entity will be subject to withholding tax (depending on the status and residency of the ultimate beneficiaries).

SUBSCRIPTION AND SALE

Dresdner Bank AG London Branch (the “Lead Manager”) has, pursuant to a Subscription Agreement (the “Subscription Agreement”) dated 28 July 2005, agreed to subscribe or procure subscribers for the Notes at the issue price of 7.70 per cent. of the principal amount of Notes. The combined management, underwriting and selling commission payable to the Lead Manager will be 1.25 per cent. of the principal amount of the Notes. The Lead Manager is also entitled to reimbursement of expenses pursuant to the Subscription Agreement. Each of SINEK, the Republic and the Issuer has agreed to indemnify the Lead Manager against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated by the Lead Manager in certain circumstances prior to the closing of the offering of the Notes.

United States

The Notes and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Prior to the expiration of a 40-day distribution compliance period commencing on the closing date, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons and any such sales conducted by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act. Thereafter, the Notes 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, or not subject to, the registration requirements of the Securities Act. The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph and the preceding paragraph have the meanings given to them by Regulation S.

United Kingdom

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

1. 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 Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
2. 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.

Russian Federation

The Lead Manager has represented, warranted and undertaken with the Issuer, SINEK and the Republic that it has not offered or sold and will not offer or sell as part of its initial distribution or otherwise any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Federation or to any person located within the territory of the Federation except to the extent otherwise permitted under Russian law.

The Netherlands

The Lead Manager has represented and agreed that it has not offered, transferred, delivered or sold and will not offer, transfer, deliver or sell any Notes in or from the Netherlands as part of its distribution or as part of any re-offering, and that it may not distribute either the Prospectus or any other document in respect of the offering in or from the Netherlands other than to individuals or legal entities who are considered as professional market parties pursuant to the Netherlands Banking Act (*We toezicht kredietwezen 1992*) and which trade or invest in securities in the conduct of their profession or trade pursuant to the Netherlands Securities Act (*Wet toezicht effectenverkeer 1995*) (which includes (among others) duly supervised banks, insurance companies, securities institutions, investment institutions and pension funds).

Each purchaser represents and acknowledges that the Notes in global or definitive form will bear a legend substantially to the following effect:

Any person who holds (a beneficial interest in) this obligation, who is resident in the Netherlands, shall be deemed to have represented and agreed that it is a professional market party as defined in Section 1(e) of the Exemption Regulation pursuant to the Netherlands Banking Act.

Republic of Italy

The offering of the Notes in the Republic of Italy (“Italy”) has not been authorised by the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to the Italian securities legislation and, accordingly: (i) the Notes cannot be offered, sold or delivered in Italy in an investment solicitation (“*sollecitazione all’investimento*”) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, as amended (“Decree 58/98”); (ii) the Notes cannot be offered, sold and/or delivered, nor may copies of the Prospectus or any other document relating to the Notes be distributed, either in the primary or secondary market, to individuals resident in Italy; and (iii) any offer, sale and/or delivery of the Notes and distribution of copies of the Prospectus or of any other document relating to the Notes in Italy will only be:

- (a) made to Italian institutional investors (“*investitori istituzionali*”), as defined in Article 100 of Decree 58/98 by reference to Article 31.2 of CONSOB Regulation no. 11522 of 1 July 1998, as amended (“Regulation 11522/98”);
- (b) made in compliance with Article 129 of the Legislative Decree no. 385 of 1 September 1993, as amended (“Decree 385/93”), and the implementing instructions of the Bank of Italy, if applicable, pursuant to which the issue or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the amount of the issue and the characteristics of the securities, applies;
- (c) made in compliance with Article 115 of Decree 385/93, as implemented by the regulations issued, from time to time, by the Bank of Italy and/or the *Comitato Interministeriale per il Credito e il Risparmio*;
- (d) made in compliance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB, the Bank of Italy or any other competent Italian authority; and
- (e) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with Decree 58/98, Decree 385/93, Regulation 11522/98 and any other applicable laws and regulations.

Luxembourg

The Lead Manager has represented, warranted and undertaken to the Issuer, the Borrower, SINEK and the Republic that no public offerings or sales of the Notes or any distribution of any offering material relating to the Notes will or may be made to the public in or from Luxembourg, except if the requirements of Luxembourg law concerning public offerings of securities in or from Luxembourg have been fulfilled.

General

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

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 022578596. The International Securities Identification Number for the Notes is XS0225785962.
2. It is expected that the Notes shall be admitted for trading on the ISE's regulated market, and that the listing of the Notes on the ISE's regulated market will be granted, on or around 3 August 2005.
3. SINEK estimates that the amount of expenses related to the admission of the Notes to trading on the ISE's regulated market to be approximately U.S.\$5.5 million.
4. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available and copies may be obtained of (a), (b), (c), (d), (e), (h), (i), (j), (k), (l) and (m) below upon request from the specified offices of the Paying Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are listed on the ISE:
 - (a) a copy of this Prospectus, together with any supplement to this Prospectus;
 - (b) the Agency Agreement;
 - (c) the Trust Deed, which includes the forms of the Global Certificates and the definitive Certificates;
 - (d) the FX Contract;
 - (e) the audited unconsolidated financial statements of SINEK prepared in accordance with U.S. GAAP in respect of the period from its date of incorporation (11 April 2003) to 31 December 2003, the nine-month period ended 30 September 2004 and the 12-month period ended 31 December 2004. SINEK has in the Loan Agreement undertaken to prepare audited unconsolidated accounts on an annual basis;
 - (f) the most recently published audited annual financial statements of SINEK;
 - (g) the most recent interim unaudited financial statements of SINEK (which are prepared quarterly in accordance with Russian GAAP);
 - (h) copies (with an English translation) of the authorisations listed below;
 - (i) the Subscription Agreement;
 - (j) the Loan Agreement;
 - (k) the Republic Guarantee;
 - (l) the SINEK Guarantee; and
 - (m) the Reference Agency Agreement

SINEK does not produce audited accounts on a consolidated basis.

5. The Notes and the other documents to be entered into by the Issuer in relation to the Notes have been authorised by a resolution of the Issuer dated 21 July 2005. This Prospectus, the Subscription Agreement, the SINEK Guarantee and the other documents to be entered into by SINEK in relation to the SINEK Guarantee have been approved and authorised on 28 July 2005 by the signing thereof by the General Director of SINEK. This Prospectus, the Loan Agreement, the Subscription Agreement and the other documents to be entered into by the Borrower in relation to the Loan Agreement have been authorised by a resolution of the Borrower dated 26 July 2005.
6. Since 31 December 2004, there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise), general affairs or prospects of the Issuer and SINEK that is material in the context of the issue of the Notes.
7. Since 31 December 2004 there has been no significant change in the financial or trading position of SINEK.
8. SINEK has obtained all necessary consents, approvals and authorisations in the Russian Federation in connection with its entry into, and the performance of its obligations under, the SINEK Guarantee.

9. No consents, approvals, authorisations or orders of any regulatory authorities in Luxembourg are required by the Issuer for its entry into, and the performance of its obligations under, the Loan Agreement or for the issue and performance of the Notes.
10. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SINEK is aware) within the last 12 months which may have, or have had, significant effects on SINEK's financial position or profitability.
11. Hard copies of the following documents have been deposited with and may be inspected at the office of the Paying Agents in Ireland and Luxembourg for the life of the Prospectus:
 - (a) the constitutive documents of SINEK, the Issuer and the Borrower;
 - (b) the reports of KPMG dated 21 February 2005 and 22 June 2005 which are included in the Prospectus;
 - (c) the audited financial statements of SINEK (i) as at and for the period from 11 April 2003 to 31 December 2003; (ii) as at and for the nine months ended 30 September 2004; and (iii) as at and for the 12 months ended 31 December 2004; and
 - (d) the 2003 Republic Budget, the 2004 Republic Budget and the 2005 Republic Budget.
12. Since 31 December 2004, except as disclosed herein, there has been no significant change to information provided herein in respect of the Republic's tax and budgetary systems, gross public debt, foreign trade information, foreign exchange position and budgetary position.
13. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware) within the last 12 months which may have, or have had, significant effects on the Republic's financial position.
14. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) within the last 12 months which may have, or have had, a significant effect on the Issuer's financial position or profitability.
15. KPMG has consented to the inclusion of its reports in respect of SINEK which appear in the Prospectus, in the form and context in which such reports are included herein, and has authorised the contents of such reports.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Open Joint Stock Company "Svyazinvestneftekhim"

We have audited the accompanying statements of assets and liabilities, including the schedule of investments, of the Open Joint Stock Company "Svyazinvestneftekhim" ("the Company") as of 31 December 2004 and 2003, and the related statements of operations, changes in net assets, and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include investments valued at U.S.\$ 1,019,798 thousand at 31 December 2004 (43% of total assets) and U.S.\$ 663,297 thousand at 31 December 2003 (45% of total assets), whose values, have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

KPMG Limited
June 22, 2005

STATEMENTS OF ASSETS AND LIABILITIES
AS OF 31 DECEMBER 2004 AND 31 DECEMBER 2003

	<u>Note</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
<i>(In thousands of U.S. dollars)</i>			
Assets			
Investments, at fair value (Acquisition value at 31 December 2004 USD 1,119,554 thousand, acquisition value at 31 December 2003, U.S.\$ 1,128,678 thousand)	17	2,104,774	1,473,257
Cash and cash equivalents	4	108,360	1
Loans receivable from related parties	8	90,094	—
Accounts receivable from related parties	5	—	7,085
Accounts receivable and other assets	6	91,854	—
Total assets		<u>2,395,082</u>	<u>1,480,343</u>
Liabilities			
Loans payable to related parties	8	252,268	2
Accounts payable and accrued expenses	9	121	100
Deferred tax liabilities	10	180,951	47,706
Total liabilities		<u>433,340</u>	<u>47,808</u>
Net assets			
Share capital	7	1,206,570	1,206,570
Additional paid in capital		(54,636)	(54,636)
Accumulated other comprehensive income		165,911	74,895
Retained earnings		643,897	205,706
Total net assets		<u>1,961,742</u>	<u>1,432,535</u>
Total liabilities and net assets		<u>2,395,082</u>	<u>1,480,343</u>

STATEMENTS OF OPERATIONS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003

	Note	Period ended 31 December 2004	Period ended 31 December 2003
<i>(In thousands of U.S. dollars)</i>			
Dividends (net of withholding taxes).....	16	30,830	—
Interest income		352	—
Investment income		31,182	—
Legal and professional expenses.....		(236)	(91)
Administrative expenses		(379)	(9)
Total expenses		(615)	(100)
Net investment income/(loss)		30,567	(100)
Net increase in unrealised appreciation on investments.....		543,507	270,765
Net realised gain from investments		207	—
Net gain on investments		543,714	270,765
Income tax expense	11	(133,323)	(64,959)
Net increase in net assets resulting from operations ..		440,958	205,706

STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003

	Period ended 31 December 2004	Period ended 31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Cash flow from operating and investment activities		
Interest and dividend income	29,709	—
Proceeds from sale of investments	10,500	—
Acquisition of investments	(1,376)	
Cash paid for professional services and administration costs	(594)	—
Cash paid for other assets	(287)	
Taxes paid	(78)	
Advance to TatInk for acquisition of investments	(90,094)	—
Loans provided to Tatneft and Nizhnekamskneftekhim	(90,094)	—
Cash flows used in operating and investing activities . .	(142,314)	—
Financing activities		
Proceeds from borrowings	252,266	2
Dividends paid	(2,767)	—
Cash flows from financing activities	249,499	2
Net increase in cash and cash equivalents	107,185	2
Cash and cash equivalents at the beginning of year . . .	1	—
Effect of exchange rate fluctuations	1,174	(1)
Cash and cash equivalents at the end of year	108,360	1

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Other comprehensive income</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>(In thousands of U.S. dollars)</i>				
Balance as of 11 April 2003.....	—	—	—	—	—
Contribution of investments by the shareholder.....	1,206,570	(54,636)	—	—	1,151,934
Net investment loss.....	—	—	—	(100)	(100)
Net increase in unrealised appreciation on investments....	—	—	—	270,765	270,765
Income tax expense.....	—	—	—	(64,959)	(64,959)
Translation adjustment.....	—	—	74,895	—	74,895
Balance as of 31 December 2003 ..	1,206,570	(54,636)	74,895	205,706	1,432,535
Net investment income.....	—	—	—	30,567	30,567
Net increase in unrealised appreciation on investments....	—	—	—	543,507	543,507
Net realised gain from investments.....	—	—	—	207	207
Income tax expense.....	—	—	—	(133,323)	(133,323)
Dividends paid.....	—	—	—	(2,767)	(2,767)
Translation adjustment.....	—	—	—	—	91,016
Balance as of 31 December 2004 ..	1,206,570	(54,636)	165,911	643,897	1,961,742

**SCHEDULE OF INVESTMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

	31 December 2004			31 December 2003		
	Acquisition Value	Fair Value	Direct ownership ⁽¹⁾	Acquisition Value	Fair Value	Direct ownership ⁽¹⁾
	<i>(In thousands of U.S. dollars)</i>					
Investment by Industry⁽²⁾⁽³⁾						
Financial Services (7.87%)						
Ak Bars Bank— ordinary shares	13,577	13,000	6.70%	13,391	16,915	18.79%
Ak Bars Holding Company— ordinary shares	8,300	8,600	50.62%	8,300	9,700	50.62%
Investneftekhim— ordinary shares	77,768	129,024	99.99%	13,000	14,000	99.93%
Tatneftekhiminvest Holding— ordinary shares	1,120	15,100	51.49%	1,120	1,400	51.49%
Telecommunication (4.84%)						
KGTS— ordinary shares	5,426	10,800	45.99%	5,000	7,000	40.42%
Tattelecom— ordinary shares	45,000	91,000	100%	45,000	41,000	100%
Chemical (19.96%)						
Kazanorgsintez— ordinary shares ⁽⁴⁾	17,000	88,000	26.64%	17,000	31,000	26.64%
Nizhnekamskneftekhim— ordinary shares ⁽⁴⁾⁽⁵⁾	163,232	332,000	25.21%	228,000	264,000	35.2%
NII Neftepromhim— ordinary shares	61	82	25%	61	72	25%
Petrokam— ordinary shares	—	—	—	10,500	10,500	54.5%
TKNK— ordinary shares	20	11	9.09%	—	—	—
Manufacturing (0.66%)						
Kazancompressormash— ordinary shares	8,000	8,000	50.01%	8,000	13,000	50.01%
Kazan Engine Building Plant— ordinary shares	4,770	5,830	25.88%	4,770	5,730	25.88%
Oil and Gas (53.58%)						
Tatneft ⁽⁵⁾						
— ordinary shares	584,261	996,900	30.444%	584,261	778,910	30.444%
— preferred shares	45	76	0.004%	45	50	0.004%
Nefteconsortium— ordinary shares	230	651	25.02%	230	480	25.02%
North-West Trunk Pipelines— ordinary shares	58,000	127,700	36%	58,000	91,000	36%
Tatnefteproduct— ordinary shares	2,000	2,400	37.93%	2,000	2,500	37.93%
Pharmaceutical (0.19%)						
Tatkhimpreparati— ordinary shares	2,000	4,000	100%	2,000	3,000	100%
Energy (12.9%)						
Tatenergo— ordinary shares	128,000	269,000	51%	128,000	183,000	51%
Tatenergospetsremont— ordinary shares	744	2,600	51%	—	—	—
	<u>1,119,554</u>	<u>2,104,774</u>		<u>1,128,678</u>	<u>1,473,257</u>	

Notes:

- (1) In total share capital (preferred and ordinary shares).
- (2) Percentages indicated are based on investment portfolio as of 31 December 2004.
- (3) All investments are in companies operating in Russia.
- (4) Open Joint Stock Company “Svyazinvestneftekhim” (“the Company”) also holds 0.004 %, 0.023% and 0.001% of the total share capital (preferred and ordinary shares) of KGTS, Kazanorgsintez and Nizhnekamskneftekhim, respectively, which are not material to the Company’s portfolio of investments.
- (5) As at 31 December 2004 Investneftekhim held 11.36% of the ordinary shares of Nizhnekamskneftekhim and 25% of the ordinary shares of Alnas . In December 2004 Investneftekhim exchanged 11.36% of the ordinary shares of Nizhnekamskneftekhim for 3.36% of the ordinary shares of Tatneft. As at December 31, 2004 the exchange had not been recognized in these financial statements as the transaction was subject to approval by the Ministry of the Russian Federation on Antimonopoly Policy and formal legal registration of the transaction had not been completed. Subsequent to the balance sheet the transaction obtained antimonopoly approval and formal registration of the transaction was completed.

1. BACKGROUND

(a) Organisation and operations

The Open Joint Stock Company “Svyazinvestneftekhim” (“the Company”) is located in Kazan, Republic of Tatarstan, Russian Federation. The Company was incorporated as an open joint stock company on 11 April 2003 and its primary activity is investments into equity securities of companies located in the Republic of Tatarstan.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change 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 Company. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).

The Company follows investment specialized accounting practices contained in the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide — Audits of Investment Companies (the “Guide”), which requires investment companies to account for their investments at fair value, as opposed to consolidation or equity methods, as such provides more useful information to users of the financial statements regarding performance of an investment company. The American Institute of Certified Public Accountants and the Financial Accounting Standards Board are currently developing a Statement of Position on the clarification of the scope of the Guide that could redefine the criteria applied to determine whether an entity is an investment company under the Guide.

These financial statements of the Company have been prepared for the period from the date of incorporation to 31 December 2003, and for the 12 month period ending 31 December 2004.

(b) Functional and Reporting Currency

The Company has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. The Company has elected to use the US Dollar as its reporting currency in these financial statements.

For the periods ended 31 December 2004 and 31 December 2003 translation from the Company’s functional currency to reporting currency was conducted as follows:

- all assets and liabilities were translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at their historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

As of 31 December 2004 and 31 December 2003, exchanges rates of 27.75 and 29.45 Russian roubles to the US dollar, respectively, have been used for translation purposes. The weighted average exchange rates used were 28.82 and 30.69 Russian roubles to the US dollar for the periods ended 31 December 2004 and 31 December 2003, respectively.

(c) Convertibility of the Russian rouble

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

(d) 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 Company's assets, as well as the future operations of the Company, 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 Company 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 accounting policies have been consistently applied.

(a) Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include the valuation of investments. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with an initial term of less than three months.

(c) Investments

Securities owned by the Company for which market quotations are readily available are valued at the closing price on the valuation date. Securities which are not publicly traded and for which no quotations are readily available are valued at their fair value as determined in good faith by the Board of Directors of the Company. In making the good faith determination, the securities fair value is adjusted when transactions or developments indicate that a change in carrying value of the securities is appropriate. Reductions to the carrying value of these securities are made when the Company's estimate of net realizable value has declined below the carrying value.

Because of the inherent uncertainty of valuation, fair values determined by the Board of Directors may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(d) Trade and other receivables

Trade and other receivables are recorded at their transaction amounts less provision for doubtful debts. Provision for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be obtained.

(e) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation. Fixed assets are depreciated on a straight line basis over their estimated useful lives, which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

(f) Interest-bearing liabilities

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortised at a constant rate over the term of the borrowing.

(g) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in net assets. Repurchased shares are classified as treasury shares and are presented as a deduction from total net assets.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(h) Income tax

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109 Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Revenue and expense recognition

Investment transactions are recorded as of the transaction date. Realized and unrealized gains and losses on investment securities are recorded in the statement of operations. Interest and dividend income is recognized on an accrual basis with dividend income being accrued when the dividend is declared.

(j) Employee benefits

The Company pays into the Russian Federation State Pension Fund a percentage of each employee’s wage based on a scale as specified in, and required by the Russian Tax Code. These amounts are expensed when they are incurred.

(k) Operating lease payments

Payments made under operating leases are recognized in the statement of operations as expenses as incurred.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise local bank balances and bank deposits.

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Rouble bank accounts at Ak Bars bank—related party.....	36,285	1
Rouble bank accounts at Zenit bank—related party	63,066	—
Rouble bank deposits at Tatfond bank	9,009	—
	<u>108,360</u>	<u>1</u>

As of 31 December 2004 the effective interest rate on bank accounts is 0.7% (31 December 2003: 0%) and on bank deposits is 10%.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

5. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Receivable representing a 7.87% investment in Ak Bars Bank to be legally transferred to the Company from the Ministry of Land and Property Relationships of the Republic of Tatarstan.....	—	7,085
	<u>—</u>	<u>7,085</u>

6. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Receivable from TatInk relating to amounts deposited for the future acquisition of investments for the Company	90,094	—
Dividends receivable.....	1,473	—
Fixed assets, net.....	187	—
Other receivables	<u>100</u>	<u>—</u>
	<u>91,854</u>	<u>—</u>

Subsequent events

In March 2005 the deposit placed at TatInk was returned in full.

7. NET ASSETS

Share capital

As of 31 December 2004 the authorised and issued share capital comprised 377,450 ordinary shares (31 December 2003: 377,450) with a par value of 100,000 Roubles each.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation in the Russian Federation. At December 31, 2004 the reserves available for distribution according to legislation in the Russian Federation amount to U.S.\$ 330,996 thousand (31 December 2003: nil).

Interim dividends of U.S.\$ 2,767 thousand or U.S.\$ 7.33 per share were declared and paid in respect of the six month period ended 30 June 2004.

8. LOANS RECEIVABLE FROM / PAYABLE TO RELATED PARTIES

Loans payable to related parties

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Unsecured loan from the Ministry of Finance of the Republic of Tatarstan.....	252,268	—
Other unsecured loans from related parties.....	<u>—</u>	<u>2</u>
	<u>252,268</u>	<u>2</u>

As at 31 December 2004 the Company had a rouble denominated loan totalling RUR 7 billion (U.S.\$ 252,268 thousand) at an interest rate of 0.008% from the Ministry of Finance of the Republic of Tatarstan that is due on demand. The Company had no assets pledged as collateral for these borrowings.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

Loans receivable from related parties

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Loan to Tatneft	72,075	—
Loan to Nizhnekamskneftekhim.	18,019	—
	<u>90,094</u>	<u>—</u>

As at 31 December 2004 the Company had loaned RUR 2.5 billion (U.S.\$ 90,094 thousand) of the amount obtained from the Ministry of Finance on similar terms.

Subsequent events

Subsequent to the balance sheet date the Company repaid rouble denominated loans received from the Ministry of Finance of the Republic of Tatarstan totalling RUR 6 billion (U.S.\$ 216,226 thousand).

In February 2005 the loans issued to Tatneft and Nizhnekamskneftekhim were repaid in full.

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Accrued expenses for professional services	121	91
Other payables.	—	9
	<u>121</u>	<u>100</u>

10. DEFERRED TAX LIABILITIES

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2004 and 31 December 2003. These deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	<i>(In thousands of U.S. dollars)</i>					
Investments	—	—	(181,003)	(47,684)	(181,003)	(47,684)
Accounts receivable and other assets .	52	2	—	(46)	52	(44)
Accounts payable and accrued expenses	—	22	—	—	—	22
Net tax assets/(liabilities)	<u>52</u>	<u>24</u>	<u>(181,003)</u>	<u>(47,730)</u>	<u>(180,951)</u>	<u>(47,706)</u>

The rate of tax applicable for deferred taxes was 24% (2003: 24%). The majority of the deferred tax liability arises from the amount of income tax the Company would be required to pay if the investment portfolio was sold for its carrying amount.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003**

Movement in temporary differences during the period

	Balance 31 December 2003	Recognised in income tax expense	Balance 31 December 2004
	<i>(In thousands of U.S. dollars)</i>		
Investments	(47,684)	(133,319)	(181,003)
Accounts receivable and other assets	(44)	96	52
Accounts payable and accrued expenses.....	22	(22)	—
	<u>(47,706)</u>	<u>(133,245)</u>	<u>(180,951)</u>

11. INCOME TAX EXPENSE

	Period ended 31 December 2004	Period ended 31 December 2003
	<i>(In thousands of U.S. dollars)</i>	
Current tax expense		
Current year expense	78	—
Deferred tax expense		
Origination and reversal of temporary differences	133,245	64,959
	<u>133,323</u>	<u>64,959</u>

The Company's applicable tax rate is the corporate income tax rate of 24% (31 December 2003: 24%) and 24% for measuring deferred taxes (31 December 2003: 24%).

Reconciliation of effective tax rate

	Period ended 31 December 2004	%	Period ended 31 December 2003	%
	<i>(In thousands of U.S. dollars)</i>			
Net increase in net assets resulting from operations before tax	574,281	—	270,665	—
Income tax at applicable tax rate.....	137,827	24%	64,960	24%
Net non-deductible/(non-taxable items)	(4,504)	(0.8%)	(1)	—
Income tax expense	<u>133,323</u>	<u>23.2%</u>	<u>64,959</u>	<u>24%</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates the fair value of its financial assets and liabilities to not be materially different from their carrying values. The estimate of fair value is intended to approximate the amount at which the instruments could be exchanged in a current transaction between willing parties. It is subject to management judgment and economic uncertainties, and should not be interpreted as being realizable in an immediate settlement of the instruments.

13. COMMITMENTS AND CONTINGENCIES

Litigation

The Company's management is unaware of any actual, pending or threatened claims against the Company.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the relevant authorities may have differing interpretations and the effects could be significant.

14. RELATED PARTIES

Principal shareholder

The shareholder of the Company is the Ministry of Land and Property Relationship of the Republic of Tatarstan with a holding of 100%. The Government of the Republic of Tatarstan also owns, controls, or has influence over the operations of many other significant companies and enterprises in the Republic of Tatarstan and has a significant influence on the local economy. The Company's activities are significantly linked to companies owned or controlled by the Government.

Related party transactions are included in notes 4, 5 and 8.

15. FINANCIAL HIGHLIGHTS

The Company follows the Guide issued by the AICPA. According to the Guide, financial highlights should consist of total return, ratio of expenses to average net assets and ratio of net investment income/(loss) to average net assets for the most recent reporting period. The AICPA Technical Practice Aid, issued in February 2002, provides guidance in calculating the ratios.

	31 December 2004	31 December 2003
Ratios to average net assets		
Ratio of net investment income/(loss).....	1.80%	(0.007)%
Ratio of expenses	(0.04%)	(0.007)%
Total return	36.94%	33.68 %

Ratios to average net assets are computed as period end net investment income and expenses divided by the average net assets.

Total return represents the annualized change in net assets during the year divided by the beginning of the year balance of net assets.

16. DIVIDEND AND INTEREST INCOME

Dividends declared and recognised as revenue in 2004 amounted to U.S.\$ 30,830 thousand of which U.S.\$ 1,473 thousand remained outstanding as at 31 December 2004 (refer to note 6).

Interest income of U.S.\$ 352 thousand was accrued and paid during 2004.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003

17. ACQUISITION VALUE

The acquisition value of investments is as follows:

	31 December 2004	31 December 2003
Value of investments contributed by the shareholder	1,118,178	1,128,678
Value of investments purchased from other parties	1,376	—
.....	1,119,554	1,128,678

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Open Joint Stock Company "Svyazinvestneftekhim"

We have audited the accompanying statements of assets and liabilities, including the schedule of investments, of the Open Joint Stock Company "Svyazinvestneftekhim" ("the Company") as of 30 September 2004 and 31 December 2003, and the related statements of operations, changes in net assets, and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 30 September 2004 and 31 December 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 (c), the financial statements include investments valued at U.S.\$ 936,007 thousand at 30 September 2004 (42 per cent. of total assets) and U.S.\$ 663,297 thousand at 31 December 2003 (45 per cent. of total assets), whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

KPMG Limited
Moscow, Russian Federation
21 February 2005

STATEMENTS OF ASSETS AND LIABILITIES
AS OF 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

		30 September 2004	31 December 2003
	Note	<i>(in thousands of U.S. dollars)</i>	
Assets			
Investments, at fair value (Acquisition value at 30 September 2004 U.S.\$1,128,312 thousand, acquisition value at 31 December 2003, U.S.\$1,128,678 thousand)		2,111,357	1,473,257
Cash and cash equivalents	4	9,474	1
Loans receivable from related parties	8	68,453	—
Accounts receivable from related parties	5	8,912	7,085
Accounts receivable and other assets	6	<u>19,108</u>	<u>—</u>
Total assets		<u>2,217,304</u>	<u>1,480,343</u>
Liabilities			
Loans payable to related parties	8	85,758	2
Notes payable to related parties	9	426	
Accounts payable and accrued expenses	10	208	100
Deferred tax liabilities	11	<u>198,603</u>	<u>47,706</u>
Total liabilities		<u>284,995</u>	<u>47,808</u>
Net assets			
Share capital	7	1,206,570	1,206,570
Addition paid in capital		(54,636)	(54,636)
Accumulated other comprehensive income		85,189	74,895
Retained earnings		<u>695,186</u>	<u>205,706</u>
Total net assets		<u>1,932,309</u>	<u>1,432,535</u>
Total liabilities and net assets		<u>2,217,304</u>	<u>1,480,343</u>

STATEMENTS OF OPERATIONS
FOR THE PERIODS ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

		Period ended	Period ended
		30 September 2004	31 December 2003
	Note	<i>(in thousands of U.S. dollars)</i>	
Dividends (net of withholding taxes of U.S.\$920 thousand)		14,415	
Interest income		<u>85</u>	<u>—</u>
Investment income		14,500	—
Legal and professional expenses.....		(229)	(91)
Administrative expenses		<u>(173)</u>	<u>(9)</u>
Total expenses		(402)	(100)
Net investment income/(loss)		<u>14,098</u>	<u>(100)</u>
Net increase in unrealised appreciation on investments.....		<u>629,066</u>	<u>270,765</u>
Net unrealised gain from investments		629,066	270,765
Income tax expense	12	(150,917)	(64,959)
Net increase in net assets resulting from operations ..		<u>492,247</u>	<u>205,706</u>

STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

	Period ended	Period ended
	30 September 2004	31 December 2003
	<i>(in thousands of U.S. dollars)</i>	
Cash flow from operating and investment activities		
Interest and dividend income	12,773	
Purchase of long-term investments	(100)	—
Operating expenditure	(311)	(9)
Increase in accounts payable and accrued expenses	17	9
Advance to TatInk for acquisition of investments	(17,323)	—
Loan provided to Tatneft	(68,446)	—
	<u> </u>	<u> </u>
Cash flows used in operating and investing activities	(73,390)	—
Financing activities		
Proceeds from borrowings	85,750	2
Dividends paid	(2,766)	—
Cash flows from financing activities	82,984	2
Net increase in cash and cash equivalents	9,594	2
Cash and cash equivalents at the beginning of period	1	
Effect of exchange rate fluctuations	(121)	(1)
Cash and cash equivalents at the end of period	<u>9,474</u>	<u>1</u>

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE PERIODS ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Retained earnings</u>	<u>Other comprehensive income</u>	<u>Total</u>
	<i>(in thousands of U.S. dollars)</i>				
Balance as of 11 April 2003	—	—	—	—	—
Contribution of investments by the shareholder	1,206,570	(54,636)	—	—	1,151,934
Net investment loss	—	—	(100)	—	(100)
Net increase in unrealised appreciation on investments	—	—	270,765	—	270,765
Income tax expense	—	—	(64,959)	—	(64,959)
Translation adjustment	—	—	—	74,895	74,895
Balance as of 31 December 2003.....	<u>1,206,570</u>	<u>(54,636)</u>	<u>205,706</u>	<u>74,895</u>	<u>1,432,535</u>
Net investment income	—	—	14,098	—	14,098
Net increase in unrealised appreciation on investments	—	—	629,066	—	629,066
Dividends paid	—	—	(2,767)	—	(2,767)
Income tax expense	—	—	(150,917)	—	(150,917)
Translation adjustment	—	—	—	10,294	10,294
Balance as of 30 September 2004	<u>1,206,570</u>	<u>(54,636)</u>	<u>695,186</u>	<u>85,189</u>	<u>1,932,309</u>

**SCHEDULE OF INVESTMENTS
FOR THE PERIODS ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

	30 September 2004			31 December 2003		
	Acquisition Value	Fair Value	Direct ownership	Acquisition Value	Fair Value	Direct ownership
<i>(in thousands of U.S. dollars)</i>						
Investment by Industry⁽¹⁾⁽³⁾						
Financial Services (2%)						
Ak Bars Bank – ordinary shares	13,577	19,242	19%	13,391	16,915	18.79%
Ak Bars Holding Company – ordinary shares	6,771	8,300	40.62%	8,300	9,700	50.62%
Investneftekhim – ordinary shares	13,000	15,000	99.93%	13,000	14,000	99.93%
Tatneftekhiminvest Holding – ordinary shares	1,120	4,330	51.49%	1,120	1,400	51.49%
Telecommunication (3.7%)						
KGTS – ordinary shares	5,213	9,000	43.22%	5,000	7,000	40.42%
Tattelekom – ordinary shares	45,000	69,000	100%	45,000	41,000	100%
Chemical (22%)						
Kazanorgsintez – ordinary shares ⁽²⁾⁽⁴⁾	17,000	78,000	26.64%	17,000	31,000	26.64%
Nizhnekamskneftekhim – ordinary shares	228,000	387,240	35.20%	228,000	264,000	35.20%
NII Neftepromkhim – ordinary shares	61	71	25%	61	72	25%
Petrokam – ordinary shares	10,500	10,500	54.5%	10,500	10,500	54.5%
TKNK – ordinary shares	20	20	9.09%	—	—	—
Manufacturing (1%)						
Kazancompressormash – ordinary shares	8,000	9,000	50.01%	8,000	13,000	50.01%
Kazan Engine Building Plant – ordinary shares	4,770	5,670	25.88%	4,770	5,730	25.88%
Oil and Gas (58%)						
Tatneft						
– ordinary shares	584,261	1,097,277	30.444%	584,261	778,910	30.444%
– preferred shares	45	73	0.004%	45	50	0.004%
Nefteconsortium – ordinary shares	230	490	25.02%	230	480	25.02%
North-West Trunk Pipelines – ordinary shares	58,000	101,000	36%	58,000	91,000	36%
Tatnefteproduct – ordinary shares	2,000	2,400	37.93%	2,000	2,500	37.93%
Pharmaceutical (0.2%)						
Tatkhimpreparati – ordinary shares	2,000	5,000	100%	2,000	3,000	100%
Energy (14%)						
Tatenergo – ordinary shares	128,000	289,000	51%	128,000	183,000	51%
Taterergospetsremont – ordinary shares	744	744	51%	—	—	—
	<u>1,128,312</u>	<u>2,111,357</u>		<u>1,128,678</u>	<u>1,473,257</u>	

Note:

- (1) Percentages indicated are based on investment portfolio as of 30 September 2004.
- (2) Open Joint Stock Company “Svyazinvestneftekhim” (“the Company”) also holds 0.19 per cent., 0.004 per cent. and 0.001 per cent. of the preferred shares of KGTS, Kazanorgsintez and Nizhnekamskneftekhim, respectively, which are not material to the Company’s portfolio of investments.
- (3) All investments are in companies operating in Russia.
- (4) As at the balance sheet date shares of Kazanorgsintez were pledged as collateral in respect of an obligation to sell these shares under an agency agreement. Subsequent to the balance sheet date the agency agreement was cancelled (refer to “cancellation of agreements” in note 17).

The schedule of investments is to be read in conjunction with the notes to and forming part of the financial statements set out on pages F-22 to F-29.

1. BACKGROUND

(a) Organisation and operations

The Open Joint Stock Company “Svyazinvestneftekhim” (“the Company”) is located in Kazan, Republic of Tatarstan, Russian Federation. The Company was incorporated as open joint stock company on 11 April 2003 and its primary activity is investments into equity securities of companies located in the Republic of Tatarstan.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change 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 Company. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).

The Company follows investment specialized accounting practices contained in the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide — Audits of Investment Companies (the “Guide”), which requires investment companies to account for their majority owned investments at fair value, as opposed to consolidation or equity methods, as such provides more useful information to users of the financial statements regarding performance of an investment company. The American Institute of Certified Public Accountants and the Financial Accounting Standards Board are currently developing a Statement of Position on the clarification of the scope of the Guide that could redefine the criteria applied to determine whether an entity is an investment company under the Guide.

These financial statements of the Company have been prepared for the period from the date of incorporation to 31 December 2003, and for the 9 month period ending 30 September 2004.

(b) Functional and Reporting Currency

The Company has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. The Company has elected to use the US Dollar as its reporting currency in these financial statements.

For the periods ended 30 September 2004 and 31 December 2003 translation from the Company’s functional currency to reporting currency was conducted as follows:

- all assets and liabilities were translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at their historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

As of 30 September 2003 and 31 December 2003, exchanges rates of 29.22 and 29.45 Russian roubles to the US dollar, respectively, have been used for translation purposes. The weighted average exchange rates used were 28.91 and 30.69 Russian roubles to the US dollar for the periods ended 30 September 2004 and 31 December 2003, respectively.

(c) Convertibility of the Russian rouble

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

(d) 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 Company's assets, as well as the future operations of the Company, 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 Company 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 accounting policies have been consistently applied.

(a) Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include the valuation of investments. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an initial term of less than three months.

(c) Investments

Securities owned by the Company for which market quotations are readily available are valued at the closing price on the valuation date. Securities which are not publicly traded and for which no quotations are readily available are valued at their fair value as determined in good faith by the Board of Directors of the Company. In making the good faith determination, the securities fair value is adjusted when transactions or developments indicate that a change in carrying value of the securities is appropriate. Reductions to the carrying value of these securities are made when the Company's estimate of net realizable value has declined below the carrying value.

Because of the inherent uncertainty of valuation, fair values determined by the Board of Directors may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(d) Trade and other receivables

Trade and other receivables are recorded at their transaction amounts less provision for doubtful debts. Provision for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be obtained.

(e) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation. Fixed assets are depreciated on a straightline basis over their estimated useful lives, which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

(f) Interest-bearing liabilities

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortised at a constant rate over the term of the borrowing.

(g) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in net assets. Repurchased shares are classified as treasury shares and are presented as a deduction from total net assets.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(h) Income tax

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109 Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Revenue and expense recognition

Investment transactions are recorded as of the transaction date. Realized and unrealized gains and losses on investment securities are recorded in statement of operations. Interest and dividend income is recognized on an accrual basis with dividend income being accrued when the dividend is declared. Other income items are recorded when the related transactions are completed and income is reasonably determinable.

(j) Employee benefits

The Company pays into the Russian Federation State Pension Fund a percentage of each employee’s wage based on a scale as specified in, and required by the Russian Tax Code. These amounts are expensed when they are incurred.

(k) Operating lease payments

Payments made under operating leases are recognized in the consolidated income statement as expenses as incurred.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise local bank balances and call deposits.

	30 September 2004	31 December 2003
	<i>(in thousands of U.S. dollars)</i>	
Rouble bank accounts at Ak Bars bank-related party	917	1
Rouble bank deposits at Tatfond bank.	8,557	—
	<u>9,474</u>	<u>1</u>

As of 30 September 2004 the effective interest rate on bank accounts is 0 per cent. (31 December 2003: 0 per cent.) and on bank deposits is 10 per cent.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

5. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	<u>30 September 2004</u>	<u>31 December 2003</u>
	<i>(in thousands of U.S. dollars)</i>	
Receivable from Reserve Fund on Government Debt Service of the Republic of Tatarstan with respect to the sale of 7.66 per cent. of Ak Bars Bank due 30 December 2004	6,764	—
Receivable from FinEcoStroy with respect to the sale of 10 per cent. of Ak Bars Holding Company due 1 October 2004	1,529	—
Receivable representing a 2.78 per cent. investment in Kazan City Telephone Network to be legally transferred to the Company from the Reserve Fund on Government Debt Service of the Republic of Tatarstan.	619	—
Receivable representing a 7.87 per cent. investment in Ak Bars Bank to be legally transferred to Company from the Ministry of Land and Property Relationships of the Republic of Tatarstan	—	7,085
	<u>8,912</u>	<u>7,085</u>

6. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	<u>30 September 2004</u>	<u>31 December 2003</u>
	<i>(in thousands of U.S. dollars)</i>	
Receivable from TatInk relating to amounts deposited for the future acquisition of investments for the Company	17,113	—
Dividends receivable	1,727	—
Prepaid expenses	5	—
Fixed assets, net	186	—
Other receivables	77	—
	<u>19,108</u>	<u>—</u>

7. NET ASSETS

Share capital

As of 30 September 2004 the authorised and issued share capital comprised 377,450 ordinary shares (31 December 2003: 377,450) with a par value of 100,000 Roubles each.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation in the Russian Federation. At 30 September 2004 the reserves available for distribution amount to U.S.\$ 11,596 thousand (31 December 2003: nil).

Pursuant to board of directors' resolution dated September 6, 2004 interim dividends of U.S.\$ 2,767 thousand or U.S.\$ 7.33 per share were declared and paid in respect of period ended 30 June 2004.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

8. LOANS RECEIVABLE FROM / PAYABLE TO RELATED PARTIES

Loan payable to related party

	<u>30 September 2004</u>	<u>31 December 2003</u>
	<i>(in thousands of U.S. dollars)</i>	
Unsecured borrowings from the Reserve Fund on Government Debt Service of the Republic of Tatarstan	192	—
Unsecured borrowings from the Ministry of Finance of the Republic of Tatarstan	85,566	
Other unsecured borrowings from related parties	<u>—</u>	<u>2</u>
	<u>85,758</u>	<u>2</u>

As at 30 September 2004 the Company obtained a rouble denominated loan totalling RUR 2.5 billion (U.S.\$ 85,566 thousand) at an interest rate of 0.008 per cent. from the Ministry of Finance of the Republic of Tatarstan that is due on demand. The Company had no assets pledged as collateral for these borrowings.

Loan receivable from related party

On 30 September 2004, the Company loaned RUR 2 billion (U.S.\$ 68,453 thousand) of the amount obtained from the Ministry of Finance to Tatneft on similar terms.

9. NOTES PAYABLE TO RELATED PARTIES

At 30 September 2004 the Company had two rouble denominated notes payable to the Reserve Fund on Government Debt Service of the Republic of Tatarstan with interest rates of 0 per cent. and maturing in December 2004.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<u>30 September 2004</u>	<u>31 December 2003</u>
	<i>(in thousands of U.S. dollars)</i>	
Accrued expenses on professional services	182	91
Other payables	<u>26</u>	<u>9</u>
	<u>208</u>	<u>100</u>

11. DEFERRED TAX LIABILITIES

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2003 and 30 September 2004. Deferred tax assets and liabilities are attributable to the following items:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>30 September 2004</u>	<u>31 December 2003</u>	<u>30 September 2004</u>	<u>31 December 2003</u>	<u>30 September 2004</u>	<u>31 December 2003</u>
	<i>(in thousands of U.S. dollars)</i>					
Investments	—	—	(198,609)	(47,684)	(198,609)	(47,684)
Accounts receivable and other assets	78	2	(116)	(46)	(38)	(44)
Accounts payable and accrued expenses	<u>44</u>	<u>22</u>	<u>—</u>	<u>—</u>	<u>44</u>	<u>22</u>
Net tax assets/(liabilities)	<u>122</u>	<u>24</u>	<u>(198,725)</u>	<u>(47,730)</u>	<u>(198,603)</u>	<u>(47,706)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2004 AND 31 DECEMBER 2003**

The rate of tax applicable for deferred taxes was 24 per cent. (2002: 24 per cent.). The majority of the deferred tax liability arises from the amount of income tax the Company would be required to pay if the investment portfolio was sold for its carrying amount.

Movement in temporary differences during the year

	Balance 31 December 2003	Recognised in income tax expense	Balance 30 September 2004
	<i>(in thousands of U.S. dollars)</i>		
Investments.....	(47,684)	(150,925)	(198,609)
Accounts receivable and other assets.....	(44)	6	(38)
Accounts payable and accrued expenses.....	22	22	44
	<u>(47,706)</u>	<u>(150,897)</u>	<u>(198,603)</u>

12. INCOME TAX EXPENSE

	Period ended 30 September 2004	Period ended 31 December 2003
	<i>(in thousands of U.S. dollars)</i>	
<i>Current tax expense</i>		
Current year expense.....	20	—
	<u>20</u>	<u>—</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences.....	150,897	64,959
	<u>150,917</u>	<u>64,959</u>

The Company's applicable tax rate is the corporate income tax rate of 24 per cent. (31 December 2003: 24 per cent.) and 24 per cent. for measuring deferred taxes (31 December 2003: 24 per cent.).

Reconciliation of effective tax rate

	Period ended 30 September 2004	%	Period ended 31 December 2003	%
	<i>(in thousands of US dollars)</i>			
Net increase in net assets resulting from operations before tax	643,164	—	270,665	—
Income tax at applicable tax rate	154,359	24%	64,960	24%
Net non-deductible/(non-taxable items)	<u>(3,442)</u>	<u>(0.5%)</u>	<u>(1)</u>	<u>—</u>
Income tax expense	150,917	23.5%	64,959	24%

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates the fair value of its financial assets and liabilities to not be materially different from their carrying values. The estimate of fair value is intended to approximate the amount at which the instruments could be exchanged in a current transaction between willing parties. It is subject to management judgment and economic uncertainties, and should not be interpreted as being realizable in an immediate settlement of the instruments.

14. COMMITMENTS AND CONTINGENCIES

Litigation

The Company's management is unaware of any actual, pending or threatened claims against the Company.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among the 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 Russia substantially more significant than in other countries. Management believes that it has adequately provided for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

15. RELATED PARTIES

Principle shareholder

The shareholder of the Company is the Ministry of Land and Property Relationship of the Republic of Tatarstan with a holding of 100 per cent. The Government of the Republic of Tatarstan also owns, controls, or has influence over the operations of many other significant companies and enterprises in the Republic of Tatarstan and has a significant influence on the local economy. The Company's activities are significantly linked to companies owned or controlled by the Government.

Related party transactions are included in notes 4, 5, 8 and 9.

16. FINANCIAL HIGHLIGHTS

The Company follows the Guide issued by the AICPA. According to the Guide, financial highlights should consist of total return, ratio of expenses to average net assets and ratio to net investment income/(loss) to average net assets for the most recent reporting period. The AICPA Technical Practice Aid, issued in February 2002, provides guidance in calculating the ratios.

	30 September 2004	31 December 2003
Ratios to average net assets		
Ratio of net investment income/(loss)	0.84%	(0.007)%
Ratio of expenses	<u>0.02%</u>	<u>(0.007)%</u>
Total return	<u>46.52%</u>	<u>33.68%</u>

Ratios to average net assets are computed as period end net investment income and expenses divided by the average net assets.

Total return represents the annualized change in net assets during the year divided by the beginning of the year balance of net assets.

17. SUBSEQUENT EVENTS

Loan issued and obtained

Subsequent to the balance sheet date the Company received rouble denominated loans from the Ministry of Finance of the Republic of Tatarstan totalling RUR 4.5 billion (U.S.\$ 154,004 thousand). These loans bear interest at 0,008 per cent. and mature on demand. In February 2005 RUR 2.5 billion (U.S.\$ 107,025 thousand) of these loans was repaid.

In February 2005 RUR 1 billion (U.S.\$ 35,675 thousand) of the loan issued to Tatneft (refer to note 8) was repaid.

In October 2004 the Company issued a rouble denominated loan amounting to RUR 1.5 billion (U.S.\$ 51,340 thousand) to Nizhnekamskneftekhim. The loan bears interest at 0.015 per cent. and matures on demand. In February 2005 this loan was repaid in full.

Deposit placed

In October 2004 the Company provided a deposit of RUR 2 billion (U.S.\$ 68,453 thousand) to TatInk for the future acquisition of investments.

In February 2005 the Company placed deposits of RUR 1.7 billion (U.S.\$ 58,185 thousand) at a local Bank.

Dividends received

In December 2004 the Company received interim dividends from investees of RUR 462,700 thousand (U.S.\$ 15,837 thousand) which were declared subsequent to 30 September 2004.

Cancellation of agreements

In December 2004 the agreements relating to the sale of 7.66 per cent. of Ak Bars Bank and 10 per cent. of Ak Bars Holding Company were cancelled and these shares were returned to the Company (refer note 5).

In December 2004 the agreements relating to pledge of shares of Kazanorgsintez as collateral to sell these shares under an agency agreement were cancelled (refer to “pledged shares” in the Schedule of investments).

Changing in investments

In December 2004 the Company contributed 11.36 per cent. of the ordinary shares of Nizhnekam-skneftekhim in exchange for additional charter capital in Investneftekhim. Further, in December 2004 Investneftekhim exchanged this 11.36 per cent. of the ordinary shares of Nizhnekam-skneftekhim for 3.36 per cent. of the ordinary shares of Tatneft.

Disposals of investment

In October 2004 the Company sold its investment in Petrokam. The sales price for this investment was U.S.\$ 10,500 thousand.

APPENDIX A

FINANCIAL STATEMENTS UNDER RUSSIAN GAAP OF TATNEFT, NIZHNEKAMSKNEFTEKHIM AND TATENERGO

Set out below are Russian GAAP financial statements of each of Tatneft, NKNK and Tatenergo as at and for the years ended 31 December 2003 and 2004 and the interim unaudited Russian GAAP financial statements of each of Tatneft, NKNK and Tatenergo as at 31 March 2005 and for the three month periods ended 31 March 2004 and 2005. There are significant differences between Russian GAAP and U.S. GAAP and IFRS, and financial statements prepared according to each standard should not be regarded as being comparable. Russian accounting legislation is in its early stages of development and has been subject to change on a regular basis in recent years. Interpretation of Russian GAAP varies and the reported financial results of similar entities within an industry may be materially different as a result of such interpretation. See “Risk Factors — Risk factors relating to SINEK — The financial and other information concerning SINEK and its portfolio companies may be unreliable” and “Appendix B: Summary of Significant Differences between Russian GAAP and IFRS”.

TATNEFT
RUSSIAN GAAP
BALANCE SHEET

Assets	As at 31 December		As at 31 March
	2004 (Audited)	2003 (Audited)	2005 (Unaudited)
	<i>(RUR thousands)</i>		
I. NON—CURRENT ASSETS			
Intangible assets	100,265	123,865	87,809
Fixed assets	53,128,184	49,086,060	53,409,963
Construction in progress	5,038,185	7,175,290	3,455,985
Income- bearing lease investments	—	—	—
Long- term financial investments	17,127,255	13,528,801	20,581,219
Deferred tax assets	—	—	—
Other non—current assets	—	—	—
Total Section I	<u>75,393,889</u>	<u>69,914,016</u>	<u>77,534,976</u>
II. CURRENT ASSETS			
Inventories	9,087,018	11,888,499	10,689,635
including:			
Raw materials and other inventories	1,430,773	1,444,380	1,495,197
Biological assets	359	297	112
Work in progress	110,580	227,805	216,775
Finished goods and goods for resale	4,245,753	4,502,218	4,701,725
Goods dispatched	1,611,188	4,232,642	2,499,379
Deferred expenses	1,688,365	1,481,157	1,776,447
Other inventories and expenses	—	—	—
Value Added Tax on goods purchased	4,100,128	3,931,527	3,778,544
Accounts receivable (payment expected beyond 12 months of the reporting date)	3,505,526	3,145,045	3,800,722
including:			
Buyers and customers	286,206	339,171	564,084
Accounts receivable (payment expected within 12 months of the reporting date)	24,167,204	17,344,245	25,525,452
including:			
Buyers and customers	15,708,365	11,695,215	16,055,444
Short-term investments	20,035,935	8,628,732	10,499,034
Cash and cash equivalents	3,810,907	755,664	4,305,682
Other current assets	15	15	0
Total Section II	<u>64,706,733</u>	<u>45,693,727</u>	<u>58,599,069</u>
TOTAL SECTIONS I and II	<u>140,100,622</u>	<u>115,607,743</u>	<u>136,134,045</u>

TATNEFT
RUSSIAN GAAP
BALANCE SHEET

	As at 31 December		As at 31 March
Equity and liabilities	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
III. EQUITY AND RESERVES			
Charter capital	2,326,199	2,326,199	2,326,199
Treasury shares	—	—	—
Additional capital	39,191,078	39,559,656	39,642,514
Legal reserve	542,299	381,918	542,299
including:			
Reserves and provisions formed in accordance with legislation	116,310	116,310	116,310
Reserves formed in accordance with charter documents.	425,989	265,608	425,989
Retained earnings	<u>63,545,430</u>	<u>38,977,197</u>	<u>70,288,694</u>
Total Section III	<u>105,605,006</u>	<u>81,244,970</u>	<u>112,799,706</u>
IV. NON-CURRENT LIABILITIES			
Borrowings and bank loans	11,125,929	11,491,279	7,658,320
Deferred tax liabilities	1,530,684	564,808	1,538,114
Other non-current liabilities	—	—	—
Total Section IV	<u>12,656,613</u>	<u>12,056,087</u>	<u>9,196,434</u>
V. CURRENT LIABILITIES			
Borrowings and bank loans	9,112,476	13,407,739	3,840,145
Accounts payable	11,689,082	7,241,979	9,793,868
including:			
Suppliers and contractors.	4,815,092	3,637,216	3,529,286
Payable to staff	351,414	289,047	396,547
Payable to state non-budget funds	98,850	97,815	129,197
Payable to budget (taxes)	5,681,803	2,523,771	4,683,545
Other creditors	741,923	694,130	1,055,293
Payable to participants (shareholders)	20,311	812,394	21,210
Deferred income	239,530	50,323	290,998
Reserves for future expenses and payments.	777,604	794,251	191,684
Other current liabilities	—	—	—
Total Section V	<u>21,839,003</u>	<u>22,306,686</u>	<u>14,137,905</u>
TOTAL SECTIONS III, IV, V	<u>140,100,622</u>	<u>115,607,743</u>	<u>136,134,045</u>

TATNEFT
RUSSIAN GAAP
BALANCE SHEET

REFERENCE ON ITEMS ACCOUNTED ON OFF-BALANCE SHEET ACCOUNTS	As at 31 December		As at 31 March
	2004 (Audited)	2003 (Audited)	2005 (Unaudited)
	<i>(RUR thousands)</i>		
Rented fixed assets	4,582,971	3,644,765	4,694,736
Thereof by leasing	3,310,674	2,452,168	3,424,732
Working and fixed assets received for storing	256,175	467,955	174,084
Goods on commission	—	—	—
Bad debts of insolvent debtors written off to losses ...	1,139,610	860,668	1,138,006
Securities of liabilities and payments received	—	—	—
Securities of liabilities and payments issued	1,988,857	1,605,732	2,042,446
Housing stock depreciation	19,064	28,845	20,290
Depreciation of auxiliary engineering facilities and other similar items	2,436	6,538	2,416

TATNEFT
RUSSIAN GAAP
PROFIT AND LOSS ACCOUNT

Assets	Year ended 31 December		Three months ended 31 March	
	2004 (Audited)	2003 (Audited)	2005 (Unaudited)	2004 (Unaudited)
	<i>(RUR thousands)</i>			
I. Income from and expenses on ordinary activity				
Sales of goods, products, work, services (less Value Added Tax, excises, and other similar compulsory payments)	150,793,011	116,631,740	34,989,253	32,234,762
Cost of goods, products, work, services sold	<u>(98,653,192)</u>	<u>(87,882,547)</u>	<u>(23,131,095)</u>	<u>(21,714,922)</u>
Total revenue	<u>52,139,819</u>	<u>28,749,193</u>	<u>11,858,158</u>	<u>10,519,840</u>
Sales expenses	(10,651,085)	(9,283,062)	(2,551,044)	(2,251,895)
General business expenses	—	—	—	—
Gross profit (loss) from sales	<u>41,488,734</u>	<u>19,466,131</u>	<u>9,307,114</u>	<u>8,267,945</u>
II. Operating income and expenses				
Interest income	661,398	90,656	223,900	39,875
Interest expenses	(1,390,786)	(1,946,601)	(249,623)	(404,604)
Income from investments in other companies	797,347	185,677	45,158	98,110
Other operating income	131,992,024	40,999,912	48,103,823	13,299,615
Other operating expenses	(134,184,198)	(42,568,269)	(48,839,059)	(13,610,849)
III. Non-sale profit and losses				
Non-sale profit	5,233,070	4,311,592	498,558	2,980,463
Non-sale losses	<u>(8,383,179)</u>	<u>(4,044,267)</u>	<u>(2,018,547)</u>	<u>(2,690,166)</u>
Income (loss) from operations	<u>36,214,410</u>	<u>16,494,831</u>	<u>7,071,324</u>	<u>7,980,389</u>
Deferred tax assets	—	—	—	—
Deferred tax liabilities	(965,876)	(655,713)	(7,430)	(313,003)
Income tax	<u>(10,622,890)</u>	<u>(4,424,474)</u>	<u>(1,760,745)</u>	<u>(2,185,605)</u>
Retained earnings (loss) of the reporting year	<u>24,625,644</u>	<u>11,414,644</u>	<u>5,303,149</u>	<u>5,481,781</u>
REFERENCE.				
Permanent deferred tax liabilities (assets)	(1,978,075)	(897,630)	(97,987)	(556,729)
Basic income (loss) per common share	11.24	5.17	—	—
Diluted income (loss) per common share	11.24	5.17	—	—

NIZHNEKAMSKNEFTEKHIM
RUSSIAN GAAP
BALANCE SHEET

	As at 31 December		As at 31 March
Assets	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
I. NON-CURRENT ASSETS			
Intangible assets	183	200	226
Fixed assets	15,096,224	11,155,853	14,888,131
Construction in progress	2,985,277	6,781,573	3,737,122
Income-bearing lease investments	—	—	—
Long-term financial investments	5,201,517	3,526,067	5,645,100
Deferred tax assets	84,426	34,887	92,175
Other non-current assets	—	—	—
Total Section I	<u>23,367,627</u>	<u>21,498,580</u>	<u>24,362,754</u>
II. CURRENT ASSETS			
Inventories	3,817,542	3,248,648	4,421,656
including:			
Raw materials and other inventories	2,117,523	1,646,270	2,044,120
Biological assets	1	1	1
Work in progress	841,682	722,292	989,028
Finished goods and goods for resale	226,112	224,450	330,263
Goods dispatched	219,045	241,172	367,922
Deferred expenses	413,180	414,463	690,322
Other inventories and expenses	—	—	—
Value Added Tax on goods purchased	646,733	697,114	974,389
Accounts receivable (payment expected beyond 12 months of the reporting date)	—	—	—
including:			
Buyers and customers	—	—	—
Accounts receivable (payment expected within 12 months of the reporting date)	5,186,905	2,411,117	5,247,267
including:			
Buyers and customers	1,669,316	1,278,072	1,960,116
Short-term investments	599,916	372,873	490,694
Cash and cash equivalents	1,798,177	297,680	1,753,961
Other current assets	145,010	107,568	132,321
Total Section II	<u>12,194,283</u>	<u>7,135,000</u>	<u>13,020,288</u>
TOTAL SECTIONS I and II	<u>35,561,910</u>	<u>28,633,580</u>	<u>37,383,042</u>

NIZHNEKAMSKNEFTEKHIM
RUSSIAN GAAP
BALANCE SHEET

	As at 31 December		As at 31 March
Equity and liabilities	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
III. EQUITY AND RESERVES			
Charter capital.....	1,830,240	1,830,240	1,830,240
Treasury shares.....	—	—	—
Additional capital.....	10,298,141	11,004,250	10,297,909
Legal reserve.....	112,445	20,933	112,445
including:			
Reserves and provisions formed in accordance with legislation.....	—	—	—
Reserves formed in accordance with charter documents.....	112,445	20,933	112,445
Target financing and receipts.....	448,141	913,861	448,141
Retained earnings previous years.....	4,763,083	4,607,024	8,089,695
Retained earnings reporting year.....	<u>3,326,528</u>	<u>—</u>	<u>816,624</u>
Total Section III.....	<u>20,778,578</u>	<u>18,376,308</u>	<u>21,595,054</u>
IV. NON-CURRENT LIABILITIES			
Borrowings and bank loans.....	7,174,263	6,349,832	7,231,113
Deferred tax liabilities.....	435,862	183,663	455,177
Other non-current liabilities.....	—	—	—
Total Section IV.....	<u>7,610,125</u>	<u>6,533,495</u>	<u>7,686,290</u>
V. CURRENT LIABILITIES			
Borrowings and bank loans.....	893,074	819,867	919,953
Accounts payable.....	6,148,657	2,772,891	7,133,900
including:			
Suppliers and contractors.....	2,651,559	1,725,179	3,621,196
Payable to staff.....	169,300	123,600	164,949
Payable to state non-budget funds.....	54,363	38,889	59,118
Payable to budget (taxes).....	602,161	241,614	328,232
Advances received.....	1,317,628	380,386	1,343,443
Other creditors.....	1,353,646	263,223	1,616,962
Payable to participants (shareholders).....	118,269	100,479	34,723
Deferred income.....	13,207	30,540	13,122
Reserves for future expenses and payments.....	—	—	—
Other current liabilities.....	—	—	—
Total Section V.....	<u>7,173,207</u>	<u>3,723,777</u>	<u>8,101,698</u>
TOTAL SECTIONS III, IV, V.....	<u>35,561,910</u>	<u>28,633,580</u>	<u>37,383,042</u>

NIZHNEKAMSKNEFTEKHIM
RUSSIAN GAAP
BALANCE SHEET

REFERENCE ON ITEMS ACCOUNTED ON OFF-BALANCE SHEET ACCOUNTS	As at 31 December		As at 31 March
	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
Rented fixed assets	33,339	43,094	33,339
Thereof by leasing.....	33,339	43,094	33,339
Working and fixed assets received for storing	10,109	4,328	5,781
Goods on commission	—	—	—
Bad debts of insolvent debtors written off to losses...	79,073	79,630	78,902
Securities of liabilities and payments received.....	39,810	39,810	35,386
Securities of liabilities and payments issued.....	776,230	316,000	986,076
Housing stock depreciation.....	9,499	7,482	10,004
Depreciation of auxiliary engineering facilities and other similar items	1,869	1,533	1,942
Cost of other assets.....	164,687	162,328	162,730

NIZHNEKAMSKNEFTEKHIM
RUSSIAN GAAP
PROFIT AND LOSS ACCOUNT

Narrative	Year ended 31 December		Three months ended 31 March	
	2004	2003	2005	2004
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	<i>(RUR thousands)</i>			
I. Income from and expenses on ordinary activity				
Sales of goods, products, work, services (less Value Added Tax, excises, and other similar compulsory payments)	33,882,196	24,960,316	10,828,265	6,853,591
Cost of goods, products, work, services sold	<u>(23,974,745)</u>	<u>(17,178,753)</u>	<u>(7,978,238)</u>	<u>(4,758,260)</u>
Total revenue	<u>9,907,451</u>	<u>7,781,563</u>	<u>2,850,027</u>	<u>2,095,331</u>
Sales expenses	(1,405,538)	(1,167,213)	(343,353)	(264,323)
General business expenses	<u>(1,910,277)</u>	<u>(1,403,792)</u>	<u>(475,763)</u>	<u>(378,689)</u>
Gross profit (loss) from sales	<u>6,591,636</u>	<u>5,210,558</u>	<u>2,030,911</u>	<u>1,452,319</u>
II. Operating income and expenses				
Interest income	19,281	17,583	11,836	3,494
Interest expenses	(428,046)	(309,142)	(106,137)	(102,831)
Income from investments in other companies	29,340	34,010	244	—
Other operating income	106,891	131,213	55,779	29,909
Other operating expenses	<u>(431,486)</u>	<u>(524,169)</u>	<u>(216,421)</u>	<u>(102,298)</u>
III. Non-sale profit and losses				
Non-sale profit	1,054,779	676,953	264,357	181,399
Non-sale losses	<u>(2,092,056)</u>	<u>(2,063,799)</u>	<u>(855,025)</u>	<u>(433,963)</u>
Income (loss) from operations	<u>4,850,339</u>	<u>3,173,207</u>	<u>1,185,544</u>	<u>1,028,029</u>
Deferred tax assets	49,539	34,887	7,749	10,978
Deferred tax liabilities	(252,198)	(183,663)	(19,315)	(129,066)
Income tax (current)	<u>(1,298,048)</u>	<u>(939,304)</u>	<u>(253,226)</u>	<u>(208,250)</u>
Income tax for previous periods	10,955	62,174	(103,533)	—
Other liabilities	<u>(34,059)</u>	<u>(8,738)</u>	<u>(595)</u>	<u>(985)</u>
Retained earnings (loss) of the reporting year	<u>3,326,528</u>	<u>2,138,563</u>	<u>816,624</u>	<u>700,706</u>
REFERENCE.				
Permanent deferred tax liabilities (assets)	337,599	329,733	83,484	79,705
Basic income (loss) per common share	—	—	—	—
Diluted income (loss) per common share	—	—	—	—

TATENERGO
RUSSIAN GAAP
BALANCE SHEET

Assets	As at 31 December		As at 31 March
	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
I. NON-CURRENT ASSETS			
Intangible assets	48,432	39	11,377
Fixed assets	2,041,055	1,778,591	1,567,571
Construction in progress	974,397	1,180,007	699,540
Income-bearing lease investments	—	—	—
Long-term financial investments.....	11,610,261	11,584,177	11,629,179
Deferred tax assets	3,557	7,153	328
Other non-current assets	—	—	—
Total Section I.....	14,677,702	14,549,967	13,907,995
II. CURRENT ASSETS			
Inventories	589,870	1,286,060	102,065
including:			
Raw materials and other inventories.....	489,537	1,144,167	26,573
Biological assets.....	2,784	2,529	—
Work in progress.....	1,441	1,136	8
Finished goods and goods for resale	14,359	25,228	33,526
Goods dispatched	—	—	—
Deferred expenses.....	81,717	103,621	41,958
Other inventories and expenses	32	9,379	—
Value Added Tax on goods purchased	559,234	582,863	506,165
Accounts receivable (payment expected beyond 12 months of the reporting date).....	732,247	170,972	705,362
Accounts receivable (payment expected within 12 months of the reporting date).....	4,390,713	3,702,427	6,294,107
Short-term investments	531,144	49,344	724,589
Cash and cash equivalents.....	1,087,227	567,409	3,004,647
Other current assets	—	3,628	—
Total Section II.....	7,890,435	6,362,703	11,336,935
TOTAL SECTIONS I and II.....	22,568,137	20,912,670	25,244,930

TATENERGO
RUSSIAN GAAP
BALANCE SHEET

Equities and Liabilities	As at 31 December		As at 31 March
	2004	2003	2005
	(Audited)	(Audited)	(Unaudited)
	<i>(RUR thousands)</i>		
III. EQUITY AND RESERVES			
Charter capital	15,052,264	15,280,000	15,052,264
Additional capital	—	—	—
Legal reserve	41,671	—	41,671
including:			
Reserves and provisions formed in accordance with legislation	—	—	—
Reserves formed in accordance with charter documents.	—	—	—
Target financing and receipts	15,218	61,309	15,352
Retained earnings previous years.	1,648,738	1,690,409	3,275,972
Retained earnings reporting year.	<u>1,627,234</u>	<u>—</u>	<u>1,073,043</u>
Total Section III	<u>18,385,125</u>	<u>17,031,718</u>	<u>19,458,302</u>
IV. NON-CURRENT LIABILITIES			
Borrowings and bank loans.	68,413	67,490	1,574,719
Deferred tax liabilities	2,667	5,234	121
Other non-current liabilities	—	—	—
Total Section IV	<u>71,080</u>	<u>72,724</u>	<u>1,574,840</u>
V. CURRENT LIABILITIES			
Borrowings and bank loans.	—	128,557	—
Accounts payable	3,948,307	3,528,727	4,127,461
including:			
Suppliers and contractors.	813,713	697,437	1,077,645
Bills payable.	—	—	—
Payable to daughter and associated companies	1,927,337	1,391,258	1,538,811
Payable to staff	11,070	137,740	21,652
Payable to state non-budget funds.	9,545	46,226	9,722
Payable to budget	57,894	289,679	294,802
Advances received	389,487	262,401	158,304
Other creditors	739,261	703,986	1,026,525
Payable to participants (shareholders)	—	—	—
Deferred income	163,625	150,877	84,327
Reserves for future expenses and payments.	—	—	—
Other current liabilities	—	67	—
Total Section V	<u>4,111,932</u>	<u>3,808,228</u>	<u>4,211,788</u>
TOTAL SECTIONS III, IV, V	<u>22,568,137</u>	<u>20,912,670</u>	<u>25,244,930</u>

TATENERGO
RUSSIAN GAAP
BALANCE SHEET

REFERENCE ON ITEMS ACCOUNTED ON OFF—BALANCE SHEET ACCOUNTS	As at 31 December		As at 31 March
	2004 (Audited)	2003 (Audited)	2005 (Unaudited)
	<i>(RUR thousands)</i>		
Rented fixed assets	12,951,041	11,535,784	54,149
Thereof by leasing	1,268,697	600,088	54,149
Working and fixed assets received for storing	489,890	104,952	21,214
Goods on commission	—	—	—
Bad debts of insolvent debtors written off to losses ...	515,689	465,396	528,830
Securities of liabilities and payments issued	1,166	196,661	200,823
Securities of liabilities and payments received	73,565	11,236	185,201
Housing stock depreciation	65	14,451	46
Depreciation of auxiliary engineering facilities and other similar items	865	795	17

TATENERGO
RUSSIAN GAAP
PROFIT AND LOSS ACCOUNT

Narrative	Year ended 31 December		Three months ended 31 March	
	2004 (Audited)	2003 (Audited)	2005 (Unaudited)	2004 (Unaudited)
	<i>(RUR thousands)</i>			
I. Income from and expenses on ordinary activity				
Sales of goods, products, work, services (less Value Added Tax, excises, and other similar compulsory payments) . .	21,372,817	17,223,612	7,250,202	6,084,082
Cost of goods, products, work, services sold	<u>(19,029,489)</u>	<u>(16,331,464)</u>	<u>(5,822,946)</u>	<u>(4,784,965)</u>
Total revenue	<u>2,343,328</u>	<u>892,148</u>	<u>1,427,256</u>	<u>1,299,117</u>
Sales expenses	—	(3,436)	—	—
General business expenses.	—	—	—	—
Gross profit (loss) from sales	<u>2,343,328</u>	<u>888,712</u>	<u>1,427,256</u>	<u>1,299,117</u>
II. Operating income and expenses				
Interest income	21,573	5,476	4,561	155
Interest expenses	(7,114)	(22,610)	(5,597)	(841)
Income from investments in other companies.	7,659	12,243	—	—
Other operating income	2,089,318	2,993,892	1,176,873	298,904
Other operating expenses	(2,124,102)	(3,157,343)	(1,150,233)	(311,801)
III. Non-sale profit and losses				
Non-sale profit.	109,502	872,919	144,097	24,407
Non-sale losses.	<u>(381,563)</u>	<u>(596,542)</u>	<u>(137,885)</u>	<u>(69,722)</u>
Income (loss) from operations	<u>2,058,601</u>	<u>996,747</u>	<u>1,459,072</u>	<u>1,240,219</u>
Deferred tax assets	2,688	7,153	2,936	594
Deferred tax liabilities	(632)	(5,234)	(175)	(1,026)
Income tax (current).	(588,787)	(355,759)	(385,278)	(316,179)
Tax penalties and fees (unified tax on imputed income of individual entrepreneurs)	<u>155,364</u>	<u>190,507</u>	<u>(3,512)</u>	<u>(70)</u>
Retained earnings (loss) of the reporting year	<u>1,627,234</u>	<u>833,414</u>	<u>1,073,043</u>	<u>923,538</u>
REFERENCE.				
Permanent tax liabilities (assets)	92,707	114,607	32,340	18,978

APPENDIX B

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN RUSSIAN GAAP AND IFRS

Subject	IFRS	Russian GAAP (RAP)
Basis of accounting	<ul style="list-style-type: none">• There is a conceptual framework.• There is a general requirement to account for transactions according to their substance.• There is no cost versus benefit exemption from complying with IFRS requirements.• Many items in the financial statements are revalued, on either an optional or compulsory basis.• If an enterprise's functional currency is hyperinflationary, it must make current purchasing power adjustments.	<ul style="list-style-type: none">• There is no formal conceptual framework.• In practice the form of a transaction is more important than its substance.• The principle of rationality (cost versus benefit) is used to justify a number of deviations from RAP requirements.• Revaluations are limited.• Only limited adjustments are required for hyperinflation.
Consolidation	<ul style="list-style-type: none">• Consolidation is based on the power to control.• SPEs are consolidated in many cases where benefits flow back to the sponsor.• There are limited exemptions from consolidation.• All subsidiaries excluded from consolidation are treated as financial assets.• All subsidiaries are consolidated fully.• The reserves of a subsidiary at the date of acquisition are eliminated in full.• A debit balance on minority interests is created only if the minority has an obligation to fund the losses.	<ul style="list-style-type: none">• Control is based on a combination of the power to control and actual control in practice.• Generally SPEs (as defined under IFRS) are not consolidated.• The exemptions from consolidation are more extensive than under IFRS.• Credit institution subsidiaries may be treated as associates if excluded from consolidation.• Where the parent's share in a subsidiary's voting shares / charter capital is 50 per cent, the subsidiary is proportionately consolidated.• The equity reserves of a subsidiary at the date of acquisition are not eliminated in full.• A debit balance on minority interests is created only after reserves attributable to the majority owner have been eliminated.
Business combinations	<ul style="list-style-type: none">• A business combination includes the acquisition of the net assets of an entity rather than its shares.• There is no guidance on common control transactions and jointly controlled entities.• Uniting of interests accounting is allowed in limited circumstances.• Other business combinations are accounted for using purchase accounting, under which acquired assets and liabilities are measured at fair value.	<ul style="list-style-type: none">• There is no guidance on the acquisition of the net assets of an entity rather than its shares.• Other business combinations are accounted for either as an acquisition of shares or as a reorganisation.• In an acquisition of shares, acquired assets and liabilities are measured at book value.• In a reorganisation there may be limited recognition of acquired assets at fair value.

Subject	IFRS	Russian GAAP (RAP)
Investments in associates and joint ventures	<ul style="list-style-type: none"> • An associate is an investee in which the investor has significant influence. • Any goodwill is recognised on the acquisition of an associate. • An associate is not exempt from equity method accounting on a cost benefit basis. • Dividends from an associate reduce the carrying amount of the investment. • An associate is written down to below zero if the investor has an obligation to fund additional losses. • Joint ventures are characterised by the contractual sharing of joint control over assets, operations or an entity. • Proportionate consolidation is the benchmark treatment for joint ventures, but equity accounting is also allowed. • Partnership is not a defined term under IFRS and there are no special accounting requirements. 	<ul style="list-style-type: none"> • An associate is any equity investment greater than 20 per cent. • Goodwill is not recognised on the acquisition of an associate. • If the cost of preparing the information is greater than its benefit, an associate does not have to be equity accounted. • Dividends from an associate are recognised in the income statement. • An associate is not written down to below zero. • The concept of joint control is not used explicitly in respect of joint ventures. • Information on joint ventures is reported as information on segments. There are no special accounting requirements. • Partnerships are accounted for as financial investments.
Financial instruments, including hedging	<ul style="list-style-type: none"> • Financial assets and liabilities are recognised initially at the fair value of the consideration paid / received. • Interest incurred to acquire a financial asset is not capitalised. • Financial instruments held for trading and financial assets available for sale are measured at fair value. • Financial assets held to maturity and financial liabilities not held for trading are stated at cost. • Any difference between the initial carrying amount of a financial instrument and its maturity value is recognised in the income statement using the effective interest method. • Derivatives are recognised at fair value and there are specific rules on hedge accounting. • The recoverable amount of a financial asset is based on discounted cash flows. • Financial investments are derecognised only when the entity loses control over the underlying contractual rights. • Financial instruments are classified as debt or equity based on their substance. • Detailed disclosures are required, depending on the quantitative information necessary to understand the financial risks of those instruments. 	<ul style="list-style-type: none"> • Financial investments and liabilities are recognised initially at the nominal amount payable / receivable. • Interest incurred to acquire a financial investment is capitalised in some cases. • Marketable financial investments are stated at “fair value”. • Other financial investments and liabilities are stated at cost. • Any difference between the cost of an acquired non-marketable debt security (asset) or issued debt security (liability) and its face value may be recognised in the income statement on a straight-line basis. • There is no guidance on the treatment of derivatives or hedging. • The recoverable amount of a financial investment is based on nominal cash flows. • RAP sets less strict conditions for derecognition of financial investments than under IFRS. • Only financial instruments in the legal form of a liability are classified as liabilities. • Financial instrument disclosure requirements are limited.

Subject	IFRS	Russian GAAP (RAP)
Foreign currency translation	<ul style="list-style-type: none"> • The financial statements must be prepared in the entity's measurement currency, which reflects the substance of its operations. • The financial statements may be presented in a currency other than the measurement currency. • The method of translating the financial statements of foreign operations depends on the relationship between the entities. • Exchange rate differences arising on the translation of foreign operations are recognised in a separate reserve in equity. • If the measurement currency of a foreign entity is hyperinflationary, current purchasing power adjustments are made to its financial statements prior to translation. 	<ul style="list-style-type: none"> • The financial statements must be prepared and presented in roubles. • The method of translating the financial statements of foreign operations (as defined under IFRS) depends on their legal form. • The financial statements of a foreign associate are translated at the closing rate. • Exchange rate differences arising on the translation of foreign subsidiaries are recognised as additional capital. • There are no special rules for hyperinflation.
Intangible assets	<ul style="list-style-type: none"> • Research expenditure is not capitalised. • All advertising must be expensed as incurred. • Start-up costs must be expensed as incurred. • The amortisation period is based on the useful life of the asset. • The method of amortisation and useful life are reviewed annually. • Subsequent expenditure is capitalised if the asset is enhanced. • Revaluation of some intangibles is permitted in limited circumstances. • Intangible assets are subject to impairment testing. 	<ul style="list-style-type: none"> • Research expenditure is capitalised if certain criteria are met. • Certain advertising expenditure is capitalised. • Certain start-up costs are capitalised. • The amortisation period of research and development expenditure cannot exceed five years. • The method of amortisation and useful life cannot be revised. • Subsequent expenditure cannot be capitalised. • Intangible assets cannot be revalued. • Intangible assets are not subject to impairment testing.
Property, plant and equipment	<ul style="list-style-type: none"> • Costs of dismantling and site restoration are capitalised. • Cost is based on the present value of the future cash flows when payment is deferred beyond normal credit terms. • Assets are not capitalised if future economic benefits are not probable. • In calculating depreciation, an asset's residual value is taken into account. • Useful lives and methods of depreciation are reviewed periodically. • A revaluation deficit in excess of an existing revaluation surplus is recognised in the income statement. • Property, plant and equipment is subject to impairment testing. 	<ul style="list-style-type: none"> • Costs of dismantling and site restoration are not capitalised. • Cost is based on the contracted purchase price. • Social infrastructure assets are capitalised even if they do not benefit the entity itself. • In calculating depreciation, no residual value is taken into account. • There is no direct requirement to review useful lives or methods of depreciation. • Revaluation deficits in excess of the existing revaluation surplus, arising after 1 January 2003, are recognised in retained profits. • Fixed assets are not subject to impairment testing.

Subject	IFRS	Russian GAAP (RAP)
Impairment of assets	<ul style="list-style-type: none"> • An impairment exists if an asset's (cash generating unit's) carrying amount exceeds the greater of its net selling price and value in use (net present value of future cash flows); this excess is the amount of the impairment loss. 	<ul style="list-style-type: none"> • There is no specific regulation dealing with impairment.
Provisions	<ul style="list-style-type: none"> • A provision is recognised on the basis of a legal or constructive obligation. • Provisions are discounted if the effect thereof is material, and are remeasured for changes in interest rates. • Restructuring costs are subject to strict recognition criteria. • Repairs and maintenance provisions are prohibited. • Reimbursements are recognised when receipt is virtually certain. 	<ul style="list-style-type: none"> • Constructive obligations are recognised less frequently than under IFRS. • There are no rules in respect of reimbursements. • Discounting is not required. • There are no explicit recognition criteria for restructuring provisions. • Major repairs may be provided for. • There are no rules in respect of reimbursements.
Deferred tax	<ul style="list-style-type: none"> • Deferred tax is based on temporary differences. • Deferred tax is based on enacted or substantively enacted tax rates. • Changes in deferred tax are recognised in the income statement or directly in equity depending upon the transaction to which they relate. • Where assets are sold intragroup the deferred tax is computed at the tax rate applicable to the buying enterprise. • Deferred tax is recognised in respect of business combinations. • In some cases deferred tax is recognised in respect of investments in subsidiaries, associates, branches and joint ventures. • Deferred tax generally is recognised in respect of the revaluation of property, plant and equipment. 	<ul style="list-style-type: none"> • Deferred tax is based on timing differences. • Deferred tax is based on enacted tax rates. • All changes in deferred tax are recognised in the income statement. • Intragroup transactions are reversed in full, including the tax effect. • Generally no deferred tax is recognised in respect of business combinations. • No deferred tax is recognised in respect of investments in subsidiaries, associates, branches or partnerships. • Generally no deferred tax is recognised in respect of the revaluation of fixed assets.
Deferred income	<ul style="list-style-type: none"> • Generally income cannot be deferred unless it represents a liability. 	<ul style="list-style-type: none"> • Certain income may be deferred even if no liability exists.
Contingent assets	<ul style="list-style-type: none"> • When an inflow of future economic benefits is more likely than not, details of contingent assets are disclosed (including the financial effect). • Recoveries are recognised when receipt is virtually certain. 	<ul style="list-style-type: none"> • The financial effect of conditional (contingent) assets is not disclosed.

Subject	IFRS	Russian GAAP (RAP)
Equity	<ul style="list-style-type: none"> • The statement of changes in equity may be presented as a primary statement. • There are no capital maintenance requirements. • Shares are classified as debt or equity according to their substance. • Share issue costs are recognised in equity. • No gains and losses are recognised on the reissue of treasury shares. • With limited exceptions, the composition of an entity's capital and reserves is not prescribed. 	<ul style="list-style-type: none"> • The statement of changes in equity is presented in the notes. • There are strict legal requirements in respect of net assets (capital) maintenance. • All shares are classified as equity and all dividends paid are recognised in equity. • Share issue costs generally are recognised in the income statement. • Gains and losses on the reissue of treasury shares may be recognised in the income statement. • The composition of an entity's capital and reserves is prescribed by law.
Revenue	<ul style="list-style-type: none"> • Revenue from the sale of goods is recognised when all the significant risks and rewards of ownership of the goods are transferred to the buyer. • Revenue is based on the fair value of the goods when payment is deferred beyond normal credit terms. • The completed contract method is not allowed for construction and similar contracts. • The recognition of revenue from advertising barter is restricted. • Revenue from product financing is recognised in accordance with the substance of the contract. 	<ul style="list-style-type: none"> • Revenue from the sale of goods is recognised when legal title passes even if the seller retains significant risks or rewards. • Revenue equals the contract price in all cases. • The completed contract method is permitted in limited circumstances for construction and similar contracts. • There is no restriction on the recognition of revenue from advertising barter. • Revenue from product financing is recognised in accordance with the legal form of the contract.
Government grants/assistance	<ul style="list-style-type: none"> • When a non-monetary asset is received, it may be recognised at a nominal amount. • Government assistance initially is recognised as a liability or is offset against assets. 	<ul style="list-style-type: none"> • When a non-monetary asset is received, it is recognised at "market value". • Government assistance cannot be offset against assets.
Employee benefits	<ul style="list-style-type: none"> • A liability is recognised in respect of defined benefit pension plans. • Constructive obligations are accounted for in the same way as legal obligations. 	<ul style="list-style-type: none"> • All pension contributions are expensed as made, regardless of the type of pension plan. • Constructive obligations are not accounted for.
Interest expense	<ul style="list-style-type: none"> • Interest is imputed in some cases. • Borrowing costs are not capitalised when payments are made in advance. • Interest may be expensed as incurred or capitalised if certain conditions are met. 	<ul style="list-style-type: none"> • Interest is not imputed. • Borrowing costs are capitalised when payments are made in advance. • Interest must be capitalised in certain circumstances.
Income tax	<ul style="list-style-type: none"> • Current tax expense is based on enacted or substantively enacted tax rates. • Dividend income is recognised gross of withholding taxes. 	<ul style="list-style-type: none"> • Current tax expense is based on enacted tax rates. • Dividend income is recognised net of withholding taxes.

Subject	IFRS	Russian GAAP (RAP)
Leases	<ul style="list-style-type: none"> • A lease is classified as finance or operating based on its substance. • Generally finance lease payables and receivables are stated initially at fair value. 	<ul style="list-style-type: none"> • Lease accounting follows the legal form of the contracts. • Lease payables and receivables are stated at the nominal value of the payments.
Earnings per share	<ul style="list-style-type: none"> • Entities with, or in the process of issuing, publicly traded ordinary or potential ordinary shares must disclose EPS. • Ordinary shares are those that are subordinate to all other equity shares. • Diluted EPS takes into accounts all dilutive potential ordinary shares. 	<ul style="list-style-type: none"> • All joint-stock companies must disclose EPS. • Ordinary shares are not defined. • Only convertible securities and contracts to issue shares for less than the market price are included in the calculation of diluted EPS.
Related party disclosures	<ul style="list-style-type: none"> • Related party transactions need not be disclosed by some enterprises. 	<ul style="list-style-type: none"> • Exemptions from disclosing details of related party transactions are less extensive than IFRS.
Non-monetary transactions	<ul style="list-style-type: none"> • Generally, exchanges of similar assets do not result in a gain or loss being recognised. 	<ul style="list-style-type: none"> • All exchanges of assets result in the determination of a gain or loss.

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